FINANCIAL SERVICES IN EUROPE
fit for the future

March 2024

European Financial Services Round Table

The challenges that Delors faced were unique and yet not so distant from those we face today. In this Belgian Presidency, we will also have to focus on restoring our economic competitiveness, reforming our Union and unifying our continent. So once again, we should take inspiration from Jacques Delors. Whatever the difficulties we face, however severe they might appear, we should always remember his advice to future generations: « La Grande Europe a son avenir devant elle. N'ayez pas peur, nous y arriverons.

Speech by President von der Leyen in memoriam of Jacques Delors, 5 January 2024.

There is ample room to strengthen intra-EU integration….. It is critical to complete the capital markets union and banking union to help mobilize sufficient funding for EU's enormous climate and digital investment needs and keep the EU globally competitive and at the technology forefront.

Europe in a Fragmented World, Remarks for the Bernhard Harms Prize by Gita Gopinath, First Deputy Managing Director IMF, Berlin 30 November 2023.

TABLE OF CONTENTS

A. MAIN ISSUES AND KEY EFR RECOMMENDATIONS 4

B. INTRODUCTION 7

C. MAIN ISSUES TO BE ADDRESSED SO THAT THE EUROPEAN FINANCIAL SERVICES SECTOR CAN PLAY ITS ROLE IN THE EUROPEAN ECONOMY 11

1. Geopolitical challenges and their impact on the European financial sector 11
2. Financial sector regulation to support a competitive European economy 15
3. Competitiveness of the European Financial Sector in the Digital Context 21

ANNEX I: EFR VISION 28

ANNEX II: MEMBERS OF THE EFR 29

ANNEX III: ABBREVIATIONS 30

A. Summary of Main Issues and Key Recommendations

In order to enable the European financial services sector to support the European economy, the European Financial Services Round Table presents the following key recommendations.

Full details are given in Section C of this report.

GENERAL PRINCIPLES

Regulation should be aimed at promoting transparency and stability in financial markets, that ensures a European and global level playing field, and supports the European financial industry in playing a central role in financing the European economy, for the benefit of all parts of society.

Cooperation and coordination at global level is vital for Europe. Policymakers should ensure that measures taken in the EU do not create global competitive disadvantages for the European financial sector. Europe should ensure its markets are open in order to be attractive to international (financial) institutions.

KEY RECOMMENDATIONS

A. Recommendations for the first chapter on "Geopolitical challenges and the impact for the European financial sector"

1. Addressing current geopolitical and other challenges

- → Uncertainty should be translated into risk management by modelling and quantifying exposure. The financial sector is well positioned to assist and offer insights.
- → Reporting requirements and other security related requirements, for instance requirements to procure certain services at a European level, should not impede the ability of financial institutions to compete globally.

2. The Single Market should be advanced with a consistent policy agenda

- → The development of the Capital Market Union and the completion of the Banking Union are key. The CMU's role in mobilising capital for long-term investment, including green and digital transition, is critical.
- → There should be a clear focus on efficient allocation of savings towards long-term investments.

3. Strengthening the competitiveness of the European financial sector

- → Amongst the best defences against fragmentation are the strengthening of the Single Market and the support of the global competitiveness of the European financial sector.
- → Financial services should be seen as partners in advancing strategic autonomy and defragmentation of rules as opposed to being an afterthought.

4. Green and digital transition

- → Given the geopolitical tensions and the tendency across geographies to prioritise domestic control over supply chains, the EFR calls for deeper and more integrated EU financial markets to address the growing financing needs of Europe's green and digital agendas.
- → The regulatory framework needs to be coherent and constructed in such a way that it allows financial services to contribute to funding the transition to a net zero economy.

B. Recommendations for the second chapter "Financial sector regulation to support a competitive European economy"

5. Competitiveness as a central factor in rule making

- → For Europe to remain a global player and achieve all transitions we need a strong and stable financial sector. This objective should be included in the next EC mandate by making competitiveness a central

factor in its rule making process, by truly creating deeper European capital markets that support a wider range of funding options, by ensuring that the regulatory framework supports the ability of market participants to deploy their activities abroad and by creating more funding flexibility in the existing financial sector frameworks.

6. Regulatory framework

→ Europe should take time to design regulatory frameworks that determine the future of Europe as a whole, of its place at the global level.
→ Getting this framework right is essential as the needs of Europeans will change significantly with an ageing population.
→ The framework that the next European Commission puts forward should tackle challenges for the next 30 years.

C. Recommendations for the third chapter "Competitiveness of the European Financial Sector in the Digital Context"

7. Artificial intelligence

→ In order to remain competitive, it is important for the implementation of the EU AI regulation to be flexible and proportionate, keeping a risk-based approach and reinforcing an innovation enabling spirit.
→ The application and supervision of new AI regulations should be done in a consistent and coordinated manner with financial regulation and supervision, as well as with other regulations such as data protection, to ensure proportionate application and avoid duplication.

8. Data

→ Data sharing should be regulated in a horizontal, cross-sectoral perspective, in order to maximise innovation opportunities and preserve a level playing field with other sectors, instead of just developing data sharing specifically in the financial sector.
→ Concerning FIDA, the EFR believes that data sharing has the potential to positively impact both consumers and the financial services industry, provided regulatory requirements are proportionate to the benefits to clients. Still, the lessons learned from PSD2 should be taken into account in terms of the asymmetry in data access, misaligned incentives and the unbalanced liability regime, as well as the constantly evolving nature of the market.
→ Financial services providers need access to best-in-class cloud service providers for infrastructure, platform and software-as-a-service, wherever they are located. This is also an absolute requirement for reasons of cyber security.
→ International coordination on data policies and the oversight of large technology providers is paramount, to eliminate barriers and (supposed) regulatory fault lines.

9. Central Bank Digital Currency

→ If introduced, the digital euro should leverage existing infrastructures and instant payments solutions.
→ The design of a potential digital euro should carefully consider the potential major unintended consequences for financial stability.

10. Tokenisation and digital assets

→ Given the cross-border nature of crypto asset markets, international coordination and consistency in regulatory and supervisory frameworks is needed.
→ We encourage efforts in the exploration and development of new digital financial infrastructures that allow for the future interaction of tokenised assets and money on the same or interoperable platforms. The industry is ready to work closely on this with central banks on this issue.

B. INTRODUCTION

The year 2024 will bring many challenges for Europe, from an institutional, economic and geopolitical perspective. Elections will take place for the European Parliament in June, and a new European Commission (EC) will come into office in November. Elections will be held in many countries around the world in 2024, including the European Union (EU), the United States of America (US), India, Pakistan, Mexico and probably the United Kingdom (UK), thus giving more than 4.2 billion citizens the opportunity to vote. The outcome of some of these elections will also present future economic and geopolitical challenges for Europe. This should also be seen against the background of the current world economy, which faces geopolitical tensions between countries and regions, a shift where security policies will increasingly affect policymaking in other sectors (e.g. screening of foreign direct investment), rapid technological change, still elevated inflation rates, a higher-for-longer interest rate environment and macro-economic volatility.

In these turbulent times - with many social, demographic and immigration issues prevailing in the current debate and focus of politicians - it is appropriate to underline the economic and social progress that has been made in the EU, the European Economic Area (EEA), the UK and Switzerland over the past sixty years. Given the European Parliament elections, it is pertinent to stress the benefits that the EU has brought to consumers and businesses. The Schengen area has abolished border controls between most Member States. On the economic front, the single market – although not yet completed - enables most goods, services, money and people to move freely. The euro is used by more than 340 million EU citizens in 20 countries, bringing tangible benefits to European citizens, businesses and governments.

European banks and insurance companies have always played an important role in financing the economy. The EFR Members reiterate their unwavering commitment to continue supporting their customers and the European economy. The incoming European Commission and Parliament will need to focus on consolidating and implementing (legislative) measures to enable the financial sector to play its full role in the economy and to ensure that the financial sector can operate within open capital markets, as well as being sustainable and globally competitive.

In its January 2024 forecast, the International Monetary Fund (IMF) projects global growth at 3.1% in 2024 and 3.2% in 2025 on account of greater-than-expected resilience in the US and several large emerging market and developing economies, as well as fiscal support in China. Growth in the euro area is projected to recover from its low rate of 0.5% in 2023, which reflected relatively high exposure to the war in Ukraine, to 0.9% in 2024 and 1.7% in 2025. Stronger household consumption as the effects of the shock to energy prices subside and inflation falls, supporting real income growth, is expected to drive the recovery. Growth in the UK is projected to rise modestly, from an estimated 0.5% in 2023 to 0.6% in 2024, as the lagged negative effects of high energy prices wane, then to 1.6% in 2025, as disinflation allows the easing of financial conditions and permits real incomes to recover.

The EC's Annual Sustainable Growth Survey 2024, published in November 2023[1], stated that the EU economy remains resilient despite a slowdown. The report noted that disruptive geopolitical events have demonstrated the need for the EU to further strengthen its open strategic autonomy and remain competitive in a global market, while ensuring that no one is left behind. The EC stressed that making the most of the single market, especially for small and medium-sized enterprises (SMEs), and further developing the Capital Markets

1 COM(2023) 901 final

Union (CMU) to support private investments are equally crucial. The Commission further stated that deep and integrated capital markets are key to EU global competitiveness, as a means to source private investment in the EU economy, also for the green and digital transitions. It furthermore emphasised that the EU's growth path relies heavily on the uptake of digitalisation.

The EFR agrees that urgent actions are required to advance the Single Market, the CMU, the Banking Union and the overarching EU competitiveness agenda to ensure that the European financial sector can operate on a European as well as global level playing field. Competitiveness should be a main objective for all EU institutions and a consideration for any new regulation. The financial services sector remains a central player in the funding of the European economy and is well placed to support the strategic priorities of energy, sustainable and digital transitions. Actions to further develop the single market and capital markets union are essential to minimise internal fragmentation, deploy capital and liquidity more efficiently and fully shift the focus towards supporting growth. Policymakers should focus on unlocking economic opportunities, e.g. through more efficient allocation of savings towards long-term investments. The European bond and equity markets are significantly smaller and less liquid than those in the US. Unnecessary regulatory restraints for issuers, intermediates and investors should be removed to enhance European competitiveness. It is increasingly important to strike the right balance between investor protection, financial stability safeguards and measures to increase available volumes and efficient distribution of capital to European businesses. This is even more important given policymakers' growing concern about safeguarding European economic competitiveness against a backdrop of deglobalisation and regional economic protectionism. While cooperation and coordination at global level is vital, measures taken in the EU should not create global competitive disadvantages for the European financial sector. It remains important to ensure that open markets are attractive for international (financial) institutions, based on a competitive level playing field.

Competitiveness should be seen as an indispensable condition of European strategic autonomy. The EFR reiterates its call to make competitiveness a core and permanent feature of EU rulemaking, including secondary legislation. Keeping Europe competitive on the global stage will require significant investments across all industries to help corporates navigate and advance through digital and sustainable transitions. It is essential to foster investment in projects, especially those supporting the green transition. If investments in the EU continue to decrease as in 2023, the green transition will not be achieved. Policymakers should also stress the importance of a just transition in light of escalating rhetoric against sustainability concerns in several jurisdictions.

Financial services contribute to European competitiveness as well as investment, and should continue to be seen as a strategically important sector. This will allow them to contribute their full potential to the goals of open strategic autonomy and global competitiveness. A future-proof regulatory framework needs to be able to address upcoming changes and newly created products in a holistic manner, while the regulatory and political environment must foster innovation and entrepreneurial initiatives by the private sector to empower the European economy.

The European financial sector – banks and insurers – is the backbone of all endeavours to support the green and digital transitions. In the current regulatory set-up, however, servicing our clients both within Europe and elsewhere remains a challenge.

A sound financial regulatory and supervisory framework is crucial for the proper functioning of the European financial sector. This framework must be appropriate and proportionate, while at the same time respecting the risk-based nature of the financial sector, whose role is to support business and the European economy as a whole. Regulation also needs to concentrate on competitiveness, transparency and stability in financial markets, ensuring a European as well as a global level playing field and supporting the European financial industry as a central player in the European economy. It should not be continuously subject to change on account of such regulatory instability leading to very high costs that are ultimately passed on to customers. The time has come to focus on targeted regulations that enable the financing of the transitions. Furthermore, the focus should also be on proper implementation of the existing legislative framework. Regulations with an extraterritorial effect should only be used where absolutely necessary, so as to avoid compromising competitiveness.

Despite the challenging environment, the European financial services sector has remained steadfast in supporting the European economy. The financial sector is strategically important in advancing various policy objectives, such as the EU Green Deal, open strategic autonomy and the digital agenda, as well as addressing new challenges such as lower global financial integration, lower cross-border flows and a lack of investment in operational resilience and cyber security.

The EFR Members and their institutions stand ready to play their role in supporting the green and digital transitions as well as the European economy as a whole. The recommendations put forward in this report will, if followed, enable the financial sector to perform this role.

C. MAIN ISSUES TO BE ADDRESSED SO THAT THE EUROPEAN FINANCIAL SERVICES SECTOR CAN PLAY ITS ROLE IN THE EUROPEAN ECONOMY

1. Geopolitical challenges and their impact on the European financial sector

Introduction

The geopolitical environment is becoming increasingly challenging to navigate for financial services firms and their clients. In 2024, this will be driven by a record number of elections, ongoing conflicts, and an increasing focus by governments on ensuring their economic security and building supply chain resilience in strategic sectors.

2024 will mark the biggest election year in history. More than half the world's population – 4.2 billion people across more than 76 countries – will go to the polls. The scope for significant policy change arising from elections is high and certain elections, including those for the European Parliament in June, have the potential to set an important and enduring direction for the development of economic, financial, industrial, social and climate policy. Managing this policy change will be a key theme for business throughout the year.

Global conflicts will also be an ongoing source of geopolitical risk this year. The war in Ukraine will continue to have significant economic and military ramifications for Europe in 2024, while the conflict in the Middle East will also need to be watched closely, with the risk of broader regional escalation managed carefully by all involved parties.

Global economic competition is now viewed as an increasingly important field of geopolitics, with governments developing policy approaches that more frequently consider the two together. This led in 2023 to the development of the G7's de-risking agenda and a growing focus on economic security and supply chain resilience. Europe's ability to adapt to this shift and help create a coherent and balanced approach in this area is critically important. Building economic security in strategic sectors and industries, while also ensuring that Europe remains open to international trade and investment, will be an important area of policy development for both the EU and Member States and will require close collaboration with the financial services sector.

Another critical aspect of stability is the increasing prevalence of cyber threats. The financial sector, in particular, is experiencing a surge in cyber attacks, which poses a significant risk to the integrity and confidence in financial systems worldwide. In response to such challenges, the EU is taking proactive steps, such as the development of the Digital Operational Resilience Act (DORA) aimed at bolstering the cyber security of the financial sector. DORA underpins the responsibility companies – including financial institutions – have regarding their supply chains, particularly when it comes to critical suppliers. Given that cyber resilience is a well-established capability for the financial sector, the EFR believes financial institutions can guide and support clients towards cyber resilience. Authorities can also draw on the extensive experience of the financial sector with digital resilience not only in the context of cyber security, but also in the context of digital preparedness in a more general sense. Going forward, it will be important to strike a balance between necessary security measures to preserve European autonomy without compromising European competitiveness, illustrated for instance by ongoing discussions on the financial sector and the use of cloud services.

EFR recommendations – EFR call for action

Enhancing preparedness across industry sectors

EFR Members believe that across industry, businesses must have strategies in place to ensure their operations can continue should they be affected by war, natural catastrophes, social unrest, or other threats that could interrupt their own operations and/or international commerce. It is vital to translate uncertainty into risk management by modelling and quantifying exposure. When it comes to supply chains, for example, the financial sector is well positioned to assist and offer insights, from understanding the evolving supply chain risk landscape to assessing the risks of new locations.

Digitalisation comes with new risks such as cyber crime. A distinction can be made between nation state cyber activity on the one hand and criminal cyber activity on the other – the latter targeted at companies, financial institutions and other private organisations. Fortunately, cyber tooling is rapidly becoming more advanced, with artificial intelligence also adding powerful support tools to this development, although these currently relate mainly to phishing detection and making improvements in malware code identification.

The large institutions can guide and support clients towards cyber resilience and digital preparedness for the benefit of broader society. Public authorities can draw from the financial sectors experience.

The EFR calls on public authorities to take relevant measures, in a concerted manner and at a global level, aimed at tackling sources of cyber risk, as the fight against cyber crime needs to be organised at a global level and enhancing preparedness across industry sectors. The financial sector can provide valuable input for the prevention of organised crime, notably through the public-private sharing of data. Existing Anti-Money Laundering (AML) reporting requirements allow for significant data flows from the financial sector to public authorities.

The EFR maintains that European public preparedness measures should not compromise the ability of the financial institutions to compete at the global level. Reporting requirements and other security-related stipulations for the financial industry, such as requirements to procure certain services at European level (e.g. potential sovereignty requirements in the EU Cybersecurity Scheme for Cloud Services), may hamper the European financial services sector's ability to compete at the global level. Autonomy and security concerns must be balanced with the ability to compete efficiently.

Strengthening the Single Market and competitiveness of the European financial sector

As the EU deliberates over institutional reform and potential enlargement, it is simultaneously embarking on new de-risking initiatives to address the evolving geopolitical alliances, resulting in the growing trend of friendshoring – a phenomenon whereby firms are increasingly relocating production operations to countries with aligned values. Such a shift could ultimately lead to a decoupling of polarised political blocs: controlling outward investment, controlling exports in critical areas, securing supplies of critical raw materials, protecting research and development in major technological fields, improving implementation of inward investment screening, launching an anti-subsidy investigation on electric vehicles, and introducing a carbon tax at the borders. While it does not signify a move towards deglobalisation – as world trade maintains its intensity – it does indicate a transformation in international trade dynamics; underscoring a strategic alignment and value-based considerations, which would lead to a "*clubification*" of the global economy.

In this context, the EU should not simply adopt reactive measures but, rather, elaborate a broader strategic approach to navigate and shape this new phase of global economic interaction to ensure its competitive edge in a rapidly changing world. It will be important to strike the right balance and ensure that the EU remains open. The EFR welcomes this ambition to advance strategic autonomy as it demonstrates that the European Commission has moved beyond a purely reactive stance towards a geoeconomic strategy. Instead, EFR Members continue to advocate for a multilateral rules-based trading system and believe that one of the EU's best defences against fragmentation is the strengthening of the Single Market and support of the global competitiveness of the European financial sector. Financial services should be seen as partners in advancing strategic autonomy and defragmentation of rules as opposed to being an afterthought.

Prioritising funding needs for the green and digital transition

Geopolitical tensions have constrained the European climate agenda, with a resurgence in the use of coal in Europe and a global race to secure oil and gas resources. In parallel, new industrial strategies are surfacing across geographies that prioritise domestic control over supply chains, at the expense of capital efficiency and investment in clean energy. The EFR calls for heightened attention to deeper and more integrated EU financial markets to address these growing financing needs dedicated to Europe's decarbonisation and energy transition. In addition, the regulatory framework needs to be coherent and constructed in such a way that it allows financial services to contribute to funding the transition to a net zero economy. In view of the forthcoming elections for the European Parliament in June 2024 as well as a new European Commission taking office on 1 November 2024, the EFR published a Paper[2] in November 2023 presenting four main principles for an update of the Sustainable Finance framework:

1) *Regulation should support investment in the transition;*
2) *Interoperability in global standards is key;*
3) *Investment in transition activity is as important as "bright green";*
4) *The prudential framework for climate-related factors should remain risk-based.*

In the long term, EFR Members believe that the green transition is a real opportunity for Europe to overcome its longstanding dependency on oil and gas imports - which had shaped the foreign affairs agenda of Member states for 100 years - and improve its terms of trade. This requires developing technological expertise on shore and securing critical raw material supplies though.

Europe's path forward in these rapidly evolving times hinges on two pivotal elements:

(A) Advancing the Single Market with a consistent policy agenda

The consistent advancement of the Single Market through a coherent policy agenda is essential. A steadfast approach in policymaking is essential for the swift functioning of the Single Market, enhancing economic integration, and enabling the free flow of goods, services, capital, and labour. The strength and resilience of the Single Market are foundational to Europe's economic competitiveness, especially given the rapid changes and uncertainties in global landscape. Furthermore, the development of the CMU and the completion of the Banking Union are key components of this agenda. The French-German roadmap for the Capital Markets Union published on 13 September 2023 should be endorsed and implemented, as it supports the idea of unlocking the potential of European capital markets, exploring the potential of a bottom-up approach to the CMU and promoting an agile regulatory and supervisory response. There should be a clear focus on more efficient allocation of savings towards long-term investments. CMU is aimed at diversifying the

2 EFR paper on Sustainable Finance: The case for a simpler regulatory framework

financial system by integrating capital markets across all member states, and such integration will facilitate easier access to financing for European business, especially SMEs, by diversifying their sources of investment alongside traditional bank funding. It will therefore enhance the allocation of capital and risk-sharing across the EU, contributing to a more robust and resilient financial system, supporting investment and growth, while further strengthening the Single Market and the EU's position in the global economy. The CMU's role in mobilising capital for long-term investment, including green and digital transition, is also critical in aligning Europe's economic growth with sustainable and innovative objectives.

(B) Encouraging Innovation for Effective Climate and Digital Transition

Innovation plays a critical role in effectively navigating the dual challenges of climate change and digital transformation. Europe must cultivate an environment that promotes and supports innovation, essential for achieving the objectives of the European Green Deal and the digital agenda. Supporting research and development, incentivising technological advancement, and crafting policies that encourage sustainable and digital innovation are key. Europe's commitment to innovation not only addresses immediate challenges; it also sets a global standard for sustainable and technologically advanced economies.

As Europe navigates these challenges, it remains vital to remember the significant influence and diverse interests of its stakeholders, particularly those with a large international footprint.

2. Financial sector regulation to support a competitive European economy

Introduction

Europe is currently at a crossroads

- It needs to reinvent itself to remain a global player across all fronts, not just from a financial sector perspective.
- Banks, insurers and the public sector cannot cover the significant funding gaps for the transition to a more open and autonomous Europe alone. It is crucial to transform abundant short-term savings (which European citizens prefer) into long-term investment and invest European savings in Europe (according to the ECB, the net investment position outside of the eurozone is over EUR 300 bn (ECB Eurozone balance of payments Q1 2023). Higher investments are key for the competitiveness, ecological transition and development of the Capital Market Union.
- Key prudential reforms for banks and insurers are now largely completed and we are approaching elections for the European Parliament in June 2024 and a new European Commission in November this year.

We are still working our way through the lasting effects of the pandemic crisis, the war in Ukraine, and the energy crisis, while geopolitical challenges are on the increase. It is therefore of paramount importance for Europe to choose the right paths to grow its prosperity and protect its values and way of life.

As many of the future policies that are essential for achieving a more strategic open and autonomous Europe are relevant for many industries, we, all private and public sector participants, need to work together on a common strategy in order to choose the right path at the crossroads we are facing and boost investments to build a better future.

What are the priorities for the next European legislative cycle?

1. **Making competitiveness a core and permanent factor of EU regulation making**

- In a context where most global financial companies are headquartered on the other side of the Atlantic, and while the UK has introduced competitiveness as a secondary objective for its regulators, EFR notes that the debate surrounding competitiveness has recently gained prominence in the EU, on account of it being an indispensable condition for achieving the strategic autonomy that European authorities are rightly calling for.
- In this regard, the EFR welcomes the clear stance of European Commission President Von Der Leyen on the future of European competitiveness in her State of the Union speech given on 13 September 2023[3], and the EU doing 'whatever it takes' to keep its competitive edge, with the Commission conducting a competitiveness check by an independent board for every new piece of legislation. In the Level II legislative process, European Supervisory Authorities should also be guided by the principle of competitiveness. We look forward to the report on competitiveness prepared by Mario Draghi.
- At the horizontal level, the EFR believes that deep and liquid European Capital Markets and the Banking Union remain indispensable for allowing banks to allocate capital and liquidity across national borders to unlock the full economic potential of the European Union and ensure that we successfully overcome the challenges of the green and digital transitions.

3 State of the Union Address by President von der Leyen (europa.eu)

- The EFR welcomes the European Commission communication on the long-term competitiveness of the EU, its emphasis on access to private capital and the proposed key performance indicators (KPIs) to track progress. We believe it is essential to involve the financial sector in this discussion.
- The international component is also an important element in this debate. The presence of the European financial sector in third countries and its capacity to expand is crucial for maintaining the competitiveness of European industry and strengthening European values. Financial entities are not only important actors for the European market, they are also powerful agents in other economies. However, certain EU regulations can hinder European companies operating in third countries and affect their competitiveness vis-à-vis local firms. EFR Members therefore call on EU authorities to remove these hurdles by (i) fine-tuning elements of the regulatory framework to better reflect the specific features of EU entities and (ii) refraining from systematically subjecting the activities conducted by EU firms abroad to rules that were designed for – and are well-suited to – the EU market. In the context of insurance regulation, it is important to avoid material competitive disadvantages caused by imposing European Solvency II capital requirements on European insurers' operations in third countries through European group supervision, while local players are subject to a different local solvency regime. Existing but expiring delegated acts that grant provisional equivalence for certain third countries under Solvency II should therefore be extended before the EU elections.
- Furthermore, while the recent Commission proposal has some positive elements with respect to the PSD2's open banking requirements (reasonable compensation for data holders, an authorisation regime for third parties accessing data, and a contractual liability framework), it will put the European financial sector at a disadvantage vis-à-vis new competitors. The new obligations concerning open finance will even further exacerbate the data asymmetry (introduced by PSD2) with respect to other sectors, as only big techs (under the DMA) and IoT providers (under the Data Act) will also be subject to data sharing obligations, and there is a considerable uncertainty regarding how big techs will implement their obligations.
- Lastly, European regulations and their successive amendments entail significant costs (IT modifications, changes to contracts, modification of information documents, reporting, training). This results in cost shifting to other services or other customers. It is therefore important to ensure that legislation only intervenes if the benefit/cost ratio is proven for all customers, as they are the ones who ultimately bear all the costs.

2. Rethinking European capital markets

- Without a proper capital market, Europe will not be able to finance all the investments required to address its ambitious agenda concerning the climate transition, the digital transformation and the energy transition. Furthermore, without a proper capital market it will not be possible to counteract the displacement that the US IRA is producing on European companies to push them to list on Wall Street.
- European capital markets remain fragmented along national borders. This leads to inefficient allocation of capital, hampering the EU single market and its cross-border financing capacities.
- Time is running out because Europe's capital markets continue to fall behind: The latest data (New Financial Research) shows that the global share of EU-27 capital markets has fallen from 18% in 2006 to 10% in 2022. American Banks already have a market share of over 50% in Corporate and Investment banking in the EU and the market share of US asset managers in the EU has increased from 27% to 39% over the last decade.
- EU equity markets are only 25% the size of the US, yet the EU has three times as many exchanges, 18 central counterparties (CCPs) and 26 central securities depositories (CSDs), while the US has only one of each – consolidation of Europe's infrastructure, where it makes sense, would possibly reduce fragmentation and deepen financial markets.

- The EFR welcomes the French-German roadmap for the Capital Markets Union published on 13 September 2023 and supports the idea of unlocking the potential of European capital markets, exploring the potential of a bottom-up approach to the CMU and promoting agile regulatory and supervisory response.
- When it comes to non-equity markets, London remains the undisputed leading marketplace in Europe. To strengthen its markets and hence its autonomy, the Union must ensure that its regulatory framework preserves the intervention of market makers, which is essential to these markets.
- In any case, given the importance of financial market infrastructures for the functioning and development of EU financial markets, supervision of them should be coordinated by ESMA – which should at the same time be equipped with more supervisory and regulatory powers and skills.
- The additional powers for ESMA should come with broader powers to suspend or delay unworkable rules or deadlines as well as enhanced decision-making structures.
- In addition to this top-down step, every EU Member State should simultaneously be looking at how to improve its own capital markets, i.e., bottom-up, like the *Zukunftsfinanzierungsgesetz* (Future Financing Law) in Germany or the capital markets development strategy of Poland.
- So far, CMU has been based on a top-down approach, where EU rules defined centrally are applied evenly across the Union. EFR encourages the next Commission to complement this approach with a more bottom-up approach that would focus more on the development of local markets, though without prejudicing the objective of wholesale markets operating in a harmonised manner and with ideally consolidated market infrastructures (see above). Such an approach should aim to detect, protect and promote good practices in domestic markets, the sharing of which could foster the development of capital markets across the Union.
- We also need a more flexible securitisation market mobilising short-term savings towards long-term investments required by the double transition. We therefore repeat our call for action to make securitisation an effective instrument for the European financial sector so that savings and assets under the management of institutional investors can be mobilised and used to invest in Europe instead of other jurisdictions such as the US.

3. Avoid limiting financial capabilities of the financial sector to support both transitions

Without a deep European capital market, banks will be called on to close the funding gap but they will have a hard time contributing to the required finance since they will not be able to make up for the insufficient market finance.

- Strong and resilient banks are an important factor for European growth, all the more so given that Europe is a bank-reliant economy in which 70% of external corporate financing comes from banks' balance sheets. This makes banks a sector of strategic importance.
- Given that diversification of funding options via deeper capital markets will take time, every effort should be made to remove inefficiencies from the banking system. This specifically relates to:
  - Macro-prudential buffer framework: the European framework consists of multiple national and European capital buffers. These overlap and double counting risk (cyclical risks are covered by IRBA, P2G, CCyB, SyRB and real estate valuation).
  - Cross-border capital and liquidity is still ringfenced in practice. Calculations by ECB Banking Supervision show that truly removing these obstacles would free up EUR 250 billion of high-quality liquid assets[4], while the overall amount of risk-weighted assets resulting from the individual non-waivable requirements of cross-border subsidiaries in the banking union are around 25% greater than the amount of consolidated risk-weighted assets attributable to those subsidiaries at the consolidated level.

4 Even if a "complete" liquidity waiver (100% of the individual requirement) were to be granted, around EUR 140 billion of high-quality liquid assets would still not be transferable at the system level.

- Given that the banking sector is already constrained, capital add-ons should not be used to steer financing away from specific activities, as this may also deter useful investments or new technologies, e.g. for the sustainable transition.
- Insurance companies have been confronted with a series of challenges such as the low to negative interest rates environment followed by a sharp increase since mid-2022, several natural catastrophes, the COVID-19 pandemic, and the war in Ukraine. During each of these events, Solvency II – the EU's comprehensive prudential framework – has demonstrated that European policyholders remain very well protected. Looking ahead, it is crucial to maintain Solvency II as a risk-based prudential framework, improve its reflection of the long-term insurance business model to alleviate impediments to long-term sustainable investing by insurers and protect the attractiveness of the EU as a base for global (re)insurance.

4. Make the financial framework efficient for the sustainable transition

- Prior to the 21st Conference of the Parties in Paris in 2015 (COP21), the EFR called for a strong, ambitious agreement to tackle climate change. We therefore welcomed the adoption of the Paris Agreement and the EU's swift signing of it. The EFR strongly supports the European Green Deal and the EU´s efforts to foster the transition to a net-zero, more resource-efficient and sustainable economy.
- The flow of new regulations concerning sustainable finance has significantly accelerated in the last few years, especially in the Union, which has outdistanced other jurisdictions, given the urgency of the climate challenge. This has led to an overly complex framework with inconsistencies within the EU rules, which can result in unintended consequences in terms of adverse effects on the global competitiveness of EU institutions. Several inconsistencies remain between the reporting requirements under the Taxonomy Regulation, Pillar 3 ESG reporting and CSRD. Efforts to tackle these inconsistencies and make the regulatory framework more workable would improve its efficiency.
- However, the regulatory framework needs to be coherent and constructed in such a way that it allows financial services to contribute to funding the transition to a net zero economy, rather than imposing a significant compliance burden to the extent that it constrains investment and creates confusion amongst investors. Furthermore, Europe absolutely needs more investments. We need to boost investment in renewable energies and aim at phasing out fossil fuels in order to build a net-zero economy, while supporting customers to make the transition. This requires around EUR 620 bn of additional investments every year.
- As banks are the main financiers of the European economy and insurers are Europe's largest institutional investors with over €10.6 trn of assets under management, they both play a very significant role in helping to finance the transition to a more sustainable economy.
- Front-running work at the BCBS level by adding new capital requirements should not be the default response by regulators to climate risks faced by EU banks. This would only undermine the consistency of the global capital framework and impede the greater investment needed to fuel growth and the transition. Instead, banks need regulators to ensure that the capital framework reflects climate and related risks.
- The EU taxonomy is the cornerstone of European ESG-related regulation. As such, it should be seen as an important tool for the assessment of environmentally sustainable economic activities and as a navigational aid for setting and tracking targets. It provides transparency for investors and allows financial services firms to better understand the physical and transition risks to which they are exposed.
- We should, however, also understand that these reporting requirements based on the Taxonomy will likely not be matched by other jurisdictions. We must ensure they are implemented in such a way that convergence and interoperability can be ensured. For any further development of the reporting

framework, relevant implications for the competitiveness of EU businesses and inclusiveness (with economic growth especially relevant for underprivileged parts of society) should be duly considered.

- Research shows that the implementation of EU ESG standards may be tilting financial investment away from the transition to a net-zero economy, where equity and debt investment to green companies' carbon intensive operations is so crucial.
- With the current narrow focus of the EU taxonomy as it targets activities with the highest emissions, the 2030/50 climate targets will not be met. Any further development of the Taxonomy should therefore include a focus on supporting the transition of the economy, beyond financing activities that are already green, as also outlined in the recent report by the Platform on Sustainable Finance[5].
- In addition, we need to step up our efforts to define pathways and entity transition plans in Member States, in line with already existing frameworks. This will assist in directing investments and financing to transition paths of carbon-intensive industries where the transition is so critical. Moreover, a consistent framework for transition planning requirements should be ensured in the EU and internationally, including across the disclosure-related standards developed by EFRAG and ISSB.
- In doing so, we need to act globally in parallel. The continuing growth in emissions by the developing Global South is what presents one of the major obstacles to achieving the Paris targets. These sectoral pathways should therefore also factor in how reduction can be achieved across the globe. Moreover, the public and private sectors must work together and reflect on how to scale up sustainable finance in low and middle-income countries in order to support the more vulnerable states in their transition to a net-zero economy.

5. **Digitalisation: allow for innovation, using best-in-class providers, and focus on AI and innovative technology to integrate financial services on an equal footing in the future interconnected world.**

- To achieve technological sovereignty, digitalisation is of particular importance. Europe needs to become best in class in digital innovation, also in financial services.
- In order to make sure we are able to innovate and reap all the potential benefits of technology and digitalisation, regulation should be fit for purpose and future-proof, based on principles and guidelines and focused on outcomes rather than 'risk-based' box ticking so that it keeps pace with innovation.
- Here again, investment is key. Around EUR 125 bn of extra investments a year are needed in the EU.
- The EFR sees several key developments that impact this:

  A. **EU Cloud scheme**: As part of the current work in the EU on a cybersecurity certification scheme for cloud services (EUCS), the EU is considering the introduction of strong sovereignty requirements at the highest assurance level. There is a risk that this will end up excluding non-European cloud service providers from providing services not only to the public sector in the EU but also to critical EU industries, including banks and insurers.

  Firms in these critical industries in the EU, not just the financial sector, would no longer have access to global hyperscale cloud providing the highest quality of service and leading innovation. This would not only place them at a competitive disadvantage by restricting their ability to innovate; it would also pose considerable risks to their operational resilience and call into question the foundation of the Digital Operational Resilience Act (DORA), which stipulates that all participants in the financial system must have the necessary safeguards in place to mitigate cyber attacks and other risks. This cannot be done without the best-in-class cloud providers.

5 Platform on Sustainable Finance (2022). The Extended Environmental Taxonomy: Final Report on Taxonomy extension options supporting a sustainable transition. https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

These kinds of ringfencing measures run counter to the goal of making Europe stronger and, thus, more autonomous. Open strategic autonomy should not be about restricting the use of foreign services but, rather, about stimulating realistic EU alternatives while ensuring a level playing field among market participants.

B. **AI**: The introduction of Generative AI into general use at all levels in the economy and society is, by a wide margin, the single most important medium-term development to hit global economics and business.

   There should be a legislative and supervisory framework built around this that strikes the right balance between providing flexibility to innovate on the one hand and user protection and transparency on the other hand. EFR supports ongoing efforts of EU regulators when it comes to setting guardrails for the deployment of AI and establishing a level playing field for data-driven innovation which caters to cross-border data flows. We encourage to follow a risk-based approach, focusing regulation and supervision on high-risk use cases and limited to closing regulatory gaps.

C. **CBDC/ Digital Euro**: We are concerned that the introduction of a digital euro – as currently being discussed – may not convince the citizens. The design of a potential digital euro should carefully take into account the potential major unintended consequences for

   a. financial stability
   b. financing the European economy and green transition
   c. long-term competitiveness of the EU payment ecosystem

   These concerns need to be addressed head-on with all stakeholders involved before any decision on finalisation of a digital euro can be made. This is essential in order to get the support of the different stakeholders and convince the citizens of the benefit of a digital euro.

   The above also means that all the time that is needed to get the framework right, is taken. We clearly see that other jurisdictions are also taking their time (the Swedish project is paused, and the US and Switzerland are still at the debating phase). These developments should also be taken into account, if only because any future digital euro needs to be interoperable with other CBDCs. Not doing so could have an impact on the level playing field for European financial institutions.

6. Tackling ageing and demographic social issues

- Within five years, more than half of the European population will be over 55 years old. If we live longer, we will need to irrefutably save more to cope with living expenses, meaning not only maintaining living standards, but also to cope with the costs related to old age (pension, health, dependency). Hence, public policies and social awareness of the need to save more should be promoted at EU level. These additional savings would also be beneficial for financing the double transition and to help in advancing a CMU.
- At the same time, regulators must ensure that the impact of their policies and existing regulations have a positive effect on the long-term investment returns of citizens.
- Against this background, we believe that monitoring and making the protection gap regarding pensions (including private savings) transparent both at the individual and country level (i.e. problem of sustainability of pension systems) would accelerate awareness and incentivise EU citizens to prepare for their old age.
- We therefore suggest developing benchmarks (such as the US, UK or Nordic model[6]) and enhancing transparency, while also increasing debates and dialogues in order to avoid sweeping a danger under the carpet that is silently undermining the public budgets of EU Member States.

6 Some retirement models deserve to be analysed, such as US enabling citizens to save for their retirement by including tax advantages, UK with an automatic enrolment scheme for all citizens in the formal labour force, or Sweden and Denmark for their awareness efforts (more information available here: https://gfiainsurance.org/topics/487/protection-gaps).

3. Competitiveness of the European Financial Sector in the Digital Context

Introduction & overview

The European economy needs significant levels of private investment to support the twin transitions (climate and digital) and the build-up of European resilience and defence capacities. The financial services sector will play a key role in channelling these funds to support Europe's competitiveness. Achieving this will require an environment that facilitates and promotes equal competition and technological innovation. Tech companies are increasingly looking to the financial sector for new markets and growth opportunities. The financial industry is more regulated than many others, based on risk and with a horizontal approach. While effective competition is an advantage for any sector, it is important that new entrants are regulated based on the same principles as incumbent participants to ensure a level playing field. European policymakers should bear this in mind when looking at the financial sector in digital terms in order to ensure that the financial services industry will be able to contribute its full potential to the overarching goals of open strategic autonomy and global competitiveness.

Digital transformation is based on the convergence of various underlying technologies and produces geo-political and geo-economic shifts and sectoral transitions that all influence financial services, thus creating opportunities as well as challenges.

To achieve competitiveness in financial services through the best use of digital technology, a consistent regulatory framework should be created that:

(A) follows three general principles:

- Supporting innovation in Europe as well as collaboration with best-in-class providers and innovative technology from inside and outside the EU, to be able to develop financial services on an equal footing in the future interconnected world.
- Enabling sustainable and fair business models (a key objective for the data-driven economy) to help drive European economic growth and ensure a level playing field among market participants and the strategic interests of the European economy.
- Ensuring a very high level of data security and protection of clients and citizens, thereby earning customer trust and the uptake of innovative services.

(B) enables policymakers to focus on a select number of key topics:

- **Key technology – Artificial Intelligence (AI)**: needs an enabling policy and supervisory framework, coordinated with other regulations in the EU and internationally.
- **Enabler 1 – Data**: as essential input for AI and a personalised user experience beyond financial services; data should be approached through a cross-sectoral horizontal and cross-jurisdictional perspective in order to maximise innovation opportunities and preserve a level playing field.
- **Enabler 2 – Cloud**: to be competitive, European financial services firms need to have access to best-in-class providers that provide high levels of cybersecurity, regardless of where in the world they are located.
- **Business focus 1 – Payments and Digital Euro**: market-driven innovation is key in payments. Pan-European payment solutions can be built on top of instant payments, as an alternative to cards, contributing to EU sovereignty; with or without a digital euro. The latter needs to be carefully discussed and designed to ensure that, if issued, it contributes towards making Europe and the European payments system more competitive.

- **Business focus 2 – Tokenisation of assets and money** offers great opportunities for efficiency gains for the sector and for the entire European economy. Although the EU Distributed Ledger Technology (DLT) pilot regime was an important first step that will make it possible to explore DLT-based financial market infrastructures, further work is needed, also on the tokenisation of money - bank deposits and wholesale Central Bank Digital Currencies (CBDCs).

Challenges & Recommendations

Key technology: AI, the knowledge engine, should be enabled

The EU AI policy is a textbook example of a policy crafted in fast-changing circumstances, regulating risks in the AI Act, while also fostering technological development in the AI Innovation Package.

AI offers enormous potential to transform businesses. This is a key technology for the financial sector, both more traditional AI and Machine Learning as well as generative AI. It is important for companies to have certainty and a stable regulatory framework that allows them to invest and make the most of this technology to provide better services and be more competitive.

Implementation of the AI regulation foresees the development of level 2 technical standards (RTSs and ITSs), as well as guidelines that will specify the practical implementation of the rule, e.g. concerning application of the requirements and obligations for high-risk systems, and regarding transparency obligations; concerning application of the definition of an AI system; or even providing practical examples of high-risk and non-high-risk use cases on AI systems. Implementation will be key to ensuring that firms can comply with these requirements effectively and efficiently.

To remain competitive, it is important for the EU AI regulation to be flexible and proportionate in its implementation, maintaining the risk-based approach pursued by this regulation and reinforcing the innovation-enabling spirit. Otherwise, we run the risk of slowing down AI's development and adoption in Europe, which would negatively affect the competitiveness of both the financial services sector and the broader economy.

The major challenges of this technology are global and must be addressed in a coordinated manner. There are already some efforts in this direction (at EU-US level, in the G7, the OECD, the UN) which are very welcome. The US approach provides an interesting benchmark by first agreeing voluntary commitments with the tech giants and then releasing the massive Executive Order on AI, which blends regulatory measures and soft law.

In parallel, ensuring downstream transparency across the value chain and closely overviewing the main providers of foundational AI engines and Large Language Models (LLM) can ensure that the EU will be able to apply AI to any use case and make the most out of best-in-class AI, without running the risk of fostering new gatekeeper services of the largest tech corporations. Should this not work in the domain of AI policy itself, the Digital Markets Act (DMA), which imposes pro-competition obligations on dominant tech firms, would be another potential avenue for harnessing the market power of overly powerful AI models.

In the financial sector, it will be important for the application and supervision of the new AI regulations to be conducted in a consistent and coordinated manner with financial regulation and supervision, as well as with other regulations such as data protection, to ensure proportionate application and avoid duplication.

Enabler 1: Data, the essential source of information

Data portability and data sharing puts users at the centre of the data economy and opens up new possibilities for innovation, based on the combination of different types of data. For instance, combining financial and energy data can help customers in their transition to a more sustainable economy. This is why the EFR has long called for data sharing to be regulated in a horizontal, cross-sectoral perspective in order to maximise innovation opportunities and preserve a level playing field with other sectors, instead of just developing data sharing specifically in the financial sector.

In this sense, large digital platforms (under the DMA), providers of physical connected objects (under the Data Act) and, potentially, providers of mobility services (to be considered after the regulation of the mobility data space) will be subject to specific data-sharing schemes. The EFR hopes for similar initiatives in the future based on the 2019 EU Data Strategy.

Nonetheless, and given the competition dynamics between the sector-overlapping ecosystems, the implementation and enforcement of these regulations will be the real litmus test for cross-sectoral data sharing to enable innovative business models. In this context, the need for a set of minimum requirements from the technical perspective is especially relevant to ensure that data from different data spaces can be shared in a secure, efficient and flawless fashion. This, in the end, will be a key measure of success for the benefit of customers.

In the meantime, the upcoming European regulation on access to financial data (FIDA) affects a very broad scope of (financial) data and follows the "open banking" path of PSD2 to some extent. Some observers have underlined that there is a risk of FIDA widening the existing asymmetry with respect to companies from other sectors that are not subject to similar obligations to allow their clients to share the data they generate.

On a positive note, FIDA introduces an authorisation regime for third parties accessing the data. We would like to emphasise the position of the EFR in its Paper "PSD2 lessons and implications for Open Finance" of January 2023 that data sharing has the potential to positively impact both consumers and the financial services industry. We reiterate our call to take the lessons learned from PSD2 into account in terms of the asymmetry in data access, misaligned incentives and the unbalanced liability regime, as well as the constantly evolving nature of the market.

Additionally, the initial FIDA proposal was so broad, in terms of the data and services affected, that the practical implementation of it all at once is rather complex and does not appear feasible within the timeframe envisaged in the proposal. The EFR therefore suggests a gradual approach at the beginning using data for use cases with clearly positive economics; and thereafter enlarging the scope of data and use cases, once the outstanding issues are clarified based on the lessons learned from the initial steps.

That said, the initial provisions on the introduction of a permission dashboard will not be sufficient to ensure the security of data and the protection of clients. The aim of the FIDA proposal is to expand the scope of banking and insurance data to be shared in real time. To avoid a significant expansion of the cyber attack surface and ensure the right level of security, customer authentication rules therefore need to be strengthened.

Moreover, the intended FIDA objectives of facilitating the security and protection of clients and their data could be totally compromised if the regulation does not ensure the same level of security and resilience of new actors in the protection of shared data.

Enabler 2: Cloud, the essential infrastructure

As a crosscutting enabling technology, for both efficiency and innovation as well as resilience, financial services providers need access to best-in-class cloud service providers for infrastructure, platform and software-as-a-service, wherever they are located. This is also an absolute requirement for reasons of cyber security. Sovereignty requirements (e.g. in the EU Cybersecurity Certification Scheme for Cloud Services) must not be imposed at the expense of EU competitiveness, as they will likely end up restricting the use of non-EU providers. These currently offer the more advanced services and functionalities, as well as high levels of cyber security, which are essential for the competitiveness and innovation potential of EU companies.

Greater effort should be placed on international coordination of data policies and the oversight of large technology providers to eliminate barriers and (supposed) regulatory fault lines.

To conclude, if sovereignty requirements are finally adopted in the EU Cybersecurity Certification Scheme, they should only apply to data related to national security or national defence and under no circumstances to financial services.

Business focus 1: Payments (including a digital euro scheme)

Market-driven innovation in payments is key to guaranteeing international competitiveness in open markets.

A pan-European payment solution for person-to-person (p2p), Point of Sale (PoS), e-commerce and government payments can already be built on instant payments and existing solutions, contributing to EU sovereignty and addressing the existing fragmentation in European payments. It is fair and necessary to acknowledge that current payment solutions in Europe, recognising the potential for improvement (especially in the cross-border remit), are robust, efficient, secure and able to address the majority of the use cases that respond to customers' needs. We can also see new payment solutions growing strongly in several countries based on instant payments and working towards being interoperable, which shows the important role they can play in the future of payments.

In this context, the digital euro project still raises questions about its added value for citizens and merchants compared to existing payment solutions, something that will require further discussion alongside the negotiation of the legislative proposal. In that sense, a wholesale digital euro should be a higher priority for European competitiveness in the international context.

We support the prudent approach taken by the authorities. The potential challenges and implications of the possible issuance of a digital euro and its implementation need to be subjected to careful assessment. If a digital euro does become necessary, there are certain elements in the design that will be key to its success.

Alongside the retail digital euro, authorities should also continue to assess whether to introduce a wholesale CBDC as, when properly designed, such a currency can offer benefits in terms of expedited execution, increased transparency and cost savings for all parties concerned. It is important for the ECB to carefully evaluate, in the course of the experiments it is conducting, whether there is a clear business case for using DLT.

We are concerned that the introduction of a digital euro – as currently being discussed – may not convince the citizens. The design of a potential digital euro should carefully consider the potential major unintended consequences for financial stability, financing the European economy and green transition, as well as long-term competitiveness of the EU payment ecosystem. These concerns need to be addressed head-on with all stakeholders involved before any decision on finalisation of a digital euro can be made. This is essential in order to get the support of the different stakeholders and convince the citizens of the benefit of a digital euro.

The legal framework should ensure that the digital euro is designed as a means of payment and not as a store of value to avoid negative effects on financial stability. It should therefore be clearly stated that digital euro accounts would not be interest bearing and would have low individual holding limits based on users' normal payment needs, subject to a governance framework that clearly sets out under what circumstances and an in what way the limit can be changed, preventing it from being changed easily in the case of crisis. The ECB should set the exact amount of the limits after conducting an impact assessment drawing on bank level data through a Quantitative Impact Study (QIS) aimed at providing a sufficiently granular assessment.

The digital euro should also leverage existing infrastructures and payment solutions for instant payments (e.g. Bizum, European Payment Initiative (EPI)). This would make its implementation process more efficient, and would also facilitate its adoption among the citizens, integrating the digital euro within existing payment solutions.

The competitiveness of the EU financial sector is directly impacted by the profitability of European payment systems, meaning that particular attention should be paid to the design of compensation for digital euro services. The right framework needs to be created for intermediaries to distribute the digital euro and provide related services. The compensation model must be able to offset the impact on costs and investments made by intermediaries and should not be based merely on transaction-level fees but also take into consideration the other fundamental activities carried out by intermediaries to provide digital euro services. PSPs should be able to charge reasonable account fees to natural persons for the provision of basic digital euro payment services to ensure that all costs are compensated for.

Finally, we suggest starting with a digital euro that is as simple and proportionate as possible. Adding non-essential capabilities will increase complexity for end-user adoption, as well as adding costs for intermediaries and the Eurosystem. We therefore suggest starting as simply as possible and adding features as citizens and merchants get used to the new medium and new functionalities become more evident.

Business focus 2: Tokenised assets and money

The implementation of the Markets in Crypto-Assets Regulation (MiCA) is an important first step forward in providing regulatory certainty for crypto assets. Nonetheless, beyond MiCA, the tokenisation of other assets and money presents enormous opportunities for efficiency gains due to the underlying DLT.

The European Supervisory Authorities (EBA and ESMA) are now working on the development of second level MiCA technical standards, expected to come into force between June and December 2024.

- This new regulation should provide regulatory certainty and clarity to crypto asset markets and investor protection, e.g. by ensuring that stablecoins are truly stable and that crypto assets under custody are adequately protected.

- However, given the cross-border nature of crypto asset markets, there is a need for international coordination and consistency in regulatory and supervisory frameworks, and there have been significant developments in this regard, with the recommendations put forward by the Financial Stability Board (FSB) and the International Organisation of Securities Commissions (IOSCO).
- It is also important for European legislators to start working on the regulation of those elements that have remained outside the scope of MiCA, especially decentralised finance (DeFi).

Moreover, based on DLT, there is ongoing exploration into the tokenisation of bank money (e.g. deposit tokens) as well as concerning the tokenisation of securities and other financial instruments (e.g. gold), also helped by the EU pilot regime for DLT that has been an important first step in exploring the technology in a variety of use cases:

- The issuance of a possible bank stablecoin or tokenised bank deposits would allow payments to adapt to the new technological landscape, incorporating programmable money and payments, and compete not only against other innovative payment solutions, but also in the new ecosystems that are emerging in a possible future tokenised economy.

  The regulatory treatment of deposit tokens, which should in principle be the same as for traditional deposits, should be clarified in this context.
- On the other hand, we encourage efforts in the exploration and development of new digital financial infrastructures - highlighting current discussions within the BIS - that allow for the future interaction of tokenised assets and money on the same or interoperable platforms to maximise the efficiency opportunities of tokenisation. The industry is ready to work closely on this with central banks. Multi-currency CBDC platforms like mBridge are one example of this, seeking to give members a means of transacting locally without using the USD. Another example is the concept of a *Regulated Liability Network*[7], something that industry is moving towards in multiple jurisdictions, and which could more easily facilitate global interoperability rather than trying to create a single unified global ledger.
- Wholesale CBDCs (see above) can be used for the interbank settlement of payments made in deposit tokens (including cross-border payments), as well as for the settlement of tokenised securities. We therefore reiterate the EFR's firm belief that this is where central banks should focus their efforts in terms of the possible issuance of a CBDC.

Once the clear use cases begin to crystallise, their regulatory treatment should be clarified as quickly as possible in order to allow European policymakers to lead international efforts to develop standards for the financial sector in the digital context.

7 The RLN would create a shared ledger where banks and central banks would be participants. Each participant, including the central bank, would mint and extinguish their own tokens to represent transfers within the network. This removes the messaging component, providing an opportunity for 24/7, automated transactions under the supervision of a financial market infrastructure.

ANNEX I: EFR VISION

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe.

EFR Members believe that a fully integrated EU financial market, a single market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.

Increased fragmentation as a result of the post-crisis regulatory response underlines the need to safeguard the single market and protect the level playing field. The EFR therefore strongly encourages national governments and the EU institutions to continue their efforts to create a truly single market for wholesale and retail financial services, which will play an essential role in providing long-term financing for the economy in Europe. Furthermore, strong market discipline is essential to ensure fairness and alignment of interests of the financial sector and the rest of the economy towards serving the citizens of Europe and the world.

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

As of March 2024, EFR Members' companies combined represent

- Around 942 million customers[8]
- Around 2.04 million employees
- EUR 23.01 trillion total assets
- EUR 22.17 trillion assets under management

8 Please note that double counting of customers may occur.

ANNEX II: EFR MEMBERS – MARCH 2024

Michel M. Liès
EFR Chairman and
Chairman of the Board
Zurich Insurance Group

Pietro Carlo Padoan
EFR Vice-Chairman and
Chairman of the Board of Directors
UniCredit Group

Oliver Bäte
Chairman of the Board of Management
Allianz SE

Lorenzo Bini Smaghi
Chairman
Société Générale

Edward Braham
Chairman
M&G

Kjerstin Braathen
Chief Executive Officer
DNB Bank ASA

Philippe Brassac
Chief Executive Officer
Crédit Agricole SA

David Cole
Chairman of the Supervisory Board
NN Group

William Connelly
Chairman of the Supervisory Board
Aegon NV

Sir Howard Davies
Chairman
NatWest Group

Dame Clara Furse
Chairman HSBC UK/ HSBC Bank PLC
HSBC

Héctor Grisi
Chief Executive Officer
Banco Santander

Antoine Gosset-Grainville
Chairman of the Board of Directors
AXA

Karl Guha
Chairman Supervisory Board
ING Group

Sir Stephen Hester
Chairman
Nordea

Nigel Higgins
Chairman
Barclays

Antonio Huertas Mejías
Chairman and CEO
MAPFRE

Colm Kelleher
Chairman of the Board of Directors
UBS

Jean Lemierre
Chairman
BNP Paribas

Andrea Sironi
Chairman
Assicurazioni Generali S.p.A.

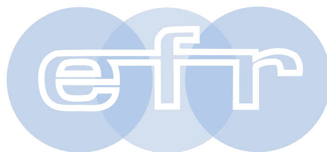
Carlos Torres Vila
Chair
BBVA

Jens Weidmann
Chairman of the Supervisory Board
Commerzbank

Alex Wynaendts
Chairman of the Supervisory Board
Deutsche Bank AG

ANNEX III: ABBREVIATIONS

AI	Artificial Intelligence
AML	Anti Money Laundering
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
Bn	Billion
CBDC	Central Bank Digital Currency
CCyB	Countercyclical capital buffer
CMU	Capital Markets Union
COP21	21st Conference of the Parties in Paris in 2015
CCPs	Central counterparties
CSDs	Central securities depositories
CSRD	Corporate Sustainability Reporting Directive
DeFi	Decentralised finance
DLT	Distributed Ledger Technology
DMA	Digital Markets Act
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EFR	European Financial Services Round Table
EFRAG	European Financial Reporting Advisory Group
EPI	European Payment Initiative
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EUR	Euro
EUCS	European Cybersecurity Certification Scheme for Cloud Services
FIDA	Financial Data Access Framework
FSB	Financial Stability Board
G7	Group of Seven Nations (Canada, France, Germany, Italy, Japan, UK, US)
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IoT	Internet of Things
IRBA	Internal ratings-based approach
ISSB	International Sustainability Standards Board
IT	Information Technology
ITS	Intelligent Transport Systems
KPIs	Key Performance Indicators
LLM	Large Language Models
MiCA	Markets in Crypto-Assets Regulation
OECD	Organisation for Economic Co-operation and Development
P2G	Pillar 2 guidance
p2p	person-to-person
PoS	Point of Sale
PSD2	Payment Service Directive 2
PSP	Payment Service Provider
Q1	First quarter
QIS	Quantitative Impact Study
RLN	Regulated Liability Network
RTS	Real-Time Strategy
SME	Small and Medium Enterprise
SyRB	Systemic risk buffer
UK	United Kingdom
UN	United Nations
US	United States of America
USD	US Dollar
US IRA	US Inflation Reduction Act



European Financial Services Round Table

EFR – European Financial Services Round Table (asbl)
Rond Point Schuman 11
B-1040 Brussels
Belgium

Tel: +32 2 256 75 23
Fax: +32 2 256 75 70
secretariat@efr.be
www.efr.be

Siège social
Avenue Marnix 23
B-1000 Brussels
Belgium
RPM BXL 0861.973.276