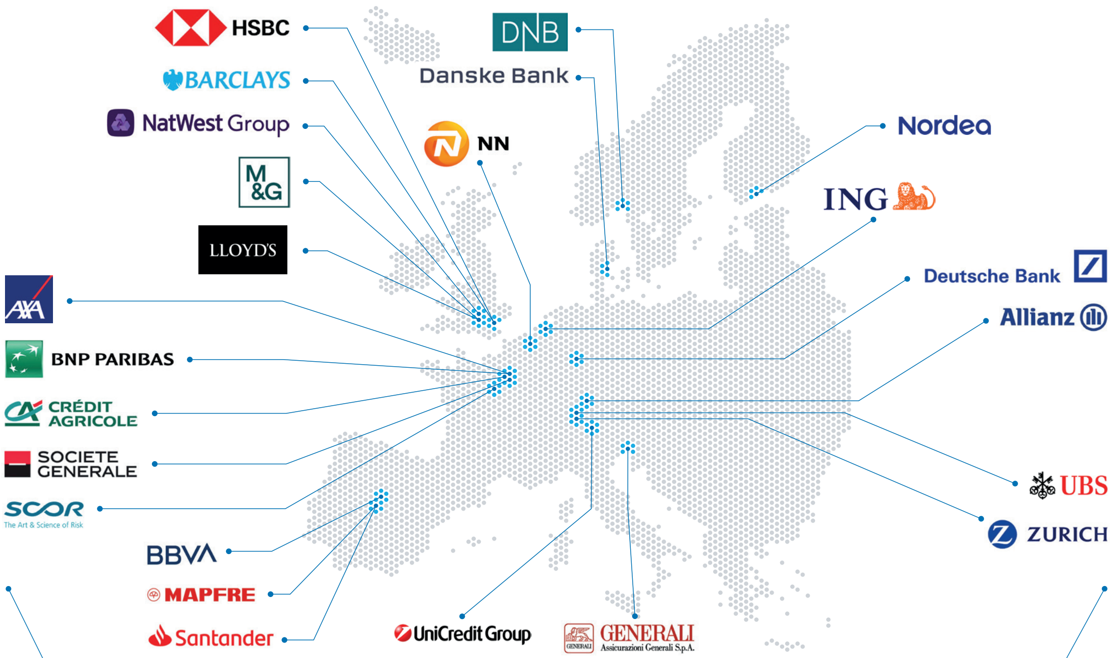
SHIFTING LANDSCAPES FOR EUROPE'S FINANCIAL SECTOR

March 2026

European Financial Services
Round Table

THE EUROPEAN FINANCIAL SERVICES ROUND TABLE



As per March 2026, EFR Members' companies combined represent

1.16 bn	2.09 mn	€ 24.22 tn	€ 13.87 tn
Customers*	Employees	Total assets	Assets under management

EFR VISION

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairs and Chief Executive Officers of globally active banks and insurers headquartered in Europe.

EFR Members believe in a fully integrated EU financial market for financial services. A true single market needs coherent rules and requirements and has to reflect the diversity of banking and insurance business models. Strong market discipline is essential to ensure the alignment of interests of the financial sector with those of European citizens and the wider economy.

The integration of financial markets does not stop at the EU's borders – markets are increasingly global. EFR Members encourage national and European leaders to establish internationally consistent and coherent financial regulation and supervision to support and promote free and open markets throughout the world.

Our economy and society are undergoing multiple transitions of existential importance. By fulfilling its core purpose – financing and providing services to our companies and citizens – a competitive financial sector underpins Europe's economic basis and sovereignty.

* Please note that double counting of customers may occur.

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"competitiveness is not just the foundation of our prosperity but of our security, and ultimately of our democracies too. This is why competitiveness has been at the top of our agenda from day one."

statement by European Commission President Ursula von der Leyen,
11 February 2026 at the European Parliament.

"Geopolitical power starts with the economy... Europe cannot project power—politically or militarily—unless its economy becomes more competitive."

statement by High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission Kaja Kallas,
12 February 2026 at Informal EU Leaders' Retreat.

"The European Union is falling further behind global rivals on growth and governments are failing to grasp the urgency to act. A different path demands new speed, scale and intensity. It means acting together, not fragmenting our efforts."

statement by former European Central Bank president and Italian prime minister Mario Draghi,
16 September 2025.

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I. INTRODUCTION

Europeans have never had so many possibilities opening up ahead of them. Modern technology is turning science fiction of past decades into reality today and tomorrow – across areas as diverse as digital, health and energy. We live in prosperous democracies and enjoy vibrant cultures and social equality that is (still) greater than in most other societies.

And despite all this, good-news headlines have become a rarity in Europe. Expectations are dominated by fears of loss and lack of trust. These fears are not unfounded, despite Europe's many strengths. In fact, there seems to be an overwhelming loss of confidence that we are still capable of mobilising those very strengths.

Now would be the time for a European 'Now or Never' moment. Europeans have to prove to themselves that, as a community, we can still compete in a tougher global environment. That we can mitigate and adapt to climate change in a manner that increases, rather than weakens our economic base, that we will build the defence and space capabilities needed to secure our peace, and that we will find ways to uphold our standard of living although our society is ageing.

For Europe's economy – and its financial sector in particular – 'Now or Never' means mobilising our resources to finance growth and innovation across key industries and infrastructures. It also means decisive and joint action to increase our resilience against hybrid threats and engage in building the financial infrastructures of the future.

Finance is amongst the most tightly regulated and supervised industries. What banks and insurers can and cannot invest in or supply to their clients – and under which conditions – depends to a large extent on or is shaped by how our regulators and supervisors define their own success.

The European Commission and Heads of State and Government have repeatedly committed to restoring competitiveness, including via the simplification of regulation across all sectors and the reduction of burden on industrial actors. 2026 is the year when political commitments must find their way into concrete rulemaking and policy initiatives. With Europe's legislative cycle advancing, this window of opportunity will be open for another year.

On a personal note, I am deeply honoured to have been chosen as EFR's new Secretary General and I thank our Members for their confidence and shared ambition. 2026 is thus also a year of change for the European Financial Services Round Table. Our full focus will be on impact and on supporting Europe's political leaders to restore competitiveness and confidence.

The 2026 EFR Annual Report sets out how EU policy leaders can increase the financial sector's capacity to contribute (even) more to Europe's recovery and global relevance.

Judith Ay
EFR Secretary General

II. KEY RECOMMENDATIONS

Securing Europe's prosperity and global relevance will only be possible if our political leaders and legislators factor in to full extent the interplay between finance and growth.

Competitiveness and growth enhance and complement financial stability. They are interconnected priorities and this must be reflected urgently in the core objectives for financial sector regulation and supervision – not only in words but also in spirit and mindset across regulatory and supervisory institutions.

In this vein – and to unlock private sector financing for Europe's industries, emerging technologies and infrastructures – Europe's leaders now need to make strategic choices:

1. Adopt growth and competitiveness as core regulatory and supervisory objectives.
2. Provide a regulatory framework that enables cross-border capital mobility, simplifies rules, and foresees proportionate and risk-based requirements for banks and insurers alike.
3. Drive forward the Savings and Investment Union to mobilise savings and create deep, integrated and liquid capital markets. This involves removing cross-border barriers, revitalising securitisation, strengthening equity markets, offering attractive long-term investment products, and promoting personal and occupational pension schemes.
4. Ensure policy coherence between a) adopting an effective European labelling framework based on a coherent and unified definition of "European assets" across the Single Market and b) making financing available for those sectors and projects where success will be decisive for our future competitiveness and sovereignty.
5. Empower banks and insurers to lead in digitalisation by innovating, scaling and competing on market terms in a technology-driven global market. This also implies investment in the necessary digital and AI infrastructures.
6. Foster a competitive and cohesive European digital payment system based on a clear market-driven strategy.
7. Build a genuine European Cybersecurity Union as a sine qua non for security and competitiveness alike. In the face of hybrid warfare and cyberattacks, a European team effort is the only way to secure resilience and business continuity across all industries.
8. Establish on a permanent basis the principles of simplification and cost-efficient rule-making as integral parts of Europe's policy and regulation culture.

If leaders in Brussels and national capitals deliver on these eight essential points, European banks and insurers can deploy – to a much greater extent than at present – their expertise, scale and local knowledge to finance growth, resilience, and innovation. And they will then be in a position to do so across Europe.

There is no other way of putting it: Europe's future growth path depends on whether we – all together – succeed in generating positive investment dynamics, and whether this is done now.

2026 is the year in which the European Commission needs to bring on the way vital and concrete deliverables originating from Draghi, Letta and the Competitiveness Compass – for all industries, including ours. Europe benefits from its strong institutions, democracy is a competitive edge in a more unstable world. All eyes are on our political institutions, on the priorities they agree on and the concrete decisions they will take.

III. COMPETITIVENESS GAMECHANGERS FOR EUROPE'S FINANCIAL SERVICES SECTOR

A. Geopolitics accelerates Europe's competitiveness imperative

Europeans are facing the most significant geopolitical challenges in decades: a breach of our security order, a re-definition of global trade relationships, global supply chain vulnerabilities and various other tensions that accompany a shift towards a multipolar world order. These dynamics fuel economic uncertainty, undermining Europe's trade- and peace-based 'business model', with repercussions for entire industrial value chains, employment, consumption, investment and savings.

To safeguard prosperity, peace and sovereignty, Europe's political leaders and key industries must speed up investment in the digital and energy transition as well as in ever evolving defence capabilities.

In addition, substantial strategic investment is needed to increase Europe's share in/control of strategic value chains where greater independence from global partners (and rivals) is de facto a condition for sovereignty. These are as diverse as critical raw materials, semiconductors or basic substances needed to produce essential medicines.

Futureproofing Europe's business model is now a matter of urgency.

Strengthening our industrial competitiveness, as set out by Letta[1] and Draghi[2], builds on one central ability: both governments and markets have to speed up and become more efficient at channelling financial, human and industrial resources into new economic activity.

The financial industry as part of Europe's wider industrial ecosystem

European banks and insurers have shown resilience in challenging times. They can channel capital quickly, assess risk effectively, and support strategic projects. Their expertise and local knowledge are vital for supporting and/or financing innovation deployment and infrastructure projects. Their services are manifold, reflecting the financing needs, business models and abilities of very different types of customers to raise capital.

Banks enable access to finance for all kinds of corporates. For the largest corporates that issue their own debt or equity directly on capital markets, they act as intermediaries vis-à-vis markets and investors (in addition to providing loans directly). For smaller corporates and SMEs without direct market access that seek to scale-up operations and/or upgrade production technology, bank lending is an essential source of financing.

Insurers provide protection against risks of various kinds – though this also exposes them to elevated risks from political instability, supply chain disruptions and regulatory divergence[3]. They also are important investors, underwriters and lenders, either directly or via financial markets.

Specifically with a view to expanding Europe's defence industry, the financial sector already contributes to its development by providing investments, credit lending, insurance, corporate finance and advisory services. Product development in the savings area has led to the financial sector experiencing significant customer demand for saving products in the defence segment.

1 Report by Enrico Letta: Much more than a market – Speed, Security, Solidarity - Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens – April 2024.

2 Report by Mario Draghi: The future of European competitiveness – A competitiveness strategy for Europe - 9 September 2024.

3 Geneva Association, Insurance in a Fragmented World Economy, January 2025.

Europe's future growth path depends on generating positive investment dynamics today. A strong financial sector could help Europe close the competitiveness gap vis-à-vis global peers faster by enabling business cases and demand for domestic innovative companies. Europe would then also be in a better position to navigate geopolitical uncertainty and attract trading partners and new allies. All strategically minded European leaders should make it their priority to ensure that the regulatory framework for the financial sector is fit for purpose and designed to mobilise investment.

And yet, Europe's legislators and policymakers place far greater emphasis on restraining the financial sector, even though global competition is intensifying. At the same time, new, less regulated players (often from outside the EU) – such as private credit firms and non-banks issuing tokenised products – are expanding rapidly. Both of these trends are weakening the economies of scale that banks and insurers need to achieve in order to finance innovation, security and the green and digital transitions.

For European leaders, the choice is not between *economic growth or financial stability* but, rather, between *economic growth or stagnation-and-instability* (in other words, Mario Draghi's 'agony of decline'). To avert the latter, improving the underlying conditions under which our sector is operating becomes a strategic choice. As would be acting in a spirit of cooperation with countries of the European area (i.e. including the UK, Switzerland and Norway), who are all facing similar issues. Joining forces will help address common challenges.

A proportionate European rulebook, conducive to growth

Strategic choices for an improved financial sector rulebook would include:

1. Creating a genuine Single Market where cross-border banking and insurance groups can move capital and liquidity to where they are needed most. On the banking side, this requires the completion of the Banking Union and the introduction of cross-border waivers. Today, fragmented rules for the banking sector trap over €225 billion in capital and €250 billion in liquidity within subsidiaries[4]. If released, this could generate additional lending capacity of up to €3.4 trillion.

2. Bank capital requirements must remain risk-based rather than overly conservative, and the 'capital accumulation spiral' needs to be stopped. EU banks currently operate with total capital ratios of around 20% and CET1 at 16%, well above the 12–14% range observed elsewhere. These constraints, combined with uncertainty over the Basel III endgame in the US, risk distorting the level playing field and weaken the position of European banks. Moreover, supervisory discretion locks away between €2.7 and €4.1 trillion in financing capacity in Europe according to the EBF[5]. Too often, Level 2 and Level 3 obligations and requirements go beyond Level 1 mandates, blurring legal boundaries and creating uncertainty.

   A comprehensive review of the framework is therefore essential, as is a shift towards principle-based and risk-focused regulation. Increasingly complex and overlapping capital buffers and supervisory expectations have been accumulating – to restore proportionality, unnecessary layers should be removed by reducing (not renaming or merging) the number of capital buffers. The Systemic Risk Buffer could even be eliminated, on account of it representing European gold-plating beyond Basel standards and overlapping with other tools without adding meaningful resilience. Furthermore, certain specificities of the European banking sector should be fully recognised and protected, notably by preserving the transitory measures in the Capital Requirements Regulation and extending them to the standardised approach in order to benefit all European banks.

4 AFME report identifies Banking Union challenges holding back EU bank consolidation, 2 September 2025.

5 Demand Benchmarking Study, GARP report, GBI EBF 2025 Cumulative Capital, 7 May 2025, page 13.

3. In the insurance sector, the Solvency II review provides moderate capital relief from 2027 onwards. While this is a necessary and welcome step in the right direction, the Solvency II framework still needs to be better aligned with the long-term insurance business model. This would facilitate more long-term stable growth financing by the insurance sector without compromising the high level of policyholder protection provided by Solvency II. Furthermore, considering the low systemic risk of the insurance sector and given the limited impact of insurance failures in the EU – ever more so since Solvency II was introduced in 2016 – EU policymakers should strive for proportional implementation of the IRRD and carefully consider whether minimum harmonisation of IGS is needed. Complex and costly mechanisms that add administrative burden and financial cost, without delivering a proportionate benefit in return, should be avoided.

4. Europe needs deeper capital markets: more private capital has to be mobilised for productive investments. This can be achieved by implementing the EU pension package and establishing the Savings and Investment Union. On the pension side, beyond the urgent need to address demographic pressures on pay-as-you-go systems, developing individual and collective occupational pension products could help achieve an adequate investment scale. For occupational pensions, platform-driven auto-enrolment for occupational pensions should be considered and the scope for individual choices expanded. To increase retail saving in capital markets, investor classification principles should be reviewed to better tailor advice and product offerings suited to both beginner and more experienced retail investors. The European Commission's strategy to foster EU Savings and Investment Accounts can also be a key enabler, but it is essential that it is accompanied by an attractive tax treatment and a framework that allows for a simple user experience. Taken together, such measures would create the necessary large pools of long-term capital as advised in the 2026 Noyer-Kukies report.

5. Coherent signalling for investors of all kinds. ESG and other regulatory constraints should support – or at the very least not disincentivise – investment in growth and sovereignty critical sectors such as defence, energy and digitalisation and their enabling value chains and infrastructure projects. Specifically for the financing of defence, greater regulatory clarity and explicit political support are needed: financial institutions' investments or financing decisions necessitate case-by-case evaluation involving thorough legal, financial and reputational risk assessments as well as alignment with ESG standards and unique features (e.g. export controls, dual-use technologies and exit impediments). The proposed Omnibus on Defence is an opportunity to ease requirements and provide quick and unequivocal clarity around exclusions under sustainable investment benchmarks.

   For signalling to investors to become effective, a European labelling framework requires a coherent and unified definition of "European assets" across the Single Market. It is also essential to set a clear minimum threshold for investments within the EU, ensuring consistency and transparency.

6. Securitisation must become a real pillar of market-based finance and enable more financing to flow into the economy. Potential use cases include real assets, energy transition financing, corporate and SME project financing.

7. Legislation needs to strike a better balance between costly reporting obligations and transparency (see also Chapter III C dedicated to simplification).

While European decision-makers are still calibrating their level of ambition to free up capital and capacity to raise finance for EU growth, competing jurisdictions are already advancing on a reform path with tangible impact.

In the US, regulatory recalibration is expected to free up $140 billion of capital and unlock $2.6 trillion in lending capacity, strengthening US banks' global competitiveness[6]. In the UK, regulators have been given a statutory mandate to pursue economic growth and competitiveness, leading, for example, to reforms that distinguish between retail and wholesale insurance customers, and ensuring that regulators are more accountable to policymakers for the impact of their activities on economic growth.

EU decision-makers need to take a clear-eyed look at whether the level playing field distortions that result for Europe's financial sector, and consequently for Europe's economy, are acceptable costs to society or, rather, also increase the urgency of reform in Europe.

6 Financial Times article: Bank deregulation set to unlock $2.6tn of Wall Street lending capacity, 12 October 2025.

B. Digital Trends call for new strategic responses

New technologies and data-driven business models are reshaping financial services and how value is created. Market-led innovation is accelerating, being largely driven by non-European tech providers. Investment is concentrated on four technology domains with proven impact and mature use cases: cloud and edge computing, applied AI, next-gen software development, and digital identity combined with trust architecture.

In the financial sector, competitive dynamics are shifting rapidly: digital-native platforms and fintechs deliver seamless, hyper-personalised and low-cost services, redefining customer experience and raising expectations. Payments, once a utility, are becoming a strategic gateway to broader financial ecosystems, a primary entry point to financial services, much as mortgages were in the past. Insurers are scaling sophisticated tools, e.g. data-driven risk models, strengthening their role as a risk shield and supporting financial inclusion through more accurate risk assessment.

Other emerging technologies (including advanced connectivity, immersive reality, Web3 and quantum computing) are gathering momentum and will shape the next wave of change. They will transform financial business models – making deepening strategic engagement an imperative for financial sector leaders.

Whilst technology is revolutionising our sector, policy approaches are also taking shape – and diverge globally. This is particularly the case for AI governance, digital assets and payments.

For Europe now is a decisive moment: Digital sovereignty and cybersecurity are becoming part of the foundation for our economic and strategic resilience. At this juncture, businesses and policymakers must, together, navigate technological disruption that coincides with intensifying competition in a tougher geopolitical context.

Europe's policy makers have a choice:

- Impose overly prescriptive rules that may ultimately undermine the stability they seek to protect because regulation cannot shield Europe from technological choices made elsewhere; or rather
- Ensure that the rules under which the European financial sector operates are a match for the pace and nature of technological change.
  This means a policy shift towards market-driven approaches to scale innovation and solutions, complemented and supported by principle-based, growth-oriented and innovation-friendly regulatory frameworks.

The outcome of this choice should be obvious. Our sector's transition will only succeed if banking and insurance industry are able to innovate, scale and compete on a technology-driven global market. To achieve this, they need above all an agile regulatory stance that enables scale and growth-financing capacity, safeguards stability and security, and ultimately strengthens sovereignty.

AI and cloud infrastructures

AI is driving innovation in the financial sector, reshaping operational models, with the potential to improve efficiency and compliance, unlock advanced analytics and enable more personalised financial products. At the same time, operational risks are intensifying (transparency, fraud), requiring coordinated responses beyond the financial sector. The European financial sector is faced with risks of undermined global interoperability and constrained operating across jurisdictions, with globally diverging approaches to governance, infrastructure and cross-border cooperation.

Cloud infrastructures powering AI pose significant dependence challenges to the EU, with three of the largest non-EU cloud providers representing 65% of the global market share[7]. EU action in this area is welcome and should be pursued. At the same time, it is important for financial services providers to have access to best-in-class cloud service providers for infrastructure, platform and software-as-a-service, wherever they are located. This is also vital for reasons of cybersecurity. Supporting the growth of European providers must therefore cover the entire value chain. Investments needed to bridge the innovation gap will likely require public involvement.

Overall, new technologies are blurring the lines between technology providers and financial institutions. To fit with the digital world as well as consumers' requests, banks and insurance companies are making progress in embedding AI and automation across the value chain, modernising infrastructure through cloud-native architectures, building digital trust via secure identity and data governance.

This transformation will only succeed if supported by an EU/EEA/EFTA regulatory framework capable of fostering a competitive, secure and inclusive digital financial ecosystem. Such a framework must enable innovation at scale while safeguarding systemic stability, ensuring interoperability and trust across borders and platforms, and closing the investment and capability gaps in cybersecurity and digital infrastructure.

Stablecoins and tokenised assets

Stablecoins are gaining traction globally, offering alternatives to traditional banking rails for settlement and payment use cases and raising strategic questions for the European banking industry, from the future of payment systems to potential impacts on systemic risk and monetary sovereignty.

USD-denominated stablecoins already represent a concentrated $300bn market and could reach $3tn by 2030, with strong political and regulatory backing in the US (GENIUS Act). Global (or non-EU) issuers have become significant holders of US Treasuries, reinforcing dollar dominance. By contrast, the EUR stablecoin market remains underdeveloped, with less than €0.5bn issuances, and dominated by non-EU actors. While the EU regulatory framework (MiCA) addresses key risks, a persistent underdevelopment of the EUR stablecoin market and non-European dominance would raise sovereignty and financial stability concerns.

For Europe, its stance on stablecoins is becoming a strategic question. A well-calibrated EUR stablecoin market led by European banks, together with EUR-denominated tokenised bank deposits could safeguard Europe's sovereignty, financial stability and banks' ability to finance the economy. Indeed, unlike stablecoins, which are fully backed by highly liquid reserves that cannot support credit creation, tokenised deposits remain anchored in the two-tier monetary system and are therefore crucial for the funding of the European economy.

European banks – already investing in pan-European payment solutions to protect Europe's strategic autonomy vis-à-vis international card schemes – should therefore position themselves proactively within this rapidly evolving ecosystem by adapting to innovation in digital assets and money to provide tailored services to customers.

As the EU explores the rollout of a retail digital euro, it should avoid undermining the vibrant ecosystem of private European payment solutions and its ongoing advances in interoperability and innovation.

7 Draghi report part B, in-depth analysis and recommendations, section on computing and AI, p.77.

Any digital euro should be introduced in a phased, use-case-driven manner, starting with offline functionality to replicate the role of cash. A well-designed retail digital euro can enhance resilience and strategic autonomy, but only if it:

- provides a fair compensation model for banks,
- complements existing infrastructures,
- respects the competitive role of private actors,
- avoids unnecessary cost duplication, and
- reinforces Europe's broader ambition to lead in digital finance.

At the same time, the development of a wholesale digital euro should be treated as a priority, which is why the EFR strongly supports the ECB's ongoing work in this regard, as it would provide a safe settlement asset and strengthen efficiency and integration in tokenised financial markets.

The success of a digital euro will ultimately hinge on clarity, interoperability and market alignment. More broadly, banks must continue to play their role as intermediaries in the digital age, within a public-private partnership in which central banks provide the account framework, rules and fungibility. To conclude, the EU should have a holistic approach for this fast-evolving ecosystem, all venues – from stablecoins, to tokenised deposit and the digital euro – having their merits and serving different purposes.

Digital Simplification/ Omnibus

The Digital Omnibus proposals of 19 November 2025 reinforce the EU's risk-based approach to digital regulation and streamline requirements aligning them with practical implementation. In November 2025, the EFR supported Digital Omnibus objectives such as reducing complexity and eliminating red tape[8].

The European Commission's proposals reflect a move in the right direction in many areas and sharpen Europe's digital rulebook by focusing more clearly on risk management while fostering innovation. However, there are also shortcomings: most notably unclear time horizons and the lack of clarity on the definition and scope of AI. The absence of clear oversight for AI supervision in financial services also remains a concern that still needs to be addressed.

Overall, the digital simplification package offers a timely and valuable opportunity to implement targeted reforms that will enhance EU competitiveness in a rapidly changing global landscape.

Cybersecurity and EU-wide coordination

Financial services have long been a prime target for cybercrime and financial institutions are at the forefront of developing cyber defence systems and cross-border cooperation. With increased geopolitical tensions and war in Europe, cyber threats have become a broader tool for hybrid warfare. Europeans must adapt and build collective resilience, which is already reflected in the EU Cybersecurity Strategy and related regulatory tools. Nevertheless, the need remains for better cross-border coordination, a coherent pan-European cybersecurity architecture and stronger public/private cooperation.

Building European capacity to respond collectively to cross-border cyber threats is becoming ever more urgent in a world of increasingly interconnected and geopolitically exposed digital infrastructures.

Europe's only way to secure resilience in this area is a European Cybersecurity Union, with shared situational awareness, joint resilience planning and integrated crisis response. For the banking sector, this should also include the operational response capacity of central banks. The ongoing review of the Cybersecurity Act is the best opportunity for rapid progress.

8 EFR paper on simplification proposals for the next digital package, 24 November 2025.

C. Regulation build-up necessitates credible simplification

The EU's emerging simplification agenda presents a powerful and much-needed opportunity to deliver better regulation that is clear, coherent and capable of supporting economic growth while maintaining high standards.

Properly executed, simplification should eliminate duplication and unnecessary administrative burden, freeing banks and insurance companies to advance the EU's political and economic objectives. It should also bring order and predictability to rulemaking, ensuring that regulation serves its intended purpose without constant revision or unnecessary complexity. Simplification should not be confused with 'deregulation', since a shorter, clearer and more consistent rulebook can deliver equal or greater protection at lower cost.

However, simplification alone is insufficient; it must be embedded within a comprehensive strategy for burden reduction, as highlighted in the Draghi and Letta reports. Burden reduction should be guided by two principles:

1. Rulemaking must be cost-efficient for market participants, and
2. Enhancing the competitiveness of the EU economy should be a stated goal for rule makers and supervisors.

Taking stock of the simplification challenge for the financial sector

More than a decade after the launch of the Capital Markets Union (CMU), EU capital markets are only 2% larger relative to GDP than they were in 2014, according to New Financial[9], with activity shrinking in more than half of the 25 sectors measured. This is also due to excessive regulation and complex supervision contributing to a market structure that is overly costly and incoherent.

The EU's financial sector rulebook now spans approximately 95,500 pages across 1,629 documents, amounting to around 38 million words, national legislation not included. The volume of rules surged after the financial crisis and has peaked for Level 1 since 2014, with 2019-24 Acts empowering up to 430 additional Level 2 measures. This proliferation of legislation has led to regulatory complexity, which has become a significant drag on the EU's economic growth and markets.

Simplification as a sustained effort – a roadmap

A successful simplification agenda must produce regulation that is clearer, more accessible and better designed. This will require sustained focus and will only succeed if it is treated as a priority by all officials, policymakers and regulators, and is championed by political decision-makers across Europe. Disciplined policymaking may require a cultural change in the EU's Institutions. Nevertheless, it is essential if the EU is to harness the benefits of markets and unlock the finance needed for strategic autonomy and defence as well as the green, digital and demographic transitions.

There is a very real risk that EU simplification initiatives focus mainly on reducing relatively minor or inconsequential operational frictions, rather than redesign rules to materially reduce regulatory burden. Moreover, while the use of "Stop the Clock" to delay the implementation of new rules is a step towards further pragmatism, it can only have a real impact if the time gained is then used to redesign those rules to materially reduce reporting burdens.

9 A renewed vision for EU capital markets, New Financial report dated January 2024.

When redesigning rules, policymakers must above all avoid falling into the trap of "simplification theatre", e.g. superficial reforms, such as cutting rulebook pages and consolidating regulatory provisions without changing them. "Simplification theatre' will not advance EU competitiveness and would boil down to a waste of opportunities and time for Europe's industries. What Europe's financial sector needs instead is simplification that genuinely boosts growth and competitiveness.

The pillars of the regulatory framework should be preserved to ensure the stability and integrity that underpin trust in the European financial system. This is fully compatible with:

- Making the competitiveness of the EU economy a stated goal for rule makers and supervisors.
- Introducing a cultural shift amongst policy makers to allow firms and supervisors to focus on key risks rather than delivering "tick box" compliance.

Industry stands ready to support policymakers in delivering this new approach and recommends five principles:

1. New rules need to be better calibrated: structured discussions should be conducted at "level 0" involving the European Commission, Council and the European Parliament, with strong input from the sector and its clients, to establish whether new rules are needed, based on clearly evidenced market failure or regulatory gaps.

2. Consistent, thorough, and realistic impact assessments should be produced at the earliest stage of policymaking, before new rules are proposed. They should explicitly assess cumulative regulatory costs, operational burdens and competitiveness effects.

3. Legislative proposals at Level 1 should be targeted and focused on addressing specific, evidenced market failures, where legislators should be ready to accept trade-offs, rather than attempt to achieve multiple goals in one legislative act. This would be a marked shift from current practice where Level 1 policies are too often vague and incoherent, attempting to achieve too many disparate goals. Direct consequences of the latter include: legislative adoption processes that are overcomplex, rules that are poorly drafted and implementation that is both highly challenging and costly for firms.

4. Multiple layers of regulation need to be simplified. Level 1 acts should contain all essential political choices, with clear objectives and fewer, clearer mandates at Level 2. Level 2 acts and Level 3 measures should be used sparingly, aiming for clear and focused outcomes, with better justification, consideration of competitiveness concerns and focus on technical matters and supervisory alignment. It should also be clarified that supervisory guides are not formally or informally binding.

5. To make rulemaking cost-efficient for market participants, it is important to introduce regulatory time-outs through fewer and more targeted review clauses, allowing firms and supervisors sufficient time to implement and assess new requirements before further changes are introduced.

A credible and effective simplification agenda is not a time-bound initiative or a 'one-off'. It is a permanent feature of EU rulemaking that shapes the attitudes and instincts of all officials, legislators, regulators and supervisors. Continuously improving the way in which rules are set is the best proof of appreciation for and investment in the European project as a long game.

ANNEX I: ABBREVIATIONS

AFME	Association for Financial Markets in Europe
AI	Artificial Intelligence
Bn	Billion
CET1	Common Equity Tier 1
CMU	Capital Markets Union
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EBF	European Banking Federation
EFR	European Financial Services Round Table
EFTA	European Free Trade Association
ESG	Environmental, Social and Governance
EU	European Union
GDP	Gross Domestic Product
IGS	Insurance Guarantee Schemes
IRRD	Insurance Recovery and Resolution Directive
MiCA	Markets in Crypto-Assets Regulation
SIU	Savings and Investments Union
SME	Small and Medium Enterprise
UK	United Kingdom
US	United States of America
USD	US Dollar

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