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EFSA high-level priorities to foster the integration of EU capital markets

EFSA strongly supports the launch of the Savings and Investments Union Strategy[1] at this pivotal juncture for the Union. Advancing capital markets integration is an economic and political imperative[2], essential to bridging the EU's significant financing gap, driving innovation and delivering the green and digital transitions. In a rapidly evolving global environment, deeper and more liquid capital markets are essential to sustaining the Union's long-term competitiveness.

To that end, a clear set of objectives is needed, along with clearly prioritised reforms that offer the greatest expected impact in achieving those objectives, while requiring the least possible legislative intervention. In a context marked by overly burdensome European legislation, any legislative proposal should be introduced **only where it is objectively and rationally justified**[3] and should be preceded by a robust **cost-benefit analysis** to ensure it:

- Promotes the growth of EU financial markets.
- Increases the attractiveness of these markets to institutional and retail investors (including those outside the EU).
- Strengthens the global competitiveness of core market participants.

With these objectives in mind, EFSA believes that a bottom-up approach should complement the traditional top-down method.

In addition, attention should be paid not only to the demand side of investments but also to the supply and production side. This means striking an appropriate balance between reforms aimed at enhancing consumer protection and those advancing industrial policy objectives to foster the attractiveness and competitiveness of the EU financial ecosystem, which are critical if the EU is to close the gap with its global competitors.

In this paper, EFSA outlines its high-level policy priorities in response to the European Commission's recent consultation on the integration of EU capital markets[4], with a particular emphasis on four critical areas: **(I) key features of integrated EU capital markets, (II) trading, (III) post-trading, and (IV) supervision.**

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[1] Savings and Investments Union Strategy, European Commission, link
[2] M. Draghi estimates in his report an additional investment need of €750-800 billion per year by 2030, The future of European Competitiveness, M. Draghi, link ; Much more than a market, E. Letta, link; According to the European Commission, investments in defence could reach at least €800 billion over the next four years, link
[3] EFSA supports the proposals from the report Less is More, link
[4] Targeted consultation on integration of EU capital markets, European Commission, link

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This document builds on EFSA's previous contribution, which sets out targeted proposals to deepen and enhance the efficiency of EU capital markets[5].

I. Defining integrated EU capital markets

While the European Commission's consultation paper focuses on "EU integrated capital markets", it lacks a clear articulation of what this should entail. Within the Union, a key concern should be to increase the competition between the capital market infrastructures to achieve integration: essential infrastructures in capital markets, such as trading venues, CCPs, CSDs, are by nature critical to the functioning of these markets. These infrastructure companies are also natural monopolies - by the very nature of what they do within their core business, and supported by economy of scale, large entry barriers and network effects. From listing of companies, providing of information, registration of and facilitating of trading, clearing to settling of trades, their value chain and profits improve with sheer size, leading to continuing growth and consolidation. Proper regulation is therefore of outmost importance to avoid or to mitigate the monopoly rents that infrastructures can derive from their consolidated activities, resulting in fewer choices and higher costs for market participants as well as for their clients. This would in the end lead to less efficient markets and even more challenged competition that would go against the SIU project.

Truly integrated capital markets should be characterised by the following features:

- Deep liquidity pools, accessible to EU companies of all sizes and underpinned by a diverse ecosystem of firms with varied business models catering to a wide range of investors.

- Wholesale markets governed by fully harmonised rules, alongside local markets enabled by a bottom-up approach that allows them to flourish.

- Genuine competition between infrastructures without the ability to charge monopoly rent or perform cross subsidisation.

- Effective interoperability in the post-trade space ensuring seamless interaction between different CCPs and CSDs.

- Efficient and consistent regulatory processes, coupled with stronger EU supervisory convergence.

In the following sections, we outline the main actions required to advance the integration of EU capital markets.

[5] For further details on EFSA priorities, please refer to the paper entitled "EFSA priorities for deeper and more efficient EU capital markets", link

II. An efficient and competitive trading landscape

EFSA considers that **the current EU best execution framework ensures fair, broad and competitive access to equity markets** for all categories of investors:

- Since implemented under MiFID I, this framework has fostered the widespread development of direct market access arrangements, order routing systems and systematic internalisers, enabling investors to access any market either directly or via intermediaries, all offering investors a wide range of execution options.
- The focus of the best execution principle on total cost for retail investors, rather than price alone, is particularly well-suited to the EU multi-country market infrastructure.

Overall, execution costs account for only a limited portion of total transaction costs, with post-trade fees constituting by far the largest component.

In this context, **regulation should not prescribe investment firms' business models nor sacrifice the flexibility that firms enjoy today in conducting their business. EFSA opposes the introduction of a US-style "order protection rule" based solely on price.** The structural and operational differences with the US market, in trading, post-trading, clearing, and settlement infrastructures, would render such a rule unsuitable for the Union.

Similarly, mandating interconnectivity between trading venues or intermediaries as a response to limited demand or for the sole purpose of reducing costs would **impose significant operational and financial burdens on investment firms**, **which would result in an unlevel playing field to the benefit of larger players and compromise the viability of local ecosystems,** actually increasing costs that would ultimately be passed on to end-investors, including those with no interest in accessing multiple markets.

In EFSA's view, policy efforts should focus on **strengthening supervisory convergence** and **the consistent enforcement of best execution rules** across Member States to ensure consistent application and uniform investor protection across the EU. In this respect, the functioning of closing auctions, which concentrate a large share of trading volume, may be worth being supervised more closely especially with respect to the higher fees charged by some trading venues, which should be justified.

In addition, a focus on costs should include **the persistently rising costs of market data, which remains a major concern for investment firms. EFSA therefore calls for additional strengthening of MiFIR II**[6] (Article 13) as well as level 2 **RTS on Reasonable Commercial Basis, and a rigorous and harmonised application and enforcement of the rules.**

[6] MiFIR II, Directive ; Regulation

III. Post trading: towards common processes and further interoperability

EFSA considers the **fragmentation of the post-trade environment not to be the core reason for lack of investments in financial instruments including equity in the EU.** However, this fragmentation generates **high costs and operational complexities, which should be reduced as much as possible**.

This fragmentation arises from differences in national laws, tax systems, and sovereignty concerns. As such, consolidation is neither **feasible nor desirable** from a competitiveness perspective. Instead, reforms should aim to **enhance standardisation and operational efficiency across infrastructures, along with a stronger enforcement of interoperability.**

EFSA identifies **two priority areas where a bottom-up approach** could facilitate structural transformation:

- **Harmonisation of operational standards and settlement conventions to standardise key processes such as recalls and partial settlements,** when such harmonisation has a potential to trigger cost reduction and a higher level of efficiency.

- **Implementation of a fully harmonised, simplified, and digital relief-at-source framework for withholding tax (WHT)**. The proposed FASTER directive falls short in this regard. The WHT introduces significant uncertainty for investors – particularly retail investors – on return expectations of cross-border investments, acting as a deterrent to such activity and causing financial burdens that far exceed those from transaction fees.

IV. Reforming ESMA's mandate and improving supervisory convergence

Expanding ESMA's direct supervisory role **could be an important lever** for market integration but it should not distract from targeted reforms or simplification of the EU regulatory framework.

EFSA is in favour of moving towards a **gradual and pragmatic approach** to supervisory harmonisation, one that respects national specificities and leverages **the expertise of NCAs**, who have in-depth knowledge of local markets.

Such supervisory harmonisation should rely on closer convergence of practices among NCAs. This would help prevent inconsistent interpretations, gold-plating, and weak enforcement of rules.

Another area where the role of the ESAs is critical is in ensuring supervisory convergence and consistent enforcement across Member States. In due time, and based on a thorough process, this calls for a single rule book as already known for EU banking legislation. And this calls for greater powers for ESMA, in particular when it comes to the supervision of infrastructure entities that deliver services critical for the entire Union but reside under local supervision.

EFSA considers that in order to increase supervisory convergence, existing tools (e.g. the breach of Union law procedure) need to be utilised more effectively. To that end, a reform of ESMA's governance is a key prerequisite to overcome national interests and enhance the independence and agility of ESMA's decision-making process.

EFSA hence considers as equally important to reform ESMA in several areas in order to build confidence:

- **Revising ESMA's regulatory mandate to explicitly incorporate the objective of promoting the competitiveness of financial markets** in the ESAs Regulation[7] (Article 1.5). This would empower ESMA to consider competitive impacts in rulemaking within the EU and in relation to global markets.

- **Broadening the scope of the no-action letter**, similar to those of the US SEC or UK FCA. This tool is essential for managing outdated or misaligned rules in a fast-evolving regulatory environment.

- **Deepening ESMA's engagement with market participants** by reinforcing its consultation mechanisms. This includes systematic engagement with stakeholders ahead of Level 2 and Level 3 texts, ensuring more frequent meetings of Standing Committees, and systematically seeking industry insights through written public consultations on key topics.

- **Enhancing staff knowledge of capital markets functioning through the introduction of targeted recruitment schemes:** facilitate secondments from NCAs and establish a certain turn-over between ESMA and the private sector, to improve the operational market knowledge of ESMA's staff. This should be done with **robust conflict-of-interest safeguards**, drawing on best practices from jurisdictions such as the UK and the US.

Conclusion

EFSA calls on the European Commission to adopt a pragmatic and proportionate approach in its efforts to deepen EU capital markets integration. Success will depend not only on legislative ambition, but on prioritised reforms, effective enforcement, and a genuine engagement with market realities. By focusing on what delivers measurable improvements for issuers, investors and intermediaries alike, the Union can create a financial ecosystem that is more attractive, efficient and globally competitive.

[7] ESAs Regulation