EUROPEAN CENTRAL BANK

EUROSYSTEM

ESCB reply to the European Commission's targeted consultation on integration of EU capital markets

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1 General remarks

The European System of Central Banks (ESCB) welcomes the European Commission's targeted consultation on the integration of EU capital markets, recognising it as an important step in fostering a more unified and resilient financial landscape across the European Union.[1] Deep and well-developed capital markets supported by a harmonised regulatory and supervisory framework are essential to enhancing cross-border investments across EU Member States, improving businesses' access to finance, boosting competitiveness and ultimately supporting sustainable economic growth throughout Europe. The ESCB is committed to contributing to this consultation process by offering insights and expertise to help shape policies that will foster deeper integration and greater efficiency in our capital markets. We look forward to continued collaboration with the Commission and other stakeholders in this important endeavour.

Harmonising regulations and removing national divergences are crucial to simplifying the regulatory framework and creating a single, resilient market capable of withstanding economic shocks. Simplifying the regulatory framework by transforming directives into regulations can reduce implementation delays, complexity and costs, fostering consistent implementation of rules across the Single Market. Harmonising rules, reducing undue complexity and doing away with duplicative requirements should be guiding principles in this process. Addressing differences in insolvency regimes and ensuring robust regulations are essential to creating a level playing field and enhancing market attractiveness. The ESCB also advocates for a consistent data-sharing framework to reduce reporting burdens and enhance financial stability. Establishing a central supervisory reporting data hub led by the European Securities and Markets Authority (ESMA) could improve data accessibility and usability, as it would enhance data access to national and European authorities while also streamlining reporting obligations for the industry and avoiding duplication and overlap.

In the area of trading, the ESCB supports the European Commission's efforts to remove barriers to EU capital market integration and reap digital technology benefits. Deep, integrated and liquid markets can better withstand economic shocks, and cross-border equity markets should be prioritised for their role in risk sharing and innovation. The ESCB advocates removing barriers to European cross-border operations and liquidity aggregation. It welcomes initiatives to streamline the pre-trade transparency regime and reduce complexity while emphasising the need to calibrate transparency against potential negative effects, such as detection of orders due to information leakage. Introducing a consolidated tape will already contribute to achieving these objectives, contingent on timely and high-quality data delivery. Digital technology is also a means to help integrate liquidity pools across the EU, overcoming fragmentation caused by non-interoperable systems. The ESCB suggests carefully evaluating the extension of trading hours to manage liquidity risks and maintain

[1] The National Bank of Belgium and the Banque centrale du Luxembourg highlight that parts of the topics covered in this ESCB reply are outside their respective and direct areas of responsibility.

market attractiveness to international investors while considering the impact on post-trade infrastructures.

Despite recent progress, integration of securities post-trade services in the EU continues to be hindered by many of the barriers already highlighted in the Giovannini and the European Post Trade Forum (EPTF)[2] reports. The most significant remaining barriers are the legal uncertainties stemming from fundamental differences in national securities and corporate laws with regard to rights in book-entry securities, as well as in taxation and corporate event procedures. Beyond these areas, barriers also remain in registration, shareholder identification and, to a lesser extent, settlement. However, barriers stem not only from national laws and regulatory or supervisory practices but also from legacy market practices and market participants' behaviour. A coordinated effort towards harmonisation and standardisation, alongside adjustments to legal, fiscal and collateral frameworks, is essential to advancing the capital markets union (CMU) and leveraging new technologies efficiently. The deployment of distributed ledger technology (DLT) in post-trade services presents opportunities for harmonisation and efficiency. However, it also brings challenges, as it requires new technologies and new entrants to be accommodated in the ecosystem and regulatory framework without creating fragmentation or an unlevel playing field. The ESCB plans to continue its role in fostering these developments, working with public bodies and market stakeholders at both European and international levels.

Regarding asset management and funds, the ESCB strongly supports the Commission's focus on removing barriers to the European cross-border operation and marketing of investment funds that affect costs and accessibility for EU citizens and promoting EU investor participation in capital markets. Removing barriers within the European fund market is key to promoting retail investor participation with low-cost products and financing EU investment priorities. Currently, barriers prevent the distribution of funds across the EU, implying lower scale and higher costs. The overall goal should be to reduce discrepancies in the implementation of existing rules, as well as simplifying processes for the authorisation and functioning of passporting regimes. In addition, some amendments could be considered to increase specialised investors' participation in specific fund segments (such as venture capital) without reducing protection for less experienced investors. Targeted flexibility in portfolio rules could improve fund attractiveness without undermining financial stability and investor protection.

In line with the 2024 Governing Council statement[3], the ESCB supports integrated supervision of EU capital markets, which could be achieved gradually and considering specific sectoral features. The 2024 Governing Council statement called for direct EU supervision for the most systemic cross-border capital market actors – in cooperation with their national supervisors. In the short term, strategically important sectors with systemic/European relevance should be prioritised for EU supervision in order to manage cross-border risks in the EU. Different models could be explored to promote integrated supervision, with varying levels of ambition

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2 A temporary market body set up by the European Commission, the EPTF delivered a comprehensive report on barriers to securities post-trade services in 2017.

3 Statement by the ECB Governing Council on advancing the Capital Markets Union, 7 March 2024.

also reflecting different views within the Eurosystem and the European System of Central Banks. A first option could be a two-tier model, where significant players would be directly supervised by a European authority, in cooperation with national supervisors, while less significant players would remain under the supervision of national authorities, which would therefore retain a strong role. The criteria to determine the significance of supervised entities could, at least initially, be designed in such a way that only the most systemic, European cross-border players would be subject to direct EU-level supervision. A second option could be a gradual shift of selected supervisory powers to a European authority. This approach could benefit from a predefined timeline, creating certainty on the concrete next steps towards stronger integration of supervision.

Integrating European supervision should be prioritised for sectors and market actors whose activities have a European cross-border footprint and particular systemic importance, such as market infrastructures and crypto-asset service providers (CASPs). This is particularly relevant for EU central counterparties (CCPs), at least for those with significant European cross-border relevance, which could be supervised directly by ESMA, possibly in cooperation with the relevant national competent authorities (NCAs). Similarly, steps towards integrated supervision should be taken for central securities depositories (CSDs) with important European cross-border activities or that belong to groups where market integration could benefit from common supervision. EU-level supervision of CASPs that display higher risks due to their large size, high amount of cross-border activity or their being part of a large, globally operating CASP would reduce regulatory arbitrage and improve efficiency, with ESMA playing a key role in overseeing significant CASPs. Additionally, more integrated supervision of asset management and funds – for example by entrusting ESMA with the supervision of asset managers and funds with significant European cross-border activities or by creating joint supervisory teams (JSTs) – would support financial stability and the integration of this sector, given the growing size of these markets and their inherent cross-border nature. It would also help remove barriers within the European fund market, which is key to promoting retail investor participation. Embedding a macroprudential perspective into fund and asset manager supervision is also critical to safeguarding financial stability.[4] In each case, the scope of entities subject to direct EU-level supervision should be based on clear and objective criteria, including size and cross-border activity across the EU.

An effective, integrated EU supervisory framework for capital markets could offer significant benefits, including cost reductions, elimination of infrastructure duplication and enhanced market confidence. For example, drawing on lessons from the banking union, a two-tier model would involve direct EU-level supervision for major entities and harmonised national oversight for smaller firms. This model would support market integration and cross-border activities across the EU, while maintaining flexibility for domestic markets. Governance of the EU supervisor should ensure independence and Europe-centric decision-making, potentially through an Executive Board of independent members complemented by a Supervisory Board that includes national authority representatives. Voting rules

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4 See Eurosystem response to EU Commission's consultation on macroprudential policies for non-bank financial intermediation (NBFI), published in November 2024.

should prevent national vetoes, especially for sectors with a strong European dimension. These governance arrangements would require some targeted changes relative to the current set-up of the European Supervisory Authorities (ESAs). The long-term efficiencies and economies of scale of an integrated system will outweigh short-term initial costs that will occur in the transition, such as set-up costs and investments. Additionally, changes in supervisory responsibilities and governance should be matched by adequate funding to ensure independence and operational effectiveness. Overall, a tailored governance and funding model is essential to guaranteeing effective supervision and to advancing capital market integration in Europe. The Czech National Bank, the Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg, the latter highlighting that it is not entrusted with direct supervisory responsibilities in this field, judged that integrated supervision could ultimately be achieved in different ways. In particular, while the Czech National Bank, the Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg concur that it is critical to deliver a more integrated and efficient approach to supervision within the Single Market, they view that this could be better achieved through greater supervisory convergence, rather than direct EU supervision.

2 Specific remarks

2.1 Simplification and burden reduction

The ESCB supports the Commission's initiatives to remove barriers to the integration of EU capital markets. Eliminating obstacles to market integration would support the creation of a single, deep and liquid capital market across the EU, enhancing cross-border investment opportunities as well as increasing its attractiveness, facilitating more efficient capital allocation and increasing funding options for businesses.

Harmonising European rules and practices across the Member States would also help simplify the European regulatory framework. Harmonising regulations and removing national divergences would allow the emergence of a truly single capital market that can better withstand economic shocks and support sustainable economic development across the EU. It would also reduce undue complexity and costs associated with cross-border financial activities in the EU, making it easier for investors and issuers to participate in the European market. The complexity observed within the European regulatory landscape is in large part driven by national fragmentation. For example, differences in insolvency regimes can constitute a significant obstacle to further capital market integration.[5] Uncertainty regarding recovery rates and creditor ranking hinder the EU markets for cross-border debt claims and securitisations.

A uniform and robust regulatory framework is key to ensuring Europe's stability and attractiveness as an investment destination. Having a harmonised regulatory and supervisory framework that adheres to international standards would make EU capital markets more attractive: an uneven playing field does not foster competitiveness among globally active entities. Rather, a robust regulatory framework is essential to ensuring investor protection and enhancing the attractiveness of European capital markets for European and international investors. This would in turn foster greater investment inflows and support economic resilience.

The benefits of having uniform regulation at European level can far exceed the costs associated with implementing such regulation. While the discourse often highlights the costs of regulation, it is equally important to consider the significant costs of non-regulation.[6] These include societal costs arising from the compliance burdens of navigating disparate national rules and financial crises. Harmonising regulations within the EU would alleviate these issues, as adhering to a single European framework is simpler than complying with 27 different national frameworks.

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5 The Eurosystem has previously highlighted that a common definition of insolvency as well as harmonisation of the ranking of insolvency claims across countries could further foster cross-border capital market transactions. The relevance of insolvency regimes for cross-border investments is documented in Kliatskova, T., Savatier, L.B. and Schmidt, M. (2023), "Insolvency regimes and cross-border investment decisions", *Journal of International Money and Finance*, Vol. 131, March.

6 See, for example, an ECB analysis assessing the economic costs and benefits of the Basel III finalisation package for the euro area, which shows that the transitory costs of the reform are outweighed by its permanent long-term benefits.

A more integrated single rulebook would ensure more consistent rule implementation across the Single Market. Transforming directives into regulations, for instance, can be a strategic step towards harmonising rule implementation within the Single Market and enhancing its transparency and predictability, provided due consideration is given to proportionality and subsidiarity. This harmonisation would reduce regulatory arbitrage, where financial entities might exploit differences in regulations to engage in riskier behaviour. Full harmonisation also removes national regulatory barriers to the free movement of market operators and capital by creating a level playing field, reducing compliance and transaction costs for corporations and intermediaries and allowing them to compete freely. However, it is important to establish a clear, predictable and proportionate regulatory framework to avoid undue costs from overregulation (if the fundamental objectives are preserved) and to prevent duplication and internal inconsistencies. This approach, alongside effective supervision, would facilitate a more uniform and therefore efficient regulatory environment, enhancing the overall integration of the EU financial system (and, as a consequence, its stability).

Another strategic step towards the creation of a single rulebook would be to streamline and consolidate regulatory frameworks. For instance, in the asset management sector, the current complexity of the framework reflects the temporal stratification of rules, built on the two main directives for undertakings for collective investment in transferable securities (UCITS) and alternative investment fund managers (AIFMs), followed by several product-specific Level 1 legislative acts (such as the European venture capital fund (EuVECA), European social entrepreneurship fund (EuSEF), European long-term investment fund (ELTIF) and money market fund (MMF) regulations), numerous Level 2 legislative products (delegated regulations and directives) and Level 3 guidelines and questions and answers designed to clarify specific aspects of those rules. In this context, streamlining the whole EU framework by grouping rules on asset managers in a single piece of regulation could be explored.

Regarding possible adjustments to regulatory thresholds, it is crucial to not unduly limit authorities' ability to monitor and identify potential financial stability risks from smaller funds. The consultation document asks whether the AIFM Directive's threshold for sub-threshold AIFMs should be amended to take into consideration market evolution and/or cumulated inflation. Such considerations can usefully be assessed as part of regular reviews of legislation to ensure they do not overly constrain market activity or ignore broader developments (such as inflation). At the same time, it is important for authorities to be able to identify any emerging risks to financial stability that could arise from the collective behaviour of cohorts of smaller funds, for example due to similar exposures or correlated redemption risk. Any adjustments to the thresholds should therefore ensure that comprehensive supervisory coverage will be maintained.

A more consistent framework for data sharing would reduce the reporting burden for entities and increase financial stability. Eliminating duplicative reporting requirements under national and EU legislation can help reduce the reporting burden – and therefore costs – for entities. From a financial stability perspective, the ESCB as a whole and its members – under the monetary and financial stability mandate – do not have direct access to entity-by-entity supervisory data already reported under the AIFM and UCITS Directives, the Money Market Fund Regulation, Solvency II and Markets in Financial Instruments Directive (MiFID)/Markets in Financial Instruments Regulation (MiFIR).[7] Similarly, supervisory authorities do not necessarily have direct access to granular data collected by the ESCB for statistical purposes. The ECB aims to address this in a forthcoming ECB recommendation amending Council Regulation (EC) No 2533/98. At present, there is no harmonised framework for sharing granular data on non-bank financial intermediation (NBFI) across jurisdictions, thus limiting authorities' and central banks' capacity to understand the flow of capital within the EU, assess potential vulnerabilities stemming from cross-border NBFI activities across the EU and monitor the effectiveness of policy measures that could be subject to cross-border leakages. This is a major obstacle that hampers the ability of central banks and supervisory authorities to safeguard financial stability and needs to be addressed.[8] Among other benefits, enhancing data access and data sharing can help streamline reporting obligations for industry and avoid duplication and overlap. In this regard, the ESMA Task Force on Integrated Reporting is examining how to improve efficiency, consistency and accuracy across existing reporting frameworks. In addition, the establishment of comprehensive data-sharing and access mechanisms – such as designating ESMA as a central data hub – would be highly beneficial and merits further exploration. Such a hub could help improve data accessibility, interoperability and usability, while also enabling national supervisory market authorities and European authorities as well as central banks to work on the same data in a unified manner, without duplication.

2.2 Trading

Developing cross-border capital markets across the EU, in particular for equity, has been identified as a policy priority given that equity is considered to be especially conducive to risk sharing and innovation. This is especially the case during financial stress periods, when financial markets are likely to suffer from abrupt tightening. Instruments that are contingent on the financial situation of the borrower and could be interrupted during downturns are particularly desirable from a risk-sharing perspective. For instance, equity securities are beneficial in this respect, as they entail state-contingent payoffs. While equity holders receive compensation depending on the financial situation of the borrower, they also share the downside risks. For these reasons, evidence shows that international cross-border holdings of equity may be better able to provide resilient capital flows and guarantee a higher degree of long-term risk sharing than debt securities. Equity markets are also more conducive to facilitating innovation. The reasons for this stem from the propensity of equity investors to also fund innovative sectors rich in intangible projects, and their typically longer-term investment horizon. Irrespective of the benefits of developing equity markets, greater integration of fixed income markets would imply deeper and

7 See Eurosystem response to EU Commission's consultation on macroprudential policies for non-bank financial intermediation (NBFI), published in November 2024.

8 ibid.

more liquid markets for lending and borrowing and could help facilitate portfolio diversification and risk reduction.

As a consequence, the ESCB supports further investigation of barriers to cross-border operations in the EU and regulatory and non-regulatory barriers to liquidity aggregation, including those on a cross-border basis. For example, regarding the pre-trade transparency regime, the ESCB generally welcomes initiatives that streamline the regime for equities with a view to reducing complexity.[9] At the same time, changes to the pre-trade transparency regime must be carefully calibrated to balance the trade-off between more transparency and market functioning. Although simplification generally makes the monitoring of dark trading levels less complex, it could also lead to orders being detected and frontloaded. Therefore, streamlining or abolition of waivers should be weighed against potential negative price effects from trading on the lit market. Instead, thresholds on the minimum trading size for using specific waivers could be (re)assessed. In any case, the impact of any amendments should be assessed before introduction given the complex interaction of different waivers, just like market functioning should be reassessed after introduction.

The ESCB looks forward to the introduction of a consolidated tape. To ensure the quality of the data produced, the prompt delivery of the data provided to it by market data contributors (investment firms, trading venues, approved publication arrangements and systematic internalisers) will be essential.

The ESCB believes digital technology can support the integration and connection of liquidity pools across the EU. In fact, non-interoperable technological ecosystems in each country – shaped by diverging national regulatory regimes – have created siloed pools of asset liquidity, further entrenching fragmentation. However, recent advancements in digital technology offer an opportunity to create an integrated European capital market for digital assets. In particular, developing a new financial market infrastructure based on tokenisation, DLT and new technologies for central bank money settlement could integrate Europe's fragmented financial market, contribute to the objectives of the savings and investments union (SIU), strengthen Europe's position and secure the euro's relevance internationally. Efficiency gains would enhance the competitiveness of the European financial market and support economic growth.

The ESCB believes that the extension of trading hours over the short term needs to be carefully evaluated. On the one hand, longer operating hours could enable more agile liquidity management as they would allow market participants to adjust liquidity positions more effectively and react promptly to liquidity shortages, thereby reducing liquidity risk. Sufficiently long trading hours are also a key element in keeping EU capital markets attractive to international investors, given the time zones European markets span. At the same time, liquidity risks may also increase if longer operating hours lead to extensive financial activity outside normal business hours. In particular, if certain traditional funding sources like repo markets or central bank

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9 See the ECB opinion on the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 600/2014 as regards enhancing market data transparency, removing obstacles to the emergence of a consolidated tape, optimising trading obligations and prohibiting receiving payments for forwarding client orders.

lending remain unavailable during these times, high outflows may lead to liquidity shortages and financial stress, which need to be mitigated. Finally, the impact of a significant extension of trading hours on the mainstream European post-trade/settlement infrastructure over the short term is a complex challenge as it has implications for all stakeholders throughout the transaction value chain (e.g. pre-trade and post-trade functions, back-office operations, CCPs, CSDs) as well as ancillary ecosystems (e.g. repo markets). In this vein, it is worth noting that the Eurosystem has launched a public consultation on T2 operating hours.

2.3 Post-trading

2.3.1 Barriers to cross-border settlement and other CSD services

The Central Securities Depositories Regulation (CSDR) has significantly advanced European integration by establishing common definitions and fundamental rules for core CSD services, which include the settlement of securities transactions and the safekeeping of securities. However, the CSDR has failed to achieve its vision of full freedom of choice for issuers and a competitive and efficient CSD landscape in the EU. Despite the common rules in the CSDR, CSD and post-trade services remain subject to some idiosyncratic national legal requirements as well as to legacy national market practices. These cover, among other things, services provided to issuers (beyond the core notary function, e.g. related to idiosyncratic corporate events, or services related to regulatory compliance by issuers), tax-related services, regulatory reporting, registration requirements and restrictions on forms of securities.

Article 49 of the CSD Regulation has not been implemented according to the original intent of the lawmaker and does not achieve freedom of choice of CSD for issuers. Article 49 subjects issuers' freedom of choice of CSD to existing national corporate and securities laws, which Member States have interpreted to mean that the CSDR requirement is to be subordinated to their existing civil, securities and corporate law frameworks. Therefore, not all relevant idiosyncratic provisions from national securities, corporate or other relevant laws have been removed, hindering the free choice of issuance location and contradicting the first sentence of Article 49. This also affects the implementation of CSD passporting rules, which are subject to the same idiosyncratic national corporate and securities law obligations and supervisory requirements.

The list compiled by Member States on the key provisions of corporate or similar laws under Article 49 may not be a useful analytical tool for stakeholders, as most Member States only report the article numbers of their respective national acts or copy the text in their official language(s). Instead of simple references to relevant provisions, Member States could be invited to prepare a thorough, English-language analysis (considering all relevant provisions) on whether and how (i) a foreign issuer can issue securities in the CSD(s) within their jurisdiction; and (ii) an issuer resident in their jurisdiction can issue securities in foreign CSDs within the EU, focusing on what provisions would prevent issuers from doing so and why.

The EU lacks a harmonised securities and corporate law framework, which has led to legal uncertainties regarding the ownership rights attached to book-entry securities in the cross-border holding of such securities within the EU. As highlighted by the Giovannini and EPTF reports and elaborated by the reports of the Commission’s Legal Certainty Group, the lack of harmonisation in fundamental national securities and corporate laws gives rise to uncertainty about their application across borders within the EU. One of these uncertainties stems from the fact that the rights of securities owners are not (or not fully) recognised by national laws if certain national idiosyncratic rules on holding chains or account service providers are not followed. For instance, if an investor – for the purpose of holding the securities – uses an account provider established in a different Member State to the Member State in which the securities were issued, the rights of the investor are different or restricted compared with investors who hold the securities via an account provider established in the same Member State. Accordingly, key definitions such as bondholders and shareholders differ across jurisdictions, which also introduces uncertainties in the implementation of existing and future EU acts, such as the Shareholder Rights Directive. Furthermore, the EU has only partially established common rules and lacks an overarching conflict of law rule framework for rights attached to book-entry securities (similar to global initiatives such as the Hague convention). These uncertainties are even more pronounced for DLT-based securities, as national DLT securities laws were adopted by Member States building on their existing securities laws and without considering or harmonising where existing conflict of law rules can be applied. The Place of the Relevant Intermediary Approach used in most relevant EU and national conflict of law rules is often not applicable in a DLT context. When developing harmonised securities laws, or possibly a 28th regime, for DLT-based securities, the EU could build on efforts by UNIDROIT, which in 2023 adopted the Principles on Digital Assets and Private Law.

In asset servicing, compliance with existing market standards (e.g. TARGET2-Securities (T2S), Single Collateral Management Rulebook for Europe (SCoRE)[10], shareholder identification and corporate action market standards) remains insufficient and continues to be deprioritised by several market stakeholders. Although T2S and the Eurosystem Collateral Management System (as major European infrastructure initiatives) helped increase awareness of and, to some extent, compliance with common market standards in settlement and asset servicing, overall compliance with the relevant European standards remains insufficient.[11] This is primarily due to a lack of collective action (insufficient incentives for individual market stakeholders to devote resources to changing their processes to ensure compliance with harmonised standards) and to residual conflicting local regulatory requirements stemming from corporate or tax laws.

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10 A set of standards endorsed by AMI-SeCo.

11 See the most recent AMI-SeCo compliance reports on progress with T2S harmonisation standards, on corporate events and shareholder identification standards and on SCoRE standards.

Some of the barriers to free and seamless cross-CSD settlement, previously deemed dismantled, remain, despite two-thirds of EU CSDs now using T2S. The possibility to settle, in central bank money, any security issued in the EU through a single CSD relationship has been the core proposition of T2S and one of the key indicators of a true CMU. Today, for reasons not limited to national laws and regulations, that proposition is out of reach for most investors, issuers and intermediaries due to[12]:

- persisting uncertainty around national legal requirements on the place of settlement;
- the fact that the network of CSD links is far from complete, especially with regard to smaller markets and CSDs;
- the continued restriction by several stakeholders (issuers, CCPs, trading parties) on the location of settlement, requiring that their counterparts maintain securities accounts with the issuer CSD or elsewhere;
- frictions in settlement between T2S and non-T2S CSDs;
- lack of demand-side awareness of the possibility of cross-CSD settlement;
- inertia or inability to collectively move to common market practices, resulting in issues such as different messaging, improper use of certain messaging elements, not updating or not consistently using standing settlement instructions, or hardcoding required settlement locations in internal systems, which perpetuate fragmentation.

While the number of links between EU CSDs has increased in the last decade, the use of these links remains low across the EU. This is shown by (i) the low share of cross-CSD settlement compared with the total volume processed, and (ii) the low overall share of most CSDs' securities holdings with other CSDs in T2S. There is a significant discrepancy between larger and smaller CSDs in the EU with regard to number of links. Smaller CSDs tend to have no or only a limited number of links, both as investor and/or issuer. Although a single link can potentially be used to access multiple markets through relayed connections (with T2S automatically and seamlessly handling such relayed links at the technical level), this capability is not utilised to any significant extent. Nevertheless, stakeholders can also use channels other than cross-CSD settlement for cross-border transactions by relying on custodian networks. Thus, the use of CSD links is not a prerequisite for increased cross-border settlement activity.

The insufficient availability of CSD links limits the efficiency of the ecosystem. The reluctance by CSDs to set up links to each other cannot be justified by technological barriers, because T2S provides a common pathway for most CSDs. Establishing links involves considering the business case, which is influenced by varying local market practices. Most CSDs cite differing asset servicing (corporate

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12 Based on feedback from the survey conducted by AMI-SeCo in February 2024 and recent industry reports, such as by AFME in 2023.

events, tax and other regulatory) requirements in foreign markets as a reason for not establishing links to other CSDs. At a technical level, T2S offers seamless and fully automated operation of CSD links for settlement. However, CSD links are not only used for settlement but also for asset servicing of the securities that are held via such links.

Therefore, promoting the availability and use of CSD links as well as the efficiency of cross-border investments in the post-trade domain requires the underlying fragmentation and barriers in asset servicing to be addressed. Creating a pan-European post-trade environment where links between CSDs are easy to set up and use and where cross-border custody services are cheap and efficient requires ambitious measures on a legal and regulatory basis for asset servicing as well as the development of common market practices and standards. Local rules and specific features regarding corporate event processing, including the lack of compliance with European corporate event standards, differing withholding tax processing requirements, differing registration requirements and other idiosyncratic national requirements or associated legal uncertainties should be eliminated to the extent possible.

T2S was built as a settlement platform enabling seamless intra- and cross-CSD settlement against central bank money. In terms of technical functionalities, T2S fully supports cross-CSD settlement and, where CSD links are available and set up on the platform, removes any technical impediments hampering cross-CSD settlement by making it as straightforward as intra-CSD settlement. While T2S offers direct advantages for settlement between CSD participants, its benefits in harmonising related processes also translate to transactions which are not settled at the level of CSDs by offering the same technical services to intermediaries (settlement agents or custodians) across all participating CSDs.

However, the share of cross-CSD settlement on T2S remains low, which is due to several factors related to the way T2S stakeholders use the platform. In addition to the barriers highlighted above regarding CSD links, administrative and behavioural restrictions on the location of settlement by key stakeholders, such as issuers and CCPs, also limit the use of cross-CSD settlement even where CSD links are available. Furthermore, inertia is observed as a result of legacy practices (e.g. settlement at issuer CSD hardcoded in back-office systems) of market participants and a lack of awareness of the possibility of cross-CSD settlement. These barriers need to be removed by reviewing market practices, by further increasing awareness among market stakeholders and by collectively following a common roadmap, supported by the public sector.

T2S is a multi-currency settlement platform and hence is technically capable of serving central bank money settlement in any currency. The T2S framework has the necessary standing contractual and governance elements to onboard and serve additional currencies (in addition to EUR and DKK, which are served today). However, whether new currencies are onboarded to T2S remains a decision of the central banks of those currencies.

The current functional scope of T2S covers securities settlement only and does not extend to other activities or areas of post-trade services (e.g. issuance, asset servicing or pre-settlement transaction services such as allocation or trade confirmation). The current T2S scope is influenced not only by initial agreements in the T2S project by the Eurosystem with participating CSDs but also by a lack of harmonisation and differing national requirements for issuance and asset servicing. The current fragmentation in this domain would make it very challenging for a single platform to cover all functionalities and user needs (in the extreme, 27 different sets of procedures and rules) stemming from asset servicing and issuance. Therefore, a common European platform to serve these CSD services could only be feasible if national requirements (stemming from both national law and national supervisory requirements) were harmonised under a common rulebook of issuance and asset servicing.

The EU's Settlement Finality Directive (SFD) has been crucial in harmonising settlement finality rules and providing protection against risks stemming from insolvency of system participants. New, innovative settlement platforms should also benefit from protection equivalent to that offered by the SFD framework. There is a clear need for a well-defined settlement finality regime for DLT-based transactions. Participants in Eurosystem exploratory work on new technologies for wholesale financial transactions tested a settlement model based on interoperability between central bank and external DLT platforms. Atomicity, in the ESCB's understanding, is not only a legal concept but also refers to operationally and technically ensuring "all or nothing settlement" of delivery versus payment (DvP) or payment versus payment (PvP) transactions on a gross basis as simultaneously as possible. The exploratory work highlighted that specific technical mechanisms and procedures on DLT can ensure "atomic settlement" of transactions to reduce counterparty and operational risk. However, in the absence of a well-defined settlement finality legal regime, there remains a legal risk that the atomic transaction must be unwound should one of the parties become insolvent. Therefore, SFD protection is also important for settlement systems or mechanisms based on DLT that settle transactions atomically. In addition, novel practices are introduced in DLT ecosystems (e.g. interlinking central bank money and commercial bank money transfers at a technical level, which could be offered by systems not designated under the SFD). This is indicative of a possible restructuring of the current ecosystem and intermediation with the expected further accelerating adoption of DLT, which should be taken into account when reviewing relevant SFD provisions.

However, emerging innovative service providers (e.g. those offering DLT) may not be able to apply the SFD framework as the SFD provides an exhaustive list of types of institutions that are eligible to be participants in a system designated under the SFD. Therefore, it should be investigated whether removing undue restrictions on types of participants in designated systems in the SFD could be feasible, without endangering the protections to systems regarding settlement finality. This could help extend the benefits of settlement finality protection to additional emerging innovative systems.

2.3.2 Uneven/inefficient market practices and disproportionate compliance costs

As regards information sharing between CSDs and authorities under the CSDR, it would be to a large extent premature to assess the impact of the changes introduced under CSDR Refit. Indeed, the related regulatory and implementing technical standards, in particular those pertaining to the review and evaluation process and the criteria for the establishment of supervisory colleges, have not yet been adopted and implemented. The ESCB continues to welcome the forthcoming establishment of supervisory colleges under the CSDR as a way to enhance information sharing between competent and relevant authorities and to promote supervisory convergence.

The ESCB would also support any technical solution that further facilitates the exchange of information pertaining to the authorisation and the review and evaluation of CSDs, including a central database or platform operated by ESMA. If appropriately designed, in combination with regulatory provisions clarifying the authorities' access to information, such a platform could allow CSDs to provide the required documentation in a standardised manner and allow relevant authorities to access without delay and in a harmonised manner the information relevant to their tasks and their role under the CSDR.

The information requested by authorities under the CSDR does not entail duplication and is proportionate to the related activities and regulatory requirements. The ESCB notes that there is by design no duplication possible under the CSDR of the information requested by relevant authorities and the information required by competent authorities, as relevant authorities only receive all or a subset of the information provided by the CSD to the competent authority for the purpose of the authorisation or the review and evaluation.[13] The ESCB generally considers that the reporting requirements for CSDs are commensurate with the importance of the functions they perform for the smooth functioning of securities markets and with the information needs of competent and relevant authorities to assess their compliance with the CSDR and other regulatory requirements.

The timeframes for authorisation procedures under the CSDR are already very constrained. The ESCB notes that the current timeframes for relevant authorities to deliver opinions under Articles 17(4) and 55(5) CSDR (three months and two months respectively) are already very short, taking into account the need to carry out the related assessments of the applicant's compliance. It should also be noted that the length of the authorisation procedure typically depends largely on the time needed for the applicant to develop a complete application, given the need to provide documentation covering a wide range of regulatory requirements.

The proposal to allow market participants to provide core CSD services independently under the CSDR should be studied further to clarify its potential benefits – also in view of the actual market demand for such a possibility – and

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13 Overseers may have additional powers under national law to collect information to discharge their responsibilities, but this is not foreseen by the CSDR.

its costs and risks. Notably, most CSDR provisions apply horizontally to a CSD regardless of the functions it performs, including most organisational requirements (governance, record-keeping, outsourcing), conduct-of-business rules (transparency, communication procedures) and prudential requirements (covering legal risks, general business risks, operational risks and capital requirements). They would therefore need to apply uniformly to all core service providers authorised under the CSDR. It should thus be considered whether further fragmenting the market infrastructure value chain is advisable: many local financial market infrastructures in the EU already have small operations and limited activity, and sometimes find it more difficult than larger operators to meet high standards of financial and operational resilience. In addition, provisions that apply to two or more core services would need to be clarified to clearly allocate responsibilities in case they are provided separately (e.g. provisions on the integrity of the issue). Finally, maintaining interoperability and open access across these various infrastructure service providers could prove challenging and would require strong safeguards and enforcement to prevent further fragmentation. It should however also be noted that technological change may have a profound impact on the current ecosystem, market structures and possibly the distribution of roles in capital and payments markets, to the extent allowed by (future) regulation. Intermediaries are already actively investigating changing the current scope of their services with the adoption of DLT. This should be taken into account when further studying the above-mentioned proposal.

2.4 Horizontal barriers to trade and post-trade infrastructures

2.4.1 EPTF barriers

The EPTF barriers have not been addressed on a significant scale by lawmakers and regulators or the industry. Based on recent detailed investigations by the Eurosystem's Advisory Group on Market Infrastructures for Securities and Collateral (AMI-SeCo), as well as from its own experiences, the ESCB believes that most of the barriers reported by the EPTF in 2017 remain in place. While significant steps were taken under the Commission's CMU action plans in shareholder identification and in tax processing, these have yet to bear fruit in terms of integration benefits. To give an example, AMI-SeCo recently ran a survey on settlement restrictions at EU sovereign issuers where it was confirmed that EPTF Watch List Barrier 1 is still in place. However, it should be noted that many of the barriers highlighted both in the EPTF report and, more recently, by AMI-SeCo based on its survey of 2024[14] do not stem from lack of regulatory action but from practices by market stakeholders where adaptations could be made without changes in underlying laws or regulation.

[14] AMI-SeCo survey on remaining barriers to integration in securities post-trade services

2.4.2 Issuance

Beyond the barriers noted above, which generally affect cross-border securities services, issuance processes specifically are subject to inefficiencies due to the lack of a commonly used data model, the lack of transmission of machine-readable reference and transaction data and divergence in the use of market conventions. Based on the report by the ECB's Debt Issuance Market Contact Group, there are three sources of inefficiencies and an absence of integration in European securities issuance processes:

- lack of a single, trusted "golden source" for security reference and corporate event data, which hinders efficient regulatory reporting and processing of corporate events;
- frictions in exchanging standardised, machine-readable data to allow the settlement of primary market transactions in an efficient and timely manner (including International Securities Identification Number allocation and propagation in the issuance process);
- use of legacy market conventions (business day rules and calendar, interest/coupon conventions, rounding rules, etc.), which cause frictions or media breaks in trade and post-trade processing; despite significant progress in the convergence of practices in euro area bond markets, legacy local conventions persist, which make both trade and post-trade operational processes inefficient and cumbersome without bringing any economic benefits.

Most of the issues relate to the lack of adoption of a common data model for issuance (starting with representation of term sheets and data elements of prospectuses). If market incentives prove insufficient in creating momentum towards the adoption of such a common data model, EU-wide regulatory action should be considered by the lawmakers.

2.4.3 Innovation – DLTPR and asset tokenisation

The ESCB supports the continuation of the DLT Pilot Regime (DLTPR) and its adaptation to better enable the development of DLT-based market infrastructures, while mitigating the related risks and maintaining a level playing field with traditional infrastructures.[15] These conclusions are based in part on the experience gained by the Eurosystem through its role as relevant authority under the DLTPR, as well as the trials and experiments on new technologies for central bank money settlement[16] and the extensive and structured engagement with market stakeholders in this context. The DLTPR and the permissions granted under it should be extended into the long term or made indefinite, until a pathway to the regular

[15] Please note that this section also covers some of the questions raised under Section 3.2 "Barriers to the application of new technology and new market practices" of the consultation document.

[16] The Eurosystem ran trials and experiments by providing three distinct DLT-based services to all eligible market stakeholders in order to settle in central bank money the euro cash leg of wholesale transactions conducted using DLT. The trials and experiments were conducted between March and November 2024. For further details, see the ECB's website.

regulatory framework is defined, in order to provide applicants with sufficient planning certainty. A possible way forward could be to introduce a two-stage approach in the DLTPR, maintaining the current approach for new entrants and experiments under the existing thresholds while introducing a second level for more mature firms with more limited exemptions and more prescriptive requirements (see below) as an intermediate step. Over the longer term, the pilot regime should allow for convergence with the ordinary regulatory framework, with the necessary adaptations to allow for the coexistence of traditional and new technologies, also in view of a level playing field between newcomers and incumbents.

The ESCB would for the time being advise against a principle-based approach. A principle-based approach would base supervision on general regulatory principles that can be adapted to each entity authorised under the framework, as opposed to a more prescriptive rules-based approach detailing the specific requirements regulated entities must meet. First, such an approach would be nearly impossible to apply consistently across the EU, unless the supervision of DLT market infrastructures is transferred to a single EU-level authority. Second, the EU legal framework does not allow for the full delegation of rule-making powers granted to EU institutions under the Treaties in a way that would make a principle-based approach legally workable. Third, the gap between a principle-based approach and the highly detailed and prescriptive requirements of the CSDR and its technical standards would further deepen the discrepancy and unlevel playing field between the DLTPR and the regular framework. It would also make bridging this discrepancy in the future even more difficult. As an alternative, the DLTPR could be further reviewed to examine if certain prescriptive requirements, especially those set out in technical standards or guidelines, constitute obstacles to the development of new entrants and could be disapplied for entities that remain below the existing DLTPR thresholds.

The limits on the value of financial instruments traded or recorded on DLT market infrastructures should be reviewed, while ensuring that regulatory requirements remain proportionate to the activity. Increasing the DLTPR thresholds should be considered in order to provide some headroom in case of an uptake in activity. This should go together with a thorough review to ensure that the regulatory framework is sufficiently clear and prescriptive and ensures a level playing field: as DLT market infrastructures are allowed to grow, the framework should converge towards a similar level of prescriptiveness as for traditional infrastructures. A careful balance should be struck to ensure adequate safety standards for more developed infrastructures, while preserving the capacity of new entrants to innovate and scale up to some degree. It could be considered whether possible exemptions remain appropriate for larger DLT market infrastructures: for instance, it may not be appropriate to exempt them from CSDR requirements relating to outsourcing, participation criteria, transparency or the protection of client assets. DLT-specific requirements (e.g. Article 7 DLTPR), which are currently very high-level, could also be further specified, for instance through ESMA technical standards or guidelines developed in consultation with the ESCB.

The DLTPR should continue to be aimed primarily at new entrants, or at giving incumbent financial institutions the possibility to experiment with DLT up to a

certain scale. For new entrants, DLTPR thresholds may not be the primary issue, although clarity on their potential to scale may still be important for their future planning, and consequently also for current investments. The main issue is the time needed to develop a mature solution for the infrastructure and the requisite risk management processes and documentation to meet regulatory requirements. To this end, further clarity in the requirements and guidance on how to implement them may be helpful for new entities. Accordingly, mandating ESMA to develop guidelines, in consultation with the ESCB, could constitute a flexible approach and utilise the expertise gained by ESMA in the application of the DLTPR. Conversely, established financial institutions aiming to use DLT to provide large-scale market infrastructure services should do so under the regular legislative framework, including the CSDR and the SFD, in which case they would not be subject to DLTPR thresholds (see below). As regards the possibility to provide CSD core services separately from settlement, please refer to Section 2.3.2 above.

Extending the scope of the financial instruments allowed in DLT market infrastructures should be considered, while taking into account the necessary implications for the regulatory framework. The current restrictions on the scope of financial instruments and deviations from MiFID definitions may make customer acquisition difficult for new entrants. Still, the scope should in any case remain limited to the scope of financial instruments defined by MiFID, to maintain the level playing field with traditional trading venues and financial market infrastructures, and the distinction with MiCAR-authorised entities. The articulation with national legal frameworks for digital financial instruments should also be taken into consideration. If repos and especially derivatives are considered for inclusion in the scope of the DLTPR, this will raise the question of how to integrate central clearing in the processing of these instruments. This could also require compliance with the European Market Infrastructure Regulation (EMIR) requirements. This should be further studied, also in the context of a wider analysis of the evolving role of intermediaries.

To enable established financial institutions to provide large-scale market infrastructure services based on DLT, the primary lever should be a progressive adaptation of the regular framework to enable DLT-based services alongside traditional infrastructures. As a first step, CSDR definitions (“dematerialised form”, “transfer order”, “securities account” and “book-entry form”) could be adapted to enable the use of DLT-based and token-based solutions. Further steps would entail changes to provisions on settlement discipline, settlement finality, communication procedures and links between infrastructures, but these may be premature, as the experience with DLT-based infrastructures is currently limited.

The provisions of the current legal framework are sufficiently general to mitigate and control the risks arising from using a permissioned DLT in a securities settlement system (SSS). This is the case if: (i) the technical rules governing the functioning of the DLT exclude decentralised validation and a decentralised governance structure; (ii) the services provided via the DLT are limited to those offered by the SSS and do not deviate from those performed by an SSS not based on DLT; and (iii) either the CSD operates the underlying DLT infrastructure or the scope of "outsourcing" is interpreted as in the current legal framework, and not as in the interpretation set forth in Recital 31 DLTR (i.e. it also encompasses the delegation of tasks related to the operation of a DLT SSS or the use of DLT to perform settlement). In such arrangements, additional technical standards may prove beneficial in specialising general requirements to address DLT-specific operational and custody risks (for example, risks related to smart contract failures and custody failures). Conversely, settlement systems that utilise permissionless DLTs must take into account additional governance risks (such as those associated with contentious forks), settlement process risks (chain reorganisations, double spending, availability incidents and maximal extractable value exploitation) and legal risks (particularly those stemming from varying interpretations of outsourcing).

The DLTPR requirements on cash settlement should be reviewed to provide better articulation with the regular framework and further clarity in their application. To promote the use of central bank money and avoid excessive risk-taking in this essential component of securities settlement, Article 5(8) DLTPR should be reviewed, considering the following principles.

- Settlement in central bank money should continue to be required for DLT market infrastructures whenever it is practical and available. This would help promote a transition to central bank-operated settlement solutions, in the currencies for which such solutions are developed, as soon as they become available.

- Settlement in commercial bank money, including in tokenised form, should remain permitted without compliance with Title IV CSDR only below the current DLTPR thresholds – including if the DLTPR thresholds are increased. Activity above these thresholds should be subject to Title IV CSDR, including the possibility of using a commercial bank that does not meet the requirements of Title IV under specific thresholds foreseen under Article 54(5) CSDR.

- Settlement in e-money tokens issued by a single e-money institution should only be permitted under low thresholds such as those currently in force in the DLTPR. Above these thresholds, cash settlement should rely on more robust solutions towards which DLT market infrastructures should transition, which could include reliance on multiple e-money institutions to ensure risk diversification, provided this can be done in a safe and efficient manner.

- Cash settlement through the accounts of the CSD (or, equivalently, cash-equivalent tokens issued by the CSD on the DLT trading and settlement system (TSS) for the benefit of their members, participants and clients) should be permitted in compliance with Title IV CSDR. It should also be clarified whether Title IV applies when a DLT TSS is operated by an investment firm authorised under a national transposition of MiFID, in case the cash available for settlement on the DLT TSS is fully prefunded into an omnibus account held by the investment firm at a credit institution and protected only by MiFID prudential and risk management requirements.

The deployment of DLT to provide financial services, including post-trade services, should preferably rely on permissioned platforms – whether public or

private – while the use of permissionless DLT should be carefully regulated. Permissionless blockchains are publicly accessible platforms operated by a distributed network of entities which cannot be regulated (and usually not even identified), called validators. In principle, permissionless blockchains may offer several benefits: (i) by operating without a central authority, they could act as a neutral platform with a global reach, with the ability to operate across jurisdictions; (ii) by employing distributed consensus among multiple entities, they may avoid single points of failure, enhancing security and resiliency; (iii) their open-source nature fosters innovation and the development of a diverse ecosystem of applications and services, which contributes to the growth of the platform; (iv) they benefit from strong network effects, given the multiple assets available for settlement and the diverse range of financial protocols deployable as smart contracts. However, several risks (in addition to those also present in permissioned platforms) should be considered and, where possible, mitigated by the regulatory framework: (i) the role of unregulated validators exposes DLT users to risks associated with the settlement process (related to decentralised consensus failures such as chain reorganisations, double spending and maximal extractable value exploitation); (ii) co-locating regulated financial services with other services on the same public DLT can expose participants of the financial market infrastructure using DLT to additional operational risks, including cyber threats and scalability issues; (iii) failures in decentralised governance may result in contentious DLT forks, where a single DLT infrastructure splits into two distinct infrastructures with different properties, such as divergent sets of validators and governance structures; (iv) the security of permissionless DLTs hinges on a sufficient degree of decentralisation, regarding both governance structures and validators. However, there is no widely accepted definition of a decentralised DLT. Some DLTs may have centralisation points – for instance, a centralised entity holding a de facto majority in DLT consensus – which are challenging to assess. Others may have centralisation drivers, such as high capital requirements to become a validator, and could eventually evolve into centralised platforms. Employing permissionless DLTs that are, in effect, operated by one or more central entities exposes users to the same risks as a centrally managed platform, albeit without equivalent legal protections, as validators remain unidentifiable and unregulated. These risks must be properly mitigated by the regulatory framework: for instance, the use of permissionless DLTs could be subject to relatively low limits such as those currently applied in the DLTPR, to ensure that they do not pose a systemic risk, as well as to enhanced investor protection requirements. In addition, infrastructure operators using this type of technology could be required to develop a plan for addressing settlement, governance and operational failures and to demonstrate that the permissionless DLT they use is subject to adequate financial incentives, in order to ensure its resilience with a high degree of confidence and its suitability to safely provide these services.

In addition to regulatory changes, a dedicated EU legal framework that encompasses both private law and conflict of law rules is warranted to enable the development of European DLT-based markets. The ESCB is of the opinion that an enabling legal environment which provides legal certainty is missing at EU level and that this is one of several factors currently preventing wider use of tokenised securities and the development, at scale, of DLT-based trade and post-trade structures. Such a framework should include private law rules on how tokenised securities can be issued, how they can be acquired and how they can be transferred. The framework could potentially be introduced as a 28th regime. Inspiration for this legal framework could be taken from national laws and the UNIDROIT Principles on Digital Assets and Private Law. Such a comprehensive framework could in the longer run also contribute to the eligibility of DLT-based assets for Eurosystem credit operations.

Fragmentation of DLT applications and a lack of interoperability in a broader sense hinder the development of liquid and efficient DLT-based markets, with investors and issuers facing high costs for connecting to multiple platforms at once. The Eurosystem will continue to act as a catalyst for harmonisation and standardisation and provide coordination to the extent possible in this domain. This also limits the possible benefits of DLT. Eurosystem exploratory work on settling DLT-based transactions in central bank money identified how interoperability could be established between a diverse range of market DLT platforms for the purpose of safe and atomic settlement, including private permissioned, public permissionless and shared platforms between different market stakeholders. However, the exploratory work showed how each market DLT platform operates on its choice of technology and under its own practices, often under idiosyncratic national legal frameworks, with a lack of industry-wide market practices and standards. The DLT ecosystem would benefit from less divergence of technologies, market practices and operating models, and from the application of technical standards, which could improve scaling. Harmonisation and standardisation require coordination across market players and market segments and ultimately the adoption of harmonised market practices and standards. The Eurosystem will continue to promote coordination and act as a catalyst for harmonisation and standardisation in this domain with the vision of a future ecosystem of fully interoperable ledgers or a shared ledger. It is important to note that DLT's scope of application goes beyond current financial market infrastructures and affects all parts of the value chain. In addition, adjusting legal, fiscal and collateral frameworks at a pan-European level for DLT will be important to scale and reap the expected benefits. The Eurosystem will undertake detailed analysis of all these aspects in conjunction with the relevant public sector bodies and liaising with market stakeholders, both at European and international levels.

2.5 Asset management and funds

The ESCB welcomes the Commission's focus on removing barriers to the cross-border operation and marketing of investment funds in the EU that affect costs and accessibility for EU citizens. A single, simple and consistent implementation of the Single Rulebook is ultimately needed to avoid fragmentation and address gaps and differences in supervisory approaches. Despite the harmonisation reached with Directive 2009/65/EC (UCITS Directive) and Directive 2011/61/EU (AIFM Directive), which allow investment funds to be marketed across the EU via a relatively simple notification procedure, divergences remain in national interpretations, supervisory practices and operational requirements, undermining the core goals of a single European capital market. These inconsistencies generate duplication, undermine efficiency and fragment cross-border operations. Harmonising supervisory practices and recognising group-wide compliance and risk functions across Member States would strengthen the Single Market and reduce unnecessary burden. Greater convergence, through ESMA-led guidance and binding technical standards, would enhance legal certainty and reduce market fragmentation. More integrated market supervision, especially for large cross-border operators, is important (Section 2.6.5); in the meantime, cooperation among NCAs should be strengthened, for example by enhancing the role of supervisory colleges.

Removing regulatory barriers to cross-border investments within the EU is key to unlocking the full potential of EU capital markets for investors. Retail and professional investors still encounter obstacles and fragmented access rules when investing across borders, including divergent national restrictions on retail investment in alternative investment funds (AIFs). Removing the potential obstacles to retail investments in AIFs should however be accompanied by safeguards that protect the retail investor and assure the manager's capacity to manage the associated risks.

Harmonising the tax treatment of investment products across the EU and simplifying access to cross-border funds is key to the goals of the CMU and the broadening of investor choice. The recent agreement on safer and faster procedures to obtain double taxation relief (FASTER)[17] is a stepping stone in this regard that will encourage cross-border investment. However, some impediments remain, for example the requirement for financial intermediaries to register with the competent authorities of each Member State from which income originates to be allowed to request tax relief on behalf of a registered owner. This registration process is still subject to different application in Member States. A key issue is the tax recognition of the various categories of investors (institutional investors, such as mutual or pension funds, or other forms of vehicle) operating within the Single Market, in order to grant them withholding tax relief and refunds. Member States may also impose more extensive reporting obligations on transactions in order to detect potential tax abuse or fraud. More detailed and uniform EU rules may therefore be necessary to clearly define the scope of these obligations and the associated liabilities.

Further harmonisation of corporate law at EU level on matters affecting the whole investment chain (including insolvency and taxation) should also continue to be assessed – including the potential use of a 28th regime.[18] Harmonising corporate tax regimes (at least the tax base) helps reduce differences between Member States on the net return on investments, which affects the competitiveness of capital markets. Therefore, corporate taxation reforms could positively influence the development of the CMU. For example, the debt-equity bias reduction allowance proposal, introducing a tax allowance on increases in company equity, incentivises the use of stock markets, rewarding the capitalisation of companies, and increases, other things being equal, the return on investment in the equity of companies by reducing the cost of capital. Creating a voluntary opt-in

[17] Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings.

[18] See Oehmke, M. and B. Becker (2025), "Restructuring and insolvency – reform opportunities in Europe", *ASC Insights*, No 4, European Systemic Risk Board, May.

EU-wide system alternative to national ones (a “28th regime”) for innovative firms which would cover aspects of insolvency and corporate law – as proposed by the European Commission – can potentially overcome certain political difficulties in achieving harmonisation. In light of past experience, however, its success would crucially depend on defining a comprehensive legal framework, capable of meeting the needs and interests of entrepreneurs and investors in innovative companies. Referrals to national laws should be minimised to reduce the risk of divergences that may result from varying courts' interpretations. The narrow focus on innovative companies with relatively homogeneous characteristics and investor needs could facilitate the creation of an appropriate legal framework. As harmonisation will remain a complex endeavour, continued efforts to improve the efficiency of national regimes (e.g. in insolvency law) remain of utmost importance.

2.5.1 Improving authorisation procedures

Harmonised and streamlined authorisation requirements and procedures are critical to achieving a true single market for asset management. Today, management companies face inconsistent application processes, which, in addition to local requirements and procedural delays across Member States, create undue barriers to the effective operation of cross-border asset management within the Single Market.[19] The ESCB supports initiatives to further harmonise and standardise authorisation requirements and procedures for management companies to increase simplification and reduce fragmentation in the EU's asset management sector. The establishment of a single EU-wide authorisation system for management companies, based on standardised forms and uniform timelines, would merit future consideration.

Uniform approval standards and cross-border access for fund service providers in the EU are essential to supporting market integration. The current national variations in approving depositaries and service providers delay fund launches and complicate cross-border operations across the EU.[20] Harmonising the depository regime through EU-wide passporting and a central register of approved entities would improve cross-border operations, ensuring seamless service provision across Member States and enhancing market efficiency.

Recognising group-level operations and eliminating duplicative supervision are crucial to facilitating efficient cross-border asset management within the EU. Centralised risk management, compliance and marketing frameworks within cross-border groups could be better recognised and would be helped by having a more harmonised supervisory framework. Allowing group-level authorisations and

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19 See the European Court of Auditors' special report on a single market for investment funds (2022), which notes that variations in national requirements and interpretations can create obstacles to the seamless operation of the single market for investment funds, or the European Fund and Asset Management Association (EFAMA) response to ESMA's consultation on the Eligible Assets Directive (2024).

20 Currently, the depositary regime is only partially harmonised at EU level: while the common rules regulate the duties and tasks of depositaries of investment funds and pension funds, the licensing and supervisory regime applicable to them is regulated at national level, thus creating divergences and providing leeway for possible regulatory arbitrage. For instance, the UCITS Directive explicitly forbids using non-domestic depositaries, while the latest amendments to the AIFM Directive tie it to several conditions and the discretion of NCAs.

supervisory waivers, particularly for operational functions, would enhance integration and reduce administrative barriers. This would also lower operational costs for asset managers, which could benefit investors through lower fees and access to a broader range of investment products.

2.5.2 Enhancing the functioning of the EU passport for the marketing of investment funds, management companies and depositaries

Eliminating national barriers and facilitating cross-border fund distribution within the EU is necessary to ensuring the full effectiveness of the EU marketing passport. While the legal passport exists, practical obstacles – including local approvals, fees and divergent marketing rules – continue to fragment the Internal Market. For example, ESMA has highlighted that pre-approval of marketing materials is required in some cases, while in others there is a reliance on ex post checks.[21] These differences can lead to diverging practices in the application of marketing rules across the EU. ESMA's role in centralising and harmonising marketing-related information across the EU could be strengthened in this regard.

Strengthening the effectiveness of the management company passport and introducing a depositary passport for all types of funds is necessary to supporting cross-border activities across the EU and creating a level playing field. Substantive and procedural barriers imposed by some Member States undermine the functioning of the UCITS and AIFM Directives. Furthermore, passporting of depositary services for UCITS is currently not allowed, while for AIFs it is subject to conditions at the discretion of NCAs. Centralising passport notifications and creating a standardised, EU-wide notification procedure under ESMA would eliminate the benefits of home state optimisation and allow management companies and depositaries to operate freely across borders without unnecessary restrictions.

2.5.3 Enhancing the attractiveness of EU markets as an investment destination

Asset managers play a key role in the financing of the European economy and act as a transmission mechanism for effective capital allocation. Vibrant, pan-EU capital markets are vital to securing investment funding and bolstering the EU's productivity and competitiveness. By investing their clients' savings in the markets, asset managers provide a source of stable, long-term funding to European governments, companies and infrastructure projects while providing investment opportunities for retail and institutional investors. A European savings and investment product could be used to attract more savers to capital markets and should go hand in hand with the removal of barriers within the European fund market to promote retail investor participation with low-cost products. It is crucial that the risk/return profile of these products is transparently communicated to retail investors.

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[21] See ESMA Report on Marketing Requirements and Communications (2023).

Allowing targeted flexibility in portfolio rules needs to be accompanied by appropriate safeguards to maintain financial stability, protect investors and support market integration. While the UCITS framework has successfully promoted investor protection and financial stability through diversification, liquidity and risk management rules, some targeted flexibility could improve fund attractiveness without undermining these core objectives. As an example, the rules allowing UCITS funds to benefit from increased investment limits in a single issuer could be made more flexible. However, such flexibility must be carefully calibrated and accompanied by financial stability safeguards both at microprudential and macroprudential levels. For instance, robust liquidity risk management, concentration controls, stress testing and enhanced supervisory oversight adjustments to portfolio requirements should be harmonised across Member States, ensuring a consistent level playing field and avoiding regulatory fragmentation that could exacerbate financial vulnerabilities.

Deepening market integration through integrated supervision, harmonisation and barrier removal is also essential for a globally competitive EU asset management sector. Shifting supervisory powers to the European level[22], harmonising operational rules and simplifying cross-border fund operations would go a long way towards deepening the single market for capital. It could also facilitate consolidation in the sector and the scaling of existing funds, which could benefit consumers through lower costs.[23] Establishing a centralised EU data hub would improve financial stability oversight and reduce duplication. These reforms would deliver a stronger, more integrated Single Market and enhance the EU's position in global financial markets.

Harmonising access conditions for high-net-worth individuals that pass relevant suitability requirements would broaden the investor base and support deeper capital market integration. Current MiFID II categorisation rules, in combination with national divergences, limit the ability of affluent investors to access specialised fund segments such as EuVECAs. Simplifying and harmonising access conditions paired with relevant suitability requirements across Member States, particularly for investors meeting wealth and investment thresholds, would expand funding sources for venture capital and SME growth, directly contributing to the objectives of the CMU and SIU, without undermining investor protection for less specialised investors.

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[22] For example, supervisory colleges with strong, legally defined powers could be introduced for asset managers that operate across borders while shifting supervisory authority to ESMA for the largest cross-border asset managers.

[23] ESMA analysis shows that EU UCITS remain, on average, much smaller than US funds, which can partially explain the substantial differences in the fund cost levels observed between the EU and the United States since larger funds tend to have lower ongoing costs. See ESMA's report on the costs and performance of EU retail investment products in 2024.

2.6 Topics for consultation on supervision

2.6.1 Effectiveness of the current framework

The ESAs, i.e. ESMA, the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA), play a crucial role in developing the regulatory framework and overseeing financial markets within the EU. ESMA in particular focuses on enhancing investor protection and promoting stable and orderly financial markets. The ESAs have been instrumental in implementing a single rulebook and in promoting consistent regulation across Member States. By standardising rules through directives and regulations like MiFID II, EMIR and the Prospectus Regulation, the Single Rulebook helps to reduce regulatory arbitrage and create a level playing field. The ESAs also promote supervisory convergence and actively work towards the consistent application of EU law by issuing guidelines and opinions.

The current allocation of supervisory powers to the different participants and segments of capital markets across the EU is heterogeneous and complex. First, the supervisory framework is largely decentralised, which affords national authorities considerable discretion in enforcing legislation and implementing supervisory practices. This can lead to inconsistencies and hinder true European market integration. The governance system, which relies on decisions by the NCAs from 27 Member States, may give too much weight to national interests, sometimes resulting in suboptimal outcomes. This concern was echoed in the Commission consultation on supervisory convergence and the Single Rulebook, where most industry respondents, as well as consumer representatives and academics, identified the need to enhance the independence of the ESAs' deciding bodies, a sentiment corroborated by the ESAs themselves.[24] Second, such heterogeneity at national level is exacerbated by the interaction with the regulatory and supervisory powers at European level.[25] Under the current allocation of regulatory and supervisory powers, convergence and harmonisation are difficult to achieve due to different national rules and practices, as well as different national implementations of European rules.

Despite the progress in harmonising rules and strengthening the ESAs, more integration of the EU's supervisory framework can foster capital market integration. Significant progress has been made in harmonising rules and establishing binding technical standards across the EU, creating a more consistent supervisory landscape. However, the incremental amendments to the supervisory framework have not established a completely level playing field or achieved comprehensive market integration. While some centralisation of supervisory tasks for

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24 This was highlighted in the Commission's 2022 report on the operation of European Supervisory Authorities, as well as in the summary report of the 2021 targeted consultation on supervisory convergence and the Single Rulebook.

25 For banks, the ECB is responsible for supervision, but the EBA is in charge of regulatory harmonisation via the Single Rulebook. For capital markets, ESMA is responsible for the Single Rulebook but is also in charge of direct supervisions for certain players (e.g. rating agencies and trade repositories). For insurance and pension funds, supervision is carried out at national level, but EIOPA is in charge of regulatory harmonisation.

cross-border players has occurred, the existing framework does not fully support supervisory convergence across the Internal Market, potentially hindering the integration of capital markets.[26] Even when enforcing EU legislation, national supervisors can maintain different supervisory practices tailored to their national markets or policy preferences. They may also seek to protect domestic players from cross-border consolidation or competition. Only a more integrated supervisory framework can produce truly harmonised supervisory practices that underpin a genuine single European market.

A more integrated supervisory system would offer significant benefits, including a more transparent, predictable and accessible environment for market participants. This system would support the uniform implementation of rules, increase market confidence and promote cross-border investments across the EU, which are crucial for developing a single market for capital in Europe. Moreover, integrated supervision would facilitate a more coordinated response to market disruptions, further contributing to financial stability. Ultimately, integrated supervision with a single rulebook will open up markets, increase competition and benefit investors and borrowers in all jurisdictions.

An integrated framework would also facilitate the supervision of entities operating across borders in the EU and reduce compliance costs, thus supporting market integration. The combination of the national and European level in terms of responsible authorities may create unnecessary complexity for regulated entities and supervisors alike. An entity active in multiple segments might need to deal with a large number of supervisors, taking into account multiple home-country authorities, multiple supervisors in other Member States, plus European regulators and supervisors. Such complexity has two important consequences. First, it increases the costs for market participants to comply with different rules and their interpretation when operating across borders and creates an unnecessary need to duplicate infrastructure and processes. Second, it has the potential to create disincentives for market players to increase their scale and to expand across borders in Europe.

2.6.2 Specific questions on supervisory arrangements for different sectors

A stepwise approach accounting for specific sectoral features may help incrementally integrate the supervisory architecture of capital markets. Such an approach would recognise and address the specific characteristics of different sectors within the capital market, introducing more integrated European supervision for those market players with a stronger European dimension and systemic relevance. Different market segments operate under distinct regulatory, operational and risk management frameworks. Therefore, a gradual and tailored approach that considers the specific dynamics and regulatory requirements of each market segment could facilitate a smoother transition towards integrated supervision. This approach would also allow for the identification and mitigation of sector-specific risks and challenges, ensuring that the integrated supervisory framework is robust, comprehensive and adaptable.

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26 See the Commission's 2022 report on the operation of European Supervisory Authorities and the summary report of the 2021 targeted consultation on supervisory convergence and the Single Rulebook.

Moreover, engaging with stakeholders from various sectors during this process can foster collaboration and build consensus on the integrated supervisory system.

In the short term, targeted improvements to the supervisory framework could be considered by bringing certain segments of capital market actors under EU supervision. These could be, for example, market segments that are strategically important and that could benefit from common supervision to achieve the required scale, or market segments where integration or intense cross-border activity across the EU could entail higher cross-border contagion risks to financial stability. Examples of such strategic sectors include but are not limited to trading venues and CCPs of systemic EU importance, CSDs, relevant asset management companies and funds, and CASPs.

Different models could be used to introduce these targeted improvements and promote supervisory integration in the short term, taking into account specific sectoral features. Different approaches could be considered in order to achieve the objective of integrated supervision of EU capital markets – in line with the 2024 Governing Council statement. Different models with varying levels of ambition also reflect different views within the Eurosystem and the European System of Central Banks. In particular, two options could be explored. A first option could be a “two-tier” model (akin to the Single Supervisory Mechanism (SSM)) where only the most significant actors in a given market would fall under direct EU-level supervision, in cooperation with national supervisors, while the primary responsibility for smaller and less significant players would remain with national supervisors. The scope of significant entities under direct EU-level supervision could be determined based on a range of different factors, such as their size, EU relevance, cross-border activities across the EU, etc. These criteria could, at least initially, be designed in such a way that only the most systemic, cross-border EU players would be subject to direct EU-level supervision. Under this model, the EU-level supervisor would retain ultimate responsibility for the overall good functioning of the supervisory framework and could also directly intervene at the level of smaller players where required. National authorities would retain a strong role, by keeping supervisory powers on the less significant entities and by cooperating with the EU supervisor for the oversight of the most significant players.

A second possible option could be a progressive and gradual shift of selected supervisory powers to a European authority. Under this option, national supervisors would over time transfer more powers over certain capital market sectors to the EU-level supervisor, while still retaining some supervisory powers at national level. This option could benefit from an ex-ante predefined timeline to ensure that the gradual shift of some supervisory powers to the European level will actually take place. This would help create some certainty about the next steps while still moving towards integration of EU capital markets supervision at EU level.

The options presented above, which need to be further explored, would offer the clear benefit of moving towards the goal of integrated European supervision of capital markets, although with different levels of ambition. The creation of regional hubs with the participation of national supervisors or EU centres of supervisory expertise by sector, which are options included in the consultation, could also be interesting avenues to explore: they would likely be less helpful to move towards integrated supervision in the short run, but could offer useful support when implementing any of the two proposed options. However, the design and tasks of such hubs and centres would be key to understanding and assessing whether and to what extent they could provide substantial net benefits in view of the goal of integrated supervision. Last but not least, it should be stressed that the options proposed above require further in-depth analysis in terms of design and implementation, as well as potential benefits and possible drawbacks.

The Czech National Bank, the Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg, the latter highlighting that it is not entrusted with direct supervisory responsibilities in this field, judged that integrated supervision could ultimately be achieved in different ways. In particular, while the Czech National Bank, the Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg concur that it is critical to deliver a more integrated and efficient approach to supervision within the Single Market, they view that this could be better achieved through greater supervisory convergence, rather than direct EU supervision. That can be brought about via increased use of supervisory colleges, peer reviews, common supervisory actions (CSAs), streamlined Q&A tools of the ESAs and real-time information and knowledge sharing. The Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg's view is that the costs and benefits of proposals around direct EU supervision need to be considered carefully, including from the perspective of efficiency. Ultimately, given the breadth of entities in the capital markets ecosystem, the Central Bank of Ireland, the National Bank of Belgium and the Banque centrale du Luxembourg consider that a "case-by-case" approach is preferable when determining the optimal supervisory framework.

2.6.3 Questions on the supervision of EU CSDs

The ESCB sees several benefits to more integrated supervision of EU CSDs in terms of efficiency and convergence of supervisory practices as well as further integration in the post-trade landscape. First, a number of CSDs – especially international CSDs – provide systemically important services to securities issuers and market participants in multiple Member States, and in some cases to non-EU countries. The cross-border systemic importance of the largest CSDs is due to the critical functions they provide for multiple national securities markets, the high volumes of transactions they settle for market participants in different countries and their interconnectedness with other CSDs and market infrastructures. For these CSDs, an EU-level supervisor would align their supervision with their systemic importance, the interests of the various markets they serve and the cross-border risks their activities pose. Second, more integrated supervision of EU CSDs would allow for more efficient and convergent supervision. The current supervisory architecture poses challenges: NCAs typically supervise only one CSD – or in rare cases, two. Especially when the CSD is a small entity serving only the local market, the competent authority may accordingly, in some cases, have limited resources itself to conduct a thorough supervision of this single CSD, which can limit its ability to induce necessary improvements in its risk management. In addition, supervising only one or two entities does not allow for comparability across CSDs and the benchmarking of their risk management practices. The establishment of colleges under CSDR Refit could bring some benefits in this regard, which should be assessed. Still, without ESMA's involvement in the authorisation or the review and evaluation of CSDs[27], its ability to ensure supervisory convergence is constrained. Only the Eurosystem, as a relevant authority, has an overview of the risk management practices across the significant number of CSDs on which it is consulted and endeavours to promote high standards of compliance in the areas within the scope of its assessment – however, this relies on the cooperation of NCAs, which is not consistently provided. Therefore, more integrated supervision of EU CSDs would allow for more efficient supervision by concentrating and further developing expertise in an EU-level authority. It would also allow for greater comparability across CSDs, thus leading to further supervisory consistency. More integrated supervision of EU CSDs should consider the implications for the supervision of CSDs which provide banking-type ancillary services and are authorised as credit institutions accordingly, to ensure appropriate coordination and integration between the supervision of CSDs under the CSDR and under banking regulations.

Second, integrated supervision could in turn support integration in the post-trade landscape, especially for cross-border groups. National supervisory practices can limit the ability of CSD groups to further integrate their infrastructure, for instance by consolidating entities in a single Member State or by designating a single SSS for multiple Member States. For instance, national supervisors can interpret regulatory provisions on outsourcing strictly in order to place limits on intragroup outsourcing, which would require a change of supervisory approach, as it would be difficult to address in the regulatory text without undermining the purpose of these provisions. Targeted changes to CSDR provisions – which are currently focused on CSDs as individual entities – could allow for further intragroup integration while ensuring an effective cross-border assessment of risks. In addition, the Commission should assess whether an EU-level supervisory architecture for cross-border CSD groups[28] could facilitate the integration of their activities and technical infrastructure, with efficiency gains and benefits for EU securities markets overall. It could also allow these groups to have a single point of contact for their supervision, increasing the efficiency of the supervisory process, for instance by avoiding duplicative or overlapping supervision of group policies and procedures.

The EU supervisory architecture for CSDs could evolve towards further integration along different pathways. A first path would be to set up a two-tier supervisory model, with centralised supervision limited to (i) CSDs of substantial importance for the securities markets of multiple Member States, or the whole EU;

[27] Under the CSDR, ESMA does not provide an opinion during the review and evaluation process. Following CSDR Refit, ESMA would be part of the supervisory college for the CSDs where one is established, and the college could collectively adopt ex post non-binding opinions on issues identified in the review and evaluation process. However, this form of involvement is rather weak and limited to only a few CSDs.

[28] This could be achieved by ensuring that an EU-level supervisor supervises all the EU CSDs which are part of a same group within the same supervisory unit. If a group also includes non-EU CSDs, this could be accommodated through supervisory cooperation between the EU-level supervisory authority and the third-country supervisory authority.

and/or (ii) CSDs which are part of a cross-border group of CSDs. The criteria for substantial importance could be drawn from the draft regulatory standards already prepared by ESMA[29]. These criteria could be complemented with others to reflect (i) the importance of a CSD for the whole EU securities markets and (ii) the fact that CSDs belong to cross-border groups. At the same time, national CSDs which are less interconnected and represent lower risk profiles would remain under national supervision. The organisation of centralised supervision could take the form of JSTs comprised of ESMA as lead supervisor and NCAs, and involving relevant authorities (e.g. the national central bank responsible for the oversight of the SSS operated by the CSD, and the relevant central banks of issue, CBIs). The involvement of national authorities would allow the EU-level supervisor to draw on their knowledge of national securities law and regulations. For CSDs under centralised supervision, these JSTs could then replace supervisory colleges in the interest of simplification, if the number of authorities involved is manageable, and thus colleges could remain only for the most interconnected CSDs.

A more gradual evolution towards more harmonised supervision could take the form of intermediate steps, building on the improvements brought by CSDR Refit. Notably, it has not yet been possible to assess the benefits of establishing colleges under CSDR Refit. In addition to ESMA's participation in CSD colleges as foreseen by CSDR Refit, ESMA could participate in the authorisation and the review and evaluation processes for CSDs, with the possibility to make recommendations, whether binding or on a comply-or-explain basis. Another option that could be further investigated would be, in addition to or in combination with the supervisory colleges for individual CSDs foreseen by CSDR Refit, the establishment of supervisory colleges for CSD groups, chaired by ESMA, with the aim of harmonising supervisory approaches for CSDs with group policies and procedures.

Relevant authorities, including ESCB members both as CBIs and as overseers, should remain involved in the supervisory process for CSDs, irrespective of the pathway chosen to further integrate supervision. The smooth operation of CSDs and the SSSs they operate is critical to central banks' mandates, including the implementation of monetary policy and the related use of SSSs for central bank credit operations, the stability of the financial system and the smooth functioning of the payment system. Relevant authorities should therefore remain involved in the authorisation and review and evaluation processes, including for CSDs under centralised supervision, as well as for those CSDs for which colleges will be established, although the modalities may vary in the interest of efficiency. Should the governance of CSD supervision evolve towards further centralisation, for instance with the creation of JSTs or a supervisory committee within ESMA, relevant authorities should also be closely involved in those structures.

The National Bank of Belgium and the Banque centrale du Luxembourg, the latter highlighting that it is not the CSD competent authority, do not fully share the views set out in this section. They consider that the assessment of potential shortcomings in CSD supervision does not appear sufficiently conclusive so as to

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29 See ESMA's final report regarding the draft RTS on the substantial importance of CSDs under Article 24a(13) CSDR.

justify, at this stage, a significant move towards centralised CSD supervision. They note that the supervisory framework for CSDs was recently reviewed under CSDR Refit, which was adopted on 13 December 2023 and entered into force in 2024 only. The improvements introduced in that review to enhance integrated supervision, especially through mandatory supervisory colleges with the participation of ESMA (and EBA where a CSD provides banking ancillary services), are ongoing and should first be fully implemented and assessed before new proposals are made to change this framework again. Finally, they note that for CSDs authorised as credit institutions, their direct supervision by ESMA under CSDR would break the existing synergies that stem from their supervision by a single competent authority, both as CSDs and as banks, leading to inefficiencies and additional costs. Moreover, as long as securities and company laws lack harmonisation within the EU, national fragmentation will persist, which will not be solved by centralising supervision.

2.6.4 Questions on the supervision of EU CCPs

The mechanisms introduced by EMIR have only partially succeeded in harmonising supervisory practices for EU CCPs. First, the mechanisms in place to balance the views of NCAs could be enhanced. The ESMA CCP Supervisory Committee allows its members to contribute to ESMA decisions and to the convergence of supervisory practices. However, NCAs continue to have sole responsibility for the supervision of EU CCPs, with only limited areas of shared competence with ESMA[30]. As for EMIR colleges, they, by design, only partially allow authorities interested in the safety of EU CCPs to influence NCAs' supervisory decisions. Colleges provide a useful platform for information exchange, and college members – including ESCB members, both as CBIs and as CCP overseers, and ECB Banking Supervision – adopt opinions on key supervisory decisions and can issue non-binding recommendations. In addition, college members can actively engage in supervisory procedures to influence the decision of the NCA. In practice, however, these opinions rarely influence the outcome of NCAs' decisions: college members are often not in a position to challenge the stance of NCAs (e.g. due to the timing or depth of the college engagement and tight deadlines, which are further shortened by EMIR 3); the tools available to express dissent are limited (e.g. abstentions or negative votes); and ultimately, most college opinions are non-binding and NCAs retain the final say (except for opinions under Article 17, which are binding if adopted by a two-thirds majority).

While ESMA's efforts have fostered convergence through various tools, supervisory practices remain divergent across NCAs. NCAs hold a margin of interpretation of EMIR risk management standards and are able to adopt diverging approaches regarding CCP practices – for example, on outsourcing of critical functions, access criteria or margin model changes. In addition, the convergence tools currently used by ESMA are not always effective. For instance, ESMA guidelines,

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30 The validation of significant risk model changes is shared with ESMA. In addition, EMIR 3 extended the competences NCAs share with ESMA to the qualification of a model change as significant under Article 49a and the chairing of the college. It also granted to ESMA a coordination role in case of an emergency situation affecting more than one CCP (Article 24 (3)).

while promoting a common understanding of EMIR requirements, are not always fully followed by NCAs. Similarly, peer reviews conducted by ESMA expose divergent practices but do not consistently lead to tangible changes in NCAs' supervisory approaches.

Therefore, the current supervisory framework could benefit from enhancements from a risk and competitiveness perspective. First, less conservative risk management practices could emerge due to the absence of a harmonised supervisory approach to CCPs' risk management – albeit within the limits of EMIR (i.e. a "race to the bottom"). Further, even if some NCAs require from CCPs higher conservativeness above the regulatory minimum standards, the varying supervisory approaches among NCAs could create an unlevel playing field between EU CCPs, potentially distorting competition within the EU. Second, the current supervisory framework can lead to regulatory inefficiencies. In particular, diverging supervisory practices may incentivise EU legislators and ESMA to increase the scope and granularity of regulatory requirements. This, in turn, may increase the burden for both authorities and EU CCPs, while not always efficiently ensuring flexible and future-proof regulatory approaches.

One justification for national-level supervision is typically the national fiscal responsibility associated with a failure of supervision, but this is in part misleading. Given that public funds may only be used as a last resort, the allocation of CCP losses would likely affect clearing members, including from other EU Member States, rather than domestic public funds. If a CCP of systemic importance for multiple Member States were to accrue losses that cannot be absorbed by the default waterfall or recovery arrangements, it is therefore likely that those losses would be allocated across several Member States in any event, rather than to the sole Member State where the CCP is established. Such an outcome may become more likely in the future as resolution planning for CCPs matures to a point where it is feasible in practice, not just in theory. However, the Regulation on a framework for the recovery and resolution of central counterparties views extraordinary public financial support as a last resort. Therefore, it may be beneficial to complement centralised supervision with solutions that do not rely on national fiscal responsibility, thereby addressing the issue of potentially significant losses that cannot be attributed to clearing members.

The ESCB would thus be in favour of centralising the supervision of EU CCPs, at least for those with the most significant European cross-border relevance (i.e. a two-tier model). First, centralisation could help better address cross-border risks, ensuring that the impact of EU CCPs on EU markets, market participants and currencies is adequately addressed by supervisors. Second, centralised supervision would be an opportunity to simplify the current supervisory framework and reduce duplicative supervisory work of ESMA and the NCAs. Finally, it would lead to greater convergence of supervisory practices and ensure a level playing field between CCPs. This benefit would be fully effective if, in the long run, centralisation is achieved for all CCPs. An EU supervisory framework with a stronger EU-level angle would overall better reflect the cross-border dimension of EU clearing. Similar to the existing approach for non-EU CCP supervision, a two-tier model could be introduced, where the most systemic EU CCPs would be supervised by ESMA, in cooperation with the relevant NCAs. The criteria for determining the systemic importance of CCPs could include the volume and value of central clearing activity, the scope of products, the geographical scope of EU-based clearing participants and the EU-based trading venues connected. Another feature of this two-tier approach is that less systemic EU CCPs would be transitioned to this centralised set-up through a phased-in process based on risk, following a predetermined schedule.

ESMA appears to be the obvious institution where the powers for the supervision of EU CCPs could be centralised. ESMA has built up significant experience and expertise over the past decade and is well positioned to ensure that cross-border risks are adequately monitored and managed. Different solutions could be considered to ensure an appropriate level of involvement for NCAs. One potential approach to fostering cooperation in ongoing supervisory activities is the establishment of JSTs. They should not become a supplementary layer of supervision, but rather a way to accommodate some centralisation of supervision and simplification of the current framework.

The supervisory processes for EU CCPs would have to be adapted to better incorporate the views of other authorities. Considering the potential need for CCPs to use central bank deposit and credit facilities, ESCB members, both as CBIs and as CCP overseers, need to be closely involved in the (ongoing) supervisory processes of relevant EU CCPs. As explained above, it is often challenging for the Eurosystem as the central bank of issue (CBI) and the relevant members of the ESCB responsible for the oversight of CCPs to meaningfully engage in these supervisory processes through EMIR colleges. Furthermore, while the ESMA CCP Supervisory Committee facilitates good dialogue among NCAs supervising CCPs, ESMA's Board of Supervisors (BoS) is ultimately the decision-making body for key ESMA decisions on CCP supervisory matters. It would therefore be useful for those ESCB members acting as CBIs or CCP overseers to be represented as observers when the BoS discusses CCP matters. If ESMA were to take on central supervisory responsibilities with respect to EU CCPs, existing supervisory processes (e.g. consultations with EMIR colleges and ESMA committees) would need to be streamlined and options to ensure appropriate involvement of CBIs would need to be explored, preferably via JSTs. For CCPs that remain under national supervision and for which the existing college and ESMA committee procedures are maintained, these procedures should be revised to ensure early, close and meaningful engagement of CBIs in supervisory matters falling within their remit (as defined by Article 24b EMIR). Furthermore, relevant prudential supervisors, including ECB Banking Supervision, should be given a permanent observer role in the CCP Supervisory Committee. Given the interlinkages between institutions acting as clearing members and CCPs, discussions in the CCP Supervisory Committee are relevant for the risks these institutions may incur due to their exposures to CCPs, as reflected in the fact that ECB Banking Supervision is a member of the EMIR CCP colleges, as well as of the Joint Monitoring Mechanism established under EMIR 3. Thus, the prudential supervisors of the institutions with the three largest contributions to the default fund of EU CCPs should participate in the ESMA CCP Supervisory Committee meetings as non-voting members. In this way, supervisors will be informed in a timely manner about possible risks affecting individual institutions and will be able to address them, if and as needed, as part of ongoing supervision. Such membership should be made permanent, rather than subject to an ad hoc invitation.

2.6.5 Questions on the supervision of funds and asset managers[31]

The ESCB sees benefits to more integrated supervision to monitor and address Europe-wide risks or where markets provide pan-European services. A more integrated supervisory ecosystem would enhance financial stability and integration, increasingly important issues which need to be addressed given the growing size of these markets and their inherently cross-border nature.[32] Non-banks' total assets have more than doubled since 2008, growing from €23 trillion to €58 trillion by 2024 and are now comparable to 80% of banking sector assets. In the euro area, the role of NBFI entities in financing the real economy has become more important over the past decade, despite a decline in their share of total credit granted since 2022. NBFI entities accounted for 29% of outstanding credit to non-financial corporations in 2024, up from 15% in 2009.

Reflecting the continued expansion of the fund sector, domestic and cross-border holdings of euro area investment funds have almost quadrupled since 2008. Investment funds' total assets have grown from €5.4 trillion in 2008 to €19.7 trillion at the end of 2024. Cross-border holdings in particular have expanded more rapidly, resulting in a predominant allocation by the majority of euro area funds towards foreign assets. In total, the share of domestic assets in funds' portfolios has fallen from 37% in 2008 to 27% in 2024, while investments in assets of other EU countries have also declined from 38% to 27%. By contrast, investments in non-EU assets have increased substantially from 25% of all holdings in 2008 to 46% in 2024. National supervisors may not fully account for spillover effects, and there is a risk of regulatory arbitrage or supervisory shopping, which could undermine financial stability across the EU.

An EU-level supervisory framework can increase financial integration by enhancing the level playing field. This aligns with efforts to address barriers in the cross-border distribution of funds across the EU, where diverging supervisory practices and inconsistent rule implementation have been identified as obstacles. This would also support the objective of promoting retail investor participation and facilitate the distribution and access of European savings and investment products. Moreover, integrated supervision – including supervision by ESMA at EU level – could lead to greater efficiency. By consolidating resources, the EU can achieve cost-effectiveness and streamline processes. For instance, establishing an EU repository or procedure for the registration of funds could simplify operations for market actors, making the financial system more accessible and coherent.

Improving the EU supervisory framework for asset management and funds towards integrated supervision can take different forms. Ultimately, elevating

31 The National Bank of Belgium and the Banque centrale du Luxembourg highlight that topics covered in this section are outside their respective and direct areas of responsibility.

32 See Section 4.1.3 of ECB (2024), *Financial Integration and Structure in the Euro Area*, June.

supervision at EU level within a single supervisory authority would be in line with the goals of having a single market for capital with an institutional framework most likely to protect financial stability and promote a level playing field. Similar to the model chosen for banking supervision, this could mean a two-tier model, entrusting ESMA with the supervision of asset managers and funds with significant European cross-border activities, while NCAs would supervise asset managers and funds with limited or no cross-border activity. It is important to develop a model that is legally sound but also avoid an institutional set-up that would result in a more complex framework, with duplicative responsibilities at national and European level adding an extra layer and costs compared with the current set-up. In this context, establishing JSTs under ESMA's leadership would be a powerful tool to achieve harmonised, efficient supervision of asset managers and funds. JSTs composed of national experts and ESMA staff would preserve local knowledge while ensuring centralised decision-making. This would enhance supervisory consistency, deepen cooperation and deliver efficiency gains across the EU. In this sense, they should not become a supplementary layer of supervision, but rather a way to accommodate some integration of supervision and simplification of the current framework.

To improve consistency in the meantime, joint supervisory work could be conducted by ESMA and national authorities. This could take the form of mandatory supervisory colleges, chaired by ESMA. Here too, a two-tier approach could be applied: colleges would take joint decisions for the supervision of asset managers and funds with significant European cross-border activities, while NCAs would supervise asset managers and funds with limited or no cross-border activity. While these colleges are already possible within the existing framework on a voluntary basis, making them mandatory would enhance the predictability of the framework and enhance the level playing field. Mandatory supervisory colleges' decisions could cover both supervisory functions (including authorisation, targeted intervention powers and investigation powers) as well as coordination responsibilities (including peer reviews). Colleges with purely consultative and non-binding roles appear less effective.

Clear and objective criteria, including size and European cross-border activity, should determine which actors fall under EU-level supervision. To ensure a coherent and proportionate supervisory framework, asset managers and funds subject to EU supervision should be selected based on factors including the amount of assets under management, cross-border activities, cross-border investor base and the systemic importance of their combined activities. The exact designation criteria would need to be carefully calibrated in a separate, evidence-based quantitative exercise. This approach would target supervisory resources efficiently at entities whose activities are most relevant for single market integration and financial stability, without imposing unnecessary burdens on smaller, purely domestic actors. At the same time, the European supervisory authority would have the power to assume jurisdiction over entities that, even if they do not meet the relevant criteria, could create risks for the system.

Delegation of tasks could be an integral part of the EU supervisory model to strengthen risk management and operational resilience. Delegation of operational tasks to national authorities under the coordination and responsibility of

ESMA could support operational efficiency and preserve local proximity, where beneficial, without fragmenting supervisory authority. While maintaining some local proximity and access to national expertise is important, we should be mindful that establishing regional hubs or fragmented centres of expertise does not add an additional layer of complexity and create coordination challenges along with a risk of perpetuating fragmentation. Proximity could be maintained through supervisory colleges or JSTs under European leadership, ensuring consistent supervisory methodologies and unified decision-making.

Embedding a macroprudential perspective into fund and asset manager supervision is critical to safeguarding financial stability. Efforts towards an EU supervision approach of these actors should dovetail with swift progress on initiatives aimed at building a macroprudential framework for NBFI to guard against the build-up of systemic risk.[33] Investment funds are increasingly interconnected with other parts of the financial system, and their liquidity mismatches, leverage and procyclical behaviours can amplify market-wide shocks. Previous stress episodes highlighted vulnerabilities in the NBFI sector, which contributed to and amplified market disruptions. In some cases, extraordinary central bank interventions were required to restore market functioning and safeguard financial stability. A macroprudential approach to supervision should be developed alongside microprudential oversight, enabling sector-wide monitoring, forward-looking risk assessments and, where necessary, the activation of preventive measures. More integrated supervision would allow for a more consistent application of macroprudential tools across the Single Market, reducing the risk of regulatory arbitrage.

A stronger link between microprudential supervision and the EU macroprudential framework is necessary to close existing gaps and ensure financial stability.[34] To obtain the benefits of the CMU, capital markets should be a resilient and sustainable source of financing, especially in times of stress. Avoiding regulatory arbitrage and sectoral blind spots requires supervisory frameworks that are capable of detecting and addressing emerging systemic risks across the entire financial system. This calls for expanded supervision of capital markets at EU level, with a much stronger mandate to address macroprudential concerns and more integrated supervision and policies that ensure stability in the NBFI sector. More integrated supervision of funds and managers should be closely connected to the broader EU macroprudential oversight architecture, including interaction with the European Systemic Risk Board. Strengthening ESMA’s role with macroprudential functions should be accompanied by adequate governance structures and sufficient resources to ensure that macroprudential perspectives are fully embedded within ESMA’s risk identification, policy and supervisory approaches. These should include dedicated internal structures and sufficient resources to assess and respond to system-wide risks. At the same time, it is essential that all national competent and macroprudential authorities are adequately represented in relevant decision-making processes at ESMA to ensure diverse supervisory perspectives and maintain

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33 See Eurosystem response to EU Commission’s consultation on macroprudential policies for non-bank financial intermediation (NBFI), published in November 2024.

34 ibid.

institutional legitimacy. This would increase the coherence between fund supervision and the broader EU financial stability objectives.

2.6.6 Questions on the supervision of EU CASPs

The ESCB sees benefits in EU-level supervision of CASPs that could exhibit higher risks for example due to their large size, high amount of cross-border activity or their being part of a large, globally operating CASP. The borderless and global nature of crypto-assets due to the technology used also enables CASPs to provide their services across borders. EU-level supervision would ensure a comprehensive overview of risks and coordination of supervisory actions while avoiding regulatory arbitrage and reducing compliance costs for CASPs operating in several Member States. National supervisors may not fully account for spillover effects, which could undermine financial stability across the EU. For small CASPs, on the other hand, national supervision may provide a better balance in terms of benefits and risks. Developing supervisory capacity directly at EU level and pooling expertise may entail lower costs compared with building up expertise at each NCA: given the newness of this field, NCAS generally have limited experience of supervising CASPs.

The current supervisory set-up does not take into account higher risks from significant CASPs operating across borders. Under the Markets in Crypto-assets Regulation (MiCAR) NCAs are in charge of the authorisation and supervision of CASPs, regardless of their size. MiCAR defines significant CASPs as those having 15 million active users in the EU on average per year. However, reaching this threshold only implies that the competent authority must report supervisory developments for significant CASPs to ESMA (Article 85 (3) MiCAR)). This is in stark contrast to the treatment of significant e-money token or asset-referenced token issuers, where the EBA has supervisory powers to take account of the higher risks these issuers pose to financial stability and establish supervisory colleges once issuers are classified as significant to facilitate coordination of supervisory activities. ESMA has intervention powers if a type of activity or practice related to crypto-assets poses a significant investor protection concern or a threat to the orderly functioning and integrity of crypto-asset markets or the stability of the EU's financial system. In such a case, ESMA can address these concerns at aggregated level by temporarily prohibiting or restricting this activity or practice (Article 103 MiCAR). However, ESMA does not have any powers in relation to individual CASPs. In general, crypto-asset services are provided mainly on a cross-border basis, and an NCA's authorisation enables CASPs to offer their services throughout the EU (Article 59 MiCAR). Currently, most of the CASPs listed in ESMA's MiCAR register (around 80%) intend to provide their authorised service in at least five other Member States, and half of all CASPs in all Member States.[35] This would call for a harmonised approach across the EU, in particular for larger and more complex providers.

The complex structure of global CASPs and their oligopolistic position in the market may entail additional risks that could be more efficiently and effectively

[35] According to ESMA's Interim MiCAR Register (as at 22 April 2025), 22 providers have been officially authorised as CASPs in the EU.

addressed at EU level. The Financial Stability Board has highlighted the vulnerabilities of multifunction crypto-asset intermediaries (MCIs), which are individual firms, or groups of affiliated firms, that combine a broad range of crypto-asset services, products and functions typically centred around the operation of a trading platform.[36] Many MCIs operate their platforms primarily through a single global entry point, but MCIs often have affiliated entities and subsidiaries in several countries, including offshore financial centres. The combinations of certain functions MCIs provide could exacerbate their vulnerabilities. As generally these MCIs are not transparent regarding their corporate structure and governance, it would be beneficial to deal with authorisations and supervision of MCIs and their subsidiaries at EU level, including by adopting a consolidated approach. For example, under MiCAR, competent authorities may refuse the authorisation of CASPs if close links with non-EU firms could prevent effective supervision (Article 63 (7)(8) MiCAR). Given the structure of certain global CASPs, analysing these aspects may be more efficiently done at EU level by pooling resources to understand the structure of these large players and also to prevent regulatory arbitrage. An example of the oligopolistic structure is the spot and derivatives trading market for crypto-assets, where the top five crypto trading platforms account for 50% of spot trading and for 90% of derivatives trading.[37]

EU-level supervision of significant CASPs would improve alignment with oversight responsibilities related to pan-EU payment schemes and arrangements and with SSM supervision of CASPs as part of credit institutions. Some CASP activities are relevant to the ESCB's task of ensuring the smooth operation of the payment system. The Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (PISA) applies to crypto-related payment schemes and to crypto-related payment arrangements. CASP services might qualify as a pan-EU payment scheme or arrangement and therefore fall under the scope of the PISA framework. As this oversight is conducted at Eurosystem level, EU-level supervision of significant CASPs would facilitate cooperation between oversight and CASP supervisory authorities in line with Responsibility E under "cooperation with other authorities" in the principles for financial market infrastructures issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions. In addition, CASPs may be part of a credit institution group, or credit institutions could directly offer crypto-asset services.[38] Thus, there could be an interplay with the banking supervision tasks conferred upon the ECB by the SSM Regulation. These interplays give rise to significant coordination costs as they require interaction between several competent authorities. EU-level supervision of significant CASPs would add an additional layer of supervision. A coordinated supervisory approach between the EU authority and the other competent authorities would thus be needed to mitigate any additional coordination costs. Nonetheless, integrated supervision of significant CASPs may

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36 See FSB (2023), "The Financial Stability Implications of Multifunction Crypto-asset Intermediaries", November.

37 Of the top five crypto-asset trading platforms, three appear in the top five for spot and for derivatives trading. See CoinDesk Data Exchange Review, March 2025.

38 Crypto-asset services are included in the list of activities subject to mutual recognition as established in Annex I of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions.

also be beneficial as it would bring supervisory convergence and reduce costs arising from divergences in supervision across Member States.

There is important merit in analysing potential criteria and thresholds to determine which CASPs could fall under EU-level supervision. While MiCAR defines significant CASPs solely on the basis of an active user criterion, it needs to be assessed whether this criterion sufficiently captures the higher risks outlined above that would call for EU-level supervision. The active users within the EU could be an indication of how many EU clients are affected. However, for certain crypto-asset services this needs to be complemented by other criteria that reflect how the vulnerabilities of these activities and potential implications increase with size. In particular, for activities such as operating a trading platform for crypto-assets and providing custody and administration of crypto-assets on behalf of clients, the risk of these activities is driven by the value and types of transactions and amount of assets under management rather than the mere number of clients.

Other potential criteria to determine significant CASPs could take into account the additional risks from combining activities and be aligned with those for significant issuers. As providing certain crypto-asset services in combination with being part of a MCI may amplify certain risks, even if the MCI conducts only part of its operations in the EU, a suitable criterion for determining which CASPs to supervise at EU level could be whether they are part of a group that operates in non-EU countries. The significance decision could also be based on the assessment of a combination of criteria, as, for example, is the case for significant e-money token and asset-referenced token issuers. For the sake of consistency, it could be appropriate to classify significant issuers also as significant CASPs if they offer any of the services listed under Article 3.1(16) MiCAR, in particular if they offer custody and administration of crypto-assets on behalf of clients, operate a trading platform for crypto-assets, offer exchange of crypto-assets for funds or for other crypto-assets, or provide transfer services for crypto-assets on behalf of clients. In this connection, the interplay between the significance regimes for CASPs and e-money or asset-referenced token issuers for the same entity should be duly assessed to avoid any excessive burden for both entities and supervisors. For instance, a single college of supervisors could be established to cater for both the classification as significant CASP and significant issuer.

2.7 Horizontal questions on the supervisory framework

2.7.1 New direct supervisory mandates and governance models

A more integrated EU supervisory framework could bring significant net benefits, including reduced costs for market participants, elimination of infrastructure duplication and more effective supervision. Lessons from the banking union, with direct supervision for the largest credit institutions and an emphasis on harmonising practices for the supervision of smaller institutions by national authorities, show the potential advantages of similar frameworks in capital markets.[39] This approach could enhance market confidence, ensure regulatory predictability and facilitate cross-border activities across the EU through an integrated supervisory framework. This model supports market integration while maintaining proportionality and flexibility for smaller firms, balancing the advantages of integration with the practicalities of national oversight. EU-level supervision, characterised by a common authority with centralised powers alongside national supervision, is crucial to achieving the uniformity necessary for the development of pan-European markets and advancing capital market integration. While transitioning to an integrated system could involve initial costs, such as restructuring existing supervisory frameworks and investing in new systems or processes, the long-term savings and efficiencies should outweigh them thanks to economies of scale and scope and to the common approach to supervision and enforcement.

Irrespective of the model of integration that is ultimately chosen, the governance of the EU supervisor would have to reflect its increased responsibility, ensuring independence and the European nature of the decision-making process. To this end, the governance of the ESAs should be strengthened to facilitate a larger role for decision-making at European level and to ensure that they can act fully independently. In this context, several options could be explored such as those outlined in the consultation document. In principle, governance models including an Executive Board composed of independent members present strong benefits, as already shown by experiences with other institutions (e.g. the ECB, the Single Resolution Board and more recently the Authority for Anti-Money Laundering and Countering the Financing of Terrorism). At the same time, national authorities should still play a key role, as they could offer vast expertise and proximity to local markets and investors. A possible approach could be to establish a Supervisory Board comprising both Executive Board members and representatives of national authorities. Voting rules should however be designed in such a way that national supervisors would not have in principle veto powers – this could help to facilitate the European nature of the decision-making process.

The decision-making process could be articulated taking into account the differences across sectors of the capital markets, while avoiding excessive complexity. For example, in capital market segments with a predominantly domestic nature, national supervisors could be assigned more weight in the voting mechanisms, such as via qualified majority procedures. For sectors with a stronger European dimension, the voting rules could instead not allow Member States to block decisions and the Executive Board could retain ultimate responsibility and powers. When designing this possible tailored voting mechanism, it would also be important to ensure that the process of reaching a final outcome is not excessively cumbersome or complex.

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39 Research has shown, for example, that the creation of the SSM has produced positive effects on bank governance, bank lending and bank profitability. For example, see Chiarella, C., Cuadros-Solas, P.J. and Rossi, L. (2025), "Supranational Supervision and Bank Governance", March; Altavilla, C., Boucinha, M., Peydró, J.L., Jasova, M. and Smets, F. (2024), "Supranational Banking Supervision, Credit Supply and Risk-Taking: European Evidence from Multi-Country Credit Registers"; and Raunig, B. and Sigmund, M. (2024), "Restoring Confidence in Systemically Important Banks: SSM Effects on Bank Performance".

2.7.2 Funding

Changes in responsibilities and governance should be complemented by changes in revenues to ensure supervisors have sufficient funding to conduct their duties. Regardless of what (mix of) funding source(s) is chosen, it is crucial that ESAs' funding safeguards a degree of independence and is sufficient to fulfil its mandate. Independence should be ensured vis-à-vis both the political sphere and the industry, which could also be achieved via an appropriate mix and diversification of the sources of funding. The amount of available financial resources will also be critical to ensuring that an EU capital market supervisor is able to perform its tasks: in this respect, the magnitude of the funding should probably be significantly higher than the current budget available to ESMA.