Advancing Capital Markets Union and Building Savings and Investments Union: Pan-European Integration and EU Regional Capital Markets Growth

Polish Capital, Banking and Insurance Market Institutions
on European Capital Market Development

Position Paper

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Summary

This paper has been prepared by financial market organizations and capital market infrastructure institutions in Poland. The working group included the Association of Individual Investors (SII), Association of Stock Exchange Issuers (SEG), Central Securities Depository of Poland S.A. (KDPW), Chamber of Brokerage Houses (IDM), Chamber of Commerce of Pension Societies (IGTE), Chamber of Fund and Asset Management (IZFiA), Polish Bank Association (ZBP), Polish Chamber of Insurance (PIU), Polish Private Equity and Venture Capital Association (PSIK), and Warsaw Stock Exchange S.A. (GPW).

Recent months have brought a noticeable intensification of the debate on the future of the European financial market, which has gained momentum following the publication of widely discussed reports by Mario Draghi, Enrico Letta, and Christian Noyer, as well as the announcement of the Budapest Declaration by the Council of the EU[1]. The purpose of this paper is to refer to the ongoing discussions on the shape of the European Capital Markets Union (CMU) and the Savings and Investments Union (SIU) from the perspective of smaller markets, including Poland.

The European Union needs efficient access to capital to stimulate innovative and fast-growing enterprises, drive energy and digital transitions, and accelerate infrastructure investments, enabling it to compete with global leaders in development.

Access to capital, measured by the size and depth of capital markets, varies significantly among EU Member States. Therefore, the EU capital market needs to adopt a proper structure to remain competitive with global leaders in financing growth and innovation while also ensuring sources of financing for SMEs, the driving force of Member States' economies. Beyond regulatory changes aimed at strengthening the pan-European wholesale market (top-down), it is essential to introduce initiatives that strengthen regional and local capital markets. These can be supported through business integration and collaboration (bottom-up), complemented by a proportionate regulatory approach.

Regional and local capital markets provide most financing for SMEs, which account for a significant part of GDP and employment in EU Member States. Regional and local capital

[1] Draghi, M (2024), *The Future of European Competitiveness*
Letta, E. (2024), *Much More Than Market. Speed, Security, Solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens*
Noyer Ch. et al. (2024), *Developing European Capital Markets to Finance The Future. Proposals for a Savings and Investments Union*
Council of the EU (2024), *Budapest Declaration on the New European Competitiveness Deal*

is the first external investor in SMEs, which is why we need strong regional capital markets and local ecosystems to support innovation and attract global investors.

The objective of regulatory changes in the EU should be to enhance competitiveness; however, new regulations should not compromise the competitive edge of European entities and regional ecosystems. We propose that efforts to deepen the Capital Markets Union and establish the Savings and Investments Union include initiatives aimed at developing regional financial hubs. These hubs should be capable of mutual interoperability and, through economic gravitational pull, would integrate individual European Union regions. This approach would preserve the unique characteristics of local markets and address the specific needs of regional investors.

We present eight proposals for the European capital market as well as banking and insurance markets grounded in the principle of European integration while maintaining the competitive dynamics of regional markets:

1) **Balanced, integrated approach to strengthen both pan-European and regional capital, banking and insurance markets**

   Initiatives for European market integration should address the unique characteristics of regional markets and economies, ensuring balance between strengthening the pan-European capital market and reflecting regional market needs. The proposed regulatory changes should outline their anticipated impact on both the competitiveness and development of EU regional capital, banking and insurance markets, particularly their capacity to finance innovations and meet the financing needs of innovative SMEs. Regulatory changes should take into account the principle of proportionality and support, not hinder, the development of EU regional markets.

2) **Attract household savings to capital markets**

   The total value of EU household financial assets exceeded 34 trillion euros in 2022[2]. Nearly one third of these savings is held in cash and bank deposits and could be partially directed to capital markets, financing investments while giving a chance for higher returns for savers. In our opinion, attracting household savings to capital markets will be challenging unless combined with two key changes: reducing or simplifying regulatory burdens on investment and insurance product distribution, as well as expanding access to simplified investment and savings products with proportionate regulatory requirements. Additionally,

[2] Eurostat (2024), *Financial balance sheets - annual data* [nasa_10_f_bs]

tax incentives, particularly the reduction or elimination of capital gains taxes on long-term investments, could serve as a significant catalyst for retail investors to participate in capital markets.

3) **Develop pension funds and long-term investment products**

The most developed European capital markets operate in countries with well-established capital pension fund systems. Pension funds are key investors than channel capital from households into the capital market. In the area of occupational pension funds and third-pillar pension products, we identify key success factors for financial products, such as tax incentives, auto-enrollment, and life-cycle investments. It is also crucial to strengthen capital-based pension funds within the Funded Defined Contribution (FDC) pillar in EU Member States. Importantly, the stability and permanence of the adopted solutions enhance the sense of security.

4) **Accelerate development of European private equity, venture capital, and private debt**

The development of private equity, venture capital, and private debt markets is essential for financing innovative SMEs in their early stages and facilitating access to broader financing options, including public markets. We support liberating capital of institutional investors, including pension funds and insurance companies, by enabling partial allocation to higher-risk assets. Enhanced capital allocation from pension funds and insurers would allow citizens to earn higher returns through alternative asset investments, such as PE/VC/PD. We advocate removing restrictions on public funding access for PE/VC/PD-backed companies. We believe the key factors to increase insurers', investment funds', and pension funds' involvement in high-risk investments such as PE/VC/PD include expanding their investment limits for those assets and aligning regulations as appropriate for private sector mechanisms.

5) **Simplify regulations and reduce reporting requirements for SMEs**

Streamlined procedures, reduced reporting burdens, simplified regulations, and supervisory convergence would be a crucial step in enhancing the European market’s competitiveness relative to global capital markets. Regulatory simplification in capital raising and listing can improve SMEs’ access to capital market financing while simpler reporting requirements, including non-financial reporting, will reduce indirect listing costs for SMEs.

We fully endorse the "simplification revolution" proposals outlined in the Budapest Declaration, which includes an ambitious target to reduce reporting requirements for listed SMEs by at least 25% in the first half of 2025[3].

6) Enhance financial education and support equity culture

Financial education represents a fundamental component in enhancing awareness of the benefits of investing, including long-term investing, enabling retail investors to make informed financial decisions while strengthening capital, banking and insurance markets. Alongside pan-European financial education initiatives, EU-supported country-specific educational programs should be continuously implemented, tailored to the local environment. Efforts to strengthen the equity investment culture should include comprehensive financial education across all age groups, highlighting both investment risks and the opportunity costs of maintaining long-term savings exclusively in low-yield bank deposits.

7) Foster deeper liquidity pools in lit markets while optimizing post-trading processes built on regional and local markets' needs

Fostering deeper liquidity and enhancing post-transaction process efficiency would reduce transaction costs and improve market accessibility. However, standardization efforts should take into account the specific conditions of regional markets and the ecosystem to preserve stability and competitiveness compared to global players who do not incur many of the development costs. We stress that the frequently raised issue of "fragmentation" in trading mainly concerns trading platforms other than lit markets. A certain level of fragmentation, involving the existence of smaller, local capital markets, is an inherent feature of the European Union, reflecting its diversity and capacity to address local SMEs' financing needs across EU Member States. That said, we endorse initiatives targeting withholding tax and corporate action processing alignment, and expanded post-trading infrastructure (CCP and CSD) accessibility and interoperability, while preserving recognition of regional and local market characteristics.

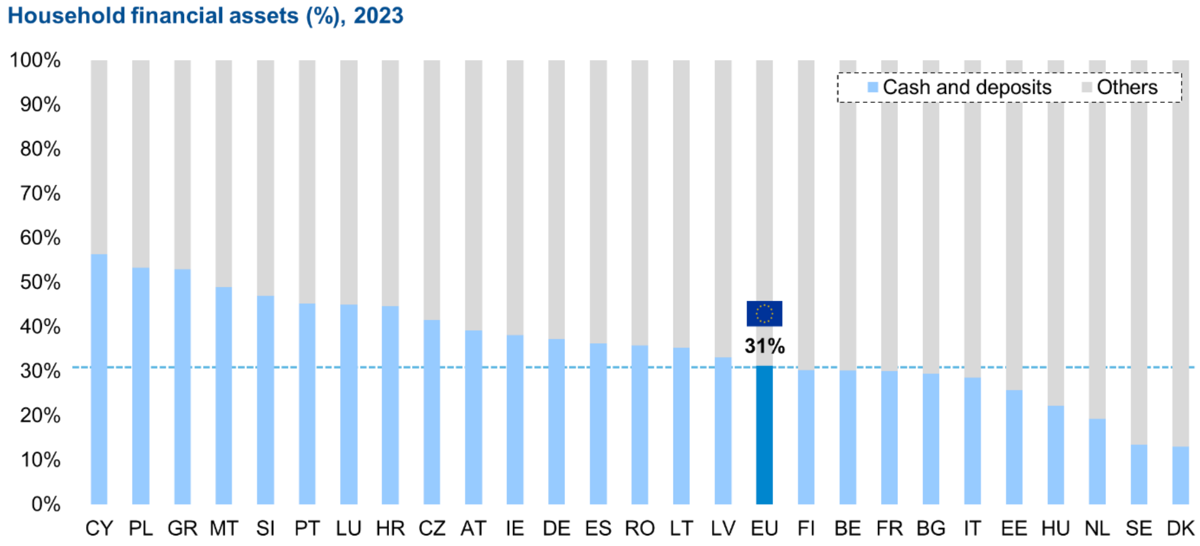
8) Rebuild European investment banking

The reinforcement of European investment banking and revitalization of the securitization market are fundamental for expanding the availability of capital in the European economy.

[3] Council of the EU (2024), *Budapest Declaration on the New European Competitiveness Deal*, p.1: *Key objectives to be implemented by the Commission without delay include making concrete proposals on reducing reporting requirements by at least 25 % in the first half of 2025 and including red-tape and competitiveness impact assessments in its proposals.*

Towards a Savings and Investment Union: Developing Long-Term Investments in European Capital Markets

Building a base of long-term investments is a key driver of the development of capital markets.



Source: Eurostat [nasa_10_f_bs]

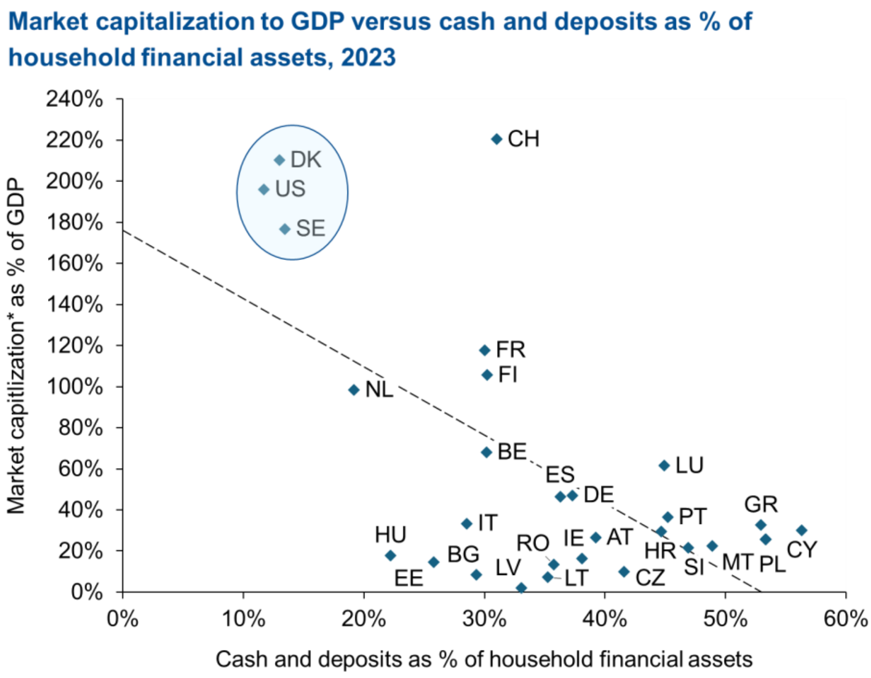
The total value of EU household financial assets in 2023 exceeded 34 trillion euros[4]. However, across numerous EU Member States, a substantial portion of household funds remains in cash or lower-yielding bank accounts. This capital is effectively sidelined from direct financing of investments and innovation, which limits the growth of economic competitiveness. In 2023, an average of 31% of EU household savings were held in cash or bank deposits. Leading European countries as measured by retail investor presence on the capital market, notably Sweden and Denmark, maintain this ratio at approximately 15%. Achieving comparable levels across the EU would unlock significant capital resources for investment and innovation financing.

The Scandinavian model demonstrates that redirecting household savings from bank deposits positively impacts capital market development. Relative to GDP, the scale of capital markets in countries such as Sweden and Denmark is comparable to that of the United States.

The redirection of passively held European household savings could drive increased investment financing across the EU. In our view, a fundamental barrier to converting savings into investments is posed by increasingly restrictive regulatory requirements governing the distribution of retail investment products in capital, banking, and insurance markets. We

[4] Eurostat (2024), *Financial balance sheets - annual data [nasa_10_f_bs]*

support the introduction of simple investment products (simple labelling) under streamlined regulatory frameworks. We advocate for simplifying the distribution mechanisms for existing investment, pension, and insurance products. Current rigid and costly regulatory requirements create substantial entry barriers for retail investors. Additionally, we propose enhancing retail investors' access to SME shares listed across EU markets through improved information accessibility and targeted measures fostering regional market integration.



*Source: Eurostat [nasa_10_f_bs], FESE, Bloomberg, OECD | *As per FESE methodology*

Retail Investment Strategy should aim to simplify regulatory frameworks

We believe that many of the proposed Retail Investment Strategy (RIS) measures introduce additional complexity and bureaucracy into an already comprehensive regulatory framework for investment and insurance product distribution. These actions could result in higher costs of retail product offering. Such an approach will not align with the new European Commission's commitments to reducing bureaucracy and costs for market participants, supporting a simpler regulatory environment, and enhancing the attractiveness of EU financial markets. To address this and support the urgent development of the Savings and Investment Union, RIS must incorporate "competitiveness checks" to achieve its primary goal: facilitating the transition from savers to investors in Europe. RIS implementation requires coordination with strategic investment incentives (e.g. tax measures favoring long-term investments in capital markets over bank deposits) and the development of simple investment products (simple labelling) offered under less rigorous regulatory requirements.

Occupational Pension Funds and Third-Pillar Pension Products

The expansion of pension product offerings at both European and national level presents the optimal mechanism for channeling retail investment into capital markets. However, the current European pension product framework has not achieved its objectives. The Pan-European Personal Pension Product (PEPP), designed to enhance mobility of EU citizens and create an integrated retirement savings market, has faced substantial implementation challenges. Complex regulatory requirements, combined with the presence of more cost-efficient national alternatives, have impeded market penetration among providers and consumers. One year post-launch, PEPP's availability remains limited to a single provider across just four EU Member States (Czech Republic, Slovakia, Croatia, and Poland).

In relation to occupational pension funds and third-pillar pension products, empirical evidence supports promoting solutions that have proved effective in various Member States. To this end, the following should be promoted, among others:

a) Fostering an equity culture among EU citizens that emphasizes the positive impact of risk-taking on long-term investment returns
b) Establishing auto-enrollment frameworks for occupational pension plans with opt-out flexibility to maximize participation rates
c) Implementing life-cycle investment strategies to optimize allocation of retirement savings toward higher-yielding assets
d) Designing flexible payout structures, including lifetime pension payouts, to maintain retiree participation in capital market opportunities
e) Creating comprehensive tax and financial incentive programs, including welcome bonuses and annual contribution bonuses

We emphasize the importance of supporting innovation in pension product development to better address evolving societal needs. Market participants should be enabled to introduce flexible solutions adapted to diverse demographic needs, particularly for groups such as self-employed individuals and younger generations who demonstrate preferences for alternative approaches to saving, contract engagement, and product information access.

Pension funds within Funded Defined Contribution pillar

In addition to occupational pension funds and third-pillar products, development of pension funds within the Funded Defined Contribution pillar could serve as a major catalyst for European capital market advancement. This development could necessitate regulatory incentives to address fiscal implications arising from potential pension contribution transfers from the first pillar (PAYGO) to the Funded Defined Contribution pillar. Such regulatory incentives could be combined with certain investment limits and requirements[5].

The role of financial education

It is essential to prioritize financial education as a cornerstone for promoting long-term saving, particularly through pension, banking and insurance products, and other socially relevant objectives. Administrations, institutions, and market participants are uniquely positioned to educate consumers about retirement saving and long-term investment benefits, leveraging i.a. their access through multiple distribution channels. Financial education represents the fundamental pathway to understanding the benefits of long-term saving and securing financial futures for the working-age population. Well-structured educational programs and targeted information campaigns could strengthen confidence in pension products while enhancing their market appeal.

Development of European Private Equity, Venture Capital, and Private Debt Markets

Unlocking capital from pension systems, banking and insurance industries toward capital markets, including private market segments, would enhance SMEs' financing capacity, accelerate innovation development, and strengthen Europe's competitive positioning globally. Additionally, capital of affluent entrepreneurs and executives should be unlocked, especially within the technology sector, which demonstrates appetite for private fund investments.

US pension funds allocate 11% of their portfolios to private equity, venture capital, and infrastructure funds, exceeding the EU's 2022 allocation of 4.3%, a level primarily concentrated in select markets of private equity investments. Expanding European pension fund allocation to 10% would inject an additional 124 billion euros into this sector, and into European enterprises, calculating at current prices.

Within the insurance sector, allocation to EU-based private equity, venture capital, and infrastructure funds currently stands below 2%. Elevating this allocation to a conservative 5% threshold would mobilize 277 billion euros of investment into the European economy at current prices, while a 7% allocation would yield a 443 billion euros increase from current levels.

[5] Noyer, Ch. et al. (2024), *Developing European Capital Markets to Finance the Future. Proposals for a Savings and Investments Union*, p. 41: *[…] since the goal of these products is to more effectively channel European household savings towards EU investment needs, it seems only logical to set a minimum threshold – of 80% or more – for investment in European assets. On a more general note, it is recommended that any product offering advantageous tax treatment should carry an obligation to invest in European assets.*

PE/VC/PD funds represent important financing channels for SMEs and innovative initiatives. They constitute a natural component of the ecosystem that facilitates the emergence of attractive companies in the public capital market. Consequently, accelerating PE/VC/PD market development should be positioned as a strategic EU priority.

Simplifying Regulations and Reducing Reporting Requirements for Listed SMEs

Initiatives to simplify regulations for SMEs may also be one of the key factors supporting the competitiveness of European Union markets. We commend the prominent attention this issue receives in Mario Draghi's report and its emphasis in the Budapest Declaration. Simplification of regulations is essential not only for expanding capital market-financed companies but also for reducing delisting trends on the regulated market due to excessive reporting requirements and associated costs and risks of liability in case of failure to comply with numerous and complex disclosure obligations.

Previous experience suggests that the approach to SME-focused EU regulation development and implementation should be fundamentally revised. New regulations should be introduced only if essential and those already in force should embody principles of simplicity and proportionality. This is particularly vital for SMEs, which typically lack resources to participate in regulatory development and consultation processes. Consequently, we advocate for EU legislative procedures that mandate consultation with SME associations and affected companies on regulations impacting small and medium-sized enterprises.

We support initiatives aimed at simplifying the prospectus regulations, with particular emphasis on reducing listing burdens and implementing consistent approaches for high-net-worth investors. The Listing Act represents a significant step toward achieving desired regulatory simplifications for issuers. The streamlining of procedures and reporting requirements should include revised exemption thresholds and enhanced voluntary approaches to CSRD requirements for listed SMEs. Establishing an effective stakeholder dialogue mechanism remains essential for reviewing and eliminating redundant regulatory and reporting requirements.

Market Fragmentation in Trading and Post-Trading

Market fragmentation in trading and post-trading services represents a recurring theme in the debate on the competitiveness of the EU capital market.

Analysis of trading service fragmentation reveals that transparent turnover (lit trading) in European capital markets is largely concentrated on the leading platforms. The 2023 trading metrics demonstrate that the five largest market operators in Europe generated over 84% of total EOB turnover, with the top ten entities accounting for 99%[6], indicating a high level of market consolidation (i.e. low fragmentation in the segment of lit trading).

Conversely, significant fragmentation is reported in trading venues other than regulated markets, including dark trading platforms. Currently the ESMA registry shows 163 Multilateral Trading Facilities and 190 Systematic Internalisers operating within the EU[7]. The proportion of dark trading in European equity markets exceeds US levels[8], being also a consequence of regulatory changes over the last two decades. While these entities compete with lit markets through reduced cost structures, this competition often occurs outside a level playing field, as they do not bear many of the costs incurred by regulated markets, such as costs related to attracting new issuers, supervising reporting requirements or creating SME growth markets. Dark trading platforms and other trading venues, where securities are traded without the issuer's consent, operate without these direct and indirect cost burdens, which is a critical factor when evaluating their transactional competitiveness against regulated markets.

We emphasize the significance of the Consolidated Tape Provider (CTP) initiative in giving a unified picture of transparency across trading options. The CT will not, however, address market fragmentation in terms of liquidity pools. The final shape of the CTP will have a significant influence on the role of regulated markets in European equity trading, including regional and local platforms.

With respect to post-trading services, access to global capital for major companies and markets faces no significant constraints, with foreign participant access costs already embedded. CSD fragmentation primarily exists within national European boundaries, contributing to local capital market infrastructure development, particularly in supporting SMEs across regulated markets and other trading venues. Local CSDs deliver substantial value to domestic companies through comprehensive native-language services, including public and private company registration, end-to-end corporate action management, shareholder identification, and shareholders' meeting administration. Furthermore, local CSDs serve a vital

[6] Federation of European Securities Exchanges (2024), *European Equity Market Report 2023, European Market Operators' Electronic Order Book Turnover in 2023*

[7] European Securities and Markets Authority (2024), *Register of MiFID/UCITS/AIFMD/EUSEF/EUVECA/ECSPR entities* (as of 04/12/2024)

[8] Oxera (2021), *The landscape for European equity trading and liquidity*

educational function for issuers about fulfilling their obligations and provide enhanced accessibility for issuers in their service process.

Reducing barriers to foreign investor access to local post-trading markets requires comprehensive regulatory coherence and operational process standardization to optimize cross-border transaction efficiency among CSDs and their participants. We endorse initiatives targeting tax regulation and corporate action processing alignment, elimination of regulatory barriers for EU company servicing by individual CSDs, and expanded post-trading infrastructure (CCP and CSD) accessibility and interoperability, while preserving recognition of regional and local market characteristics.

In this context, withholding tax processing alignment could have a positive impact by reducing cross-border trading barriers and increasing the appeal of regional and local capital markets. Eliminating disparities across withholding tax systems would improve investor protection transparency and enable more accurate assessment of investment implications. The FASTER Directive marks a significant advancement toward tax processing harmonization across EU Member States.

Looking at the European post-trade structure, it is important to note that 16 out of 34 CSDs are operating within 4 capital groups, jointly accounting for 96% of European market capitalization and 96% of settlement instructions in 2022. Further regulation alignment and post-trading standardization in the EU will accelerate integration among these major CSD groups and other depositories, especially TARGET2-Securities participants, yielding improved operational efficiency and reduced cross-border settlement and service costs for foreign investors.

Rebuilding European Investment Banking

According to the principles of the Capital Markets Union, stimulating European economic growth and enterprise modernization requires expanded capital market financing and reduced dependence on bank funding. However, the fundamental role of banks as public trust institutions, operating under a depositor guarantee regime, requires strict regulatory compliance and constrains activities to savings consolidation and transition into enterprise loans with prudent risk management.

In view of the above, we stress the need to rebuild European investment banking. One of the key initiatives is the revitalization of the securitization market, which would require specific regulatory reforms. Additionally, thorough examination is needed of European entities' diminishing share in trading, market making, and investment services compared to global and non-EU competitors over the past decade. Enhanced European investment banking, accelerated development of European asset management and financial planning services, would also support the general objective of building the Savings and Investment Union.

In presenting the above proposals, we emphasize that regional and local capital markets serve as a vital source of financing for innovative small and medium-sized enterprises, which represent a crucial component of the EU’s global economic competitiveness. **Strong regional markets within the European Union contribute to the Union's overall strength.**

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