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Policy Brief #4

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Beyond National Silos: Why Europe Needs a Stronger Common Framework for Capital Markets Supervision

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Beyond National Silos: Why Europe Needs a Stronger Common Framework for Capital Markets Supervision

Turning the Savings and Investments Union into a Functioning Single Market

Executive summary

On 9 October 2026, EU finance ministers reached political agreement on the key elements of the Council's negotiating position on the Market Integration and Supervision Package (MISP). The package combines measures against cross-border barriers, including on asset management, the depositary passport and the distributed-ledger technology (DLT) pilot regime, with a stronger role for the European Securities and Markets Authority (ESMA) in supervising the most significant cross-border market operators. The text must still be finalised and formally adopted; negotiations with the European Parliament can begin once Parliament has adopted its own position.

This paper asks whether stronger EU-level supervision can overcome capital-market fragmentation, and what must accompany it. Its answer is conditional: European supervision is necessary but not sufficient. It is most defensible where activity and risk are genuinely cross-border, and it cannot replace legal reform or work without resources and accountability. The paper recommends risk-based criteria for direct ESMA supervision, stronger convergence elsewhere, a targeted programme against legal barriers, and a public dashboard that measures outcomes.

1. The case for integration: Europe's capital markets paradox

Europe saves abundantly but invests unevenly across borders. The Commission's Savings and Investments Union (SIU) strategy of 19 March 2025 starts from this paradox: household savings are large, yet companies, and growing firms in particular, struggle to raise market-based finance at the scale that deeper US capital markets can provide. In 2024, stock-market capitalisation amounted to 73% of EU GDP, against 270% in the United States, according to the Commission's December 2025 package. That figure shows differences in market depth; it does not prove that supervision explains them, since pension systems, corporate structures and bank-based finance also matter. Three problems should therefore be kept apart: insufficient market depth, limited cross-border integration and fragmented supervision. The ECB's 2026 report finds that the quality of euro-area equity-market integration declined between 2022 and the fourth quarter of 2025. It also highlights the geographical allocation of household portfolios: US-issued equities account for 34% of euro-area households' equity holdings, including indirect holdings through investment funds, compared with 35% in domestic equities.

Three arguments justify policy action.

Scale

Fragmented markets limit companies' ability to attract investors across borders and to grow. This matters most for innovative firms, whose intangible assets are hard to finance through bank loans and which need equity investors that a single national market may be too small to supply.

Choice and diversification

Where cross-border investing is costly or legally uncertain, savers and institutions may allocate less capital across borders and hold less diversified portfolios than they could.

Competitiveness

The Draghi report of September 2024 treated deeper capital markets as part of the answer to Europe's investment needs in digital technologies, clean technologies and other strategic sectors.

Integration is thus an instrument, not an objective: reforms should be judged by whether they improve the allocation of capital, not by whether they move powers between institutions. The EU already has a large common rulebook, so the question is what stands between adopting common rules and applying them as one market.

2. Why fragmentation persists

Three causes explain why a common rulebook does not yet add up to a single market.

Divergent national legal frameworks

The IMF's 2025 technical note on the Capital Markets Union lists national differences in securities, corporate, tax and pension law among the main drivers of fragmentation in euro area capital markets. Insolvency illustrates the problem: what an investor recovers when an issuer fails depends on national procedures that few cross-border investors can assess cheaply. Firms adapt products and operations country by country, and the added costs may show up in pricing, reduced service availability or lower cross-border participation. Post-trade arrangements, too, still offer consolidation and efficiency gains. These barriers cannot be removed by supervisory reform alone; addressing them requires targeted legislative and regulatory action at European and national levels.

Fragmented supervision and enforcement

National competent authorities apply most EU legislation within different institutional settings; a 2026 ECB analysis counts 16 distinct set-ups across the Union, with the vast majority of market participants under national oversight. Even where rules are harmonised, divergent interpretations, reporting requirements and enforcement priorities create uncertainty and cost. National supervisors hold local knowledge and relationships that a European authority cannot easily replicate, yet a nationally organised system is poorly placed to see and act on risks that span several jurisdictions, particularly as trading, clearing and settlement concentrate in cross-border groups.

National political incentives.

Member States support a single market in principle while hesitating to transfer authority, staff and fees to a European body. At the ECOFIN meeting of 10 March, some ministers strongly supported an enhanced ESMA role while others favoured supervisory convergence and coordination between national authorities; on 5 May, ministers agreed on the package's objectives but diverged significantly on the level of centralisation and on the scope and design of supervision. Interests differ because

financial centres differ: Euronews reported a proposed compromise leaving certain domestically focused Deutsche Börse venues under national supervision, though the Council's summary does not say how individual venues are treated, and Ireland had reportedly worried that expanded ESMA powers could weaken its financial services centre. Fragmentation thus persists not only because technical obstacles are hard to remove, but because removing them creates winners and losers among institutions and capitals. Any credible reform must therefore be politically ratifiable, which argues for clear criteria and phasing over sweeping transfers.

One distinction governs the rest of this paper: supervisory fragmentation is a problem of institutional coordination; market fragmentation is a broader problem of law, infrastructure, incentives and economic structure. Centralisation should therefore target the barriers it can realistically address, not be offered as a universal remedy.

3. Assessing European-level supervision: what can ESMA deliver?

ESMA directly supervises only a small number of entity types, and its proposed new duties do not extend to market surveillance or issuer oversight. The reform therefore expands European supervision; it does not complete centralisation.

The Commission's proposal of 4 December 2025 would give ESMA direct supervision of significant trading venues, central counterparties (CCPs), central securities depositories (CSDs) and all crypto-asset service providers (CASPs), with a reformed governance structure. The Council's agreement keeps the direction of travel but narrows the proposal:

- Direct supervision covers only the most significant cross-border trading venues and post-trading entities such as CCPs and CSDs, under refined criteria that the Commission must review after two years.
- Only the most significant cross-border CASPs fall under ESMA immediately, not all of them.
- The regime for Pan-European Market Operators (PEMOs) stays voluntary, with broadened eligibility.
- ESMA gets a full-time executive board, and a two-year transition applies to its new responsibilities.

This is the political bargain at the heart of the reform: stronger European oversight within a more differentiated framework. The final text should be consulted for the precise perimeter and for ESMA's resources and funding.

Three criteria assess the proposal :

Consistency

Direct supervision removes the risk that comparable cross-border entities face materially different approaches and gives firms one interlocutor. For CCPs and CSDs, whose difficulties propagate across borders, it is also a financial-stability argument.

Efficiency and scale

A single supervisor can reduce duplication and pool scarce expertise, for example in crypto-assets and market-infrastructure risk. These gains are potential only: whether they lower costs for firms and investors remains to be demonstrated, and the Commission's impact assessment should be tested rather than assumed.

Accountability and proportionality

Concentrating powers in ESMA raises questions about staffing, expertise, transparency and review, as the Council's debate on dividing responsibilities between an executive board and the Board of Supervisors shows. The IMF's 2025 note adds that a safe transition requires attention to supervisory risk tolerance, resources and investor protection.

Four institutional models compare as follows (qualitative judgements, not measurements):

Model	Consistency	Efficiency	Political feasibility	Accountability
Enhanced national coordination	Low	Low	High	High
Common standards and peer review	Medium	Medium	High	High
Hybrid: direct supervision where cross-border risk is material, convergence elsewhere	High where it applies	Medium to high	Medium	Medium
Full centralisation	Highest	Uncertain	Low	Low, unless governance and resources are rebuilt

The hybrid model gives the best balance. European supervision is most defensible where cross-border activity and risk make national supervision structurally insufficient.

4. Policy recommendations: from convergence to effective integration

The recommendations set the scope of European supervision, strengthen convergence beneath it, address the barriers supervision cannot reach and measure outcomes. They are proposals, not existing obligations.

Recommendation 1: Make the scope of direct ESMA supervision risk-based, transparent and reviewable

Lead: European Parliament and Council in negotiations; ESMA on implementation.

The co-legislators should define in law the criteria that bring an entity under direct supervision: cross-border activity, systemic relevance, operational interdependence and the cost of supervisory inconsistency across Member States. Supervision should follow the geography of risk, not the location

of an entity's headquarters, so not every exchange or intermediary belongs under ESMA by default. Because PEMO participation is voluntary, a review clause is essential: an opt-in regime risks adverse selection, with entities choosing the supervisor that suits them, and a perimeter fixed once may stop tracking risk. The Council's two-year review of the trading-venue criteria points in this direction; a formal, evidence-based review should be able to widen or narrow the perimeter.

Recommendation 2: Strengthen convergence for entities that remain under national supervision

Lead: ESMA and national competent authorities.

ESMA should develop common supervisory methodologies, run peer reviews and joint supervisory exercises, and report publicly on remaining differences in implementation, reducing unjustified divergence while preserving national expertise where it adds value. This requires sufficient staff, technical capacity and data access, and a funding model that neither makes ESMA dependent on the firms it supervises nor exposes it to annual disputes over national contributions.

Recommendation 3: Pair supervisory reform with targeted legal integration

Lead: European Commission and Member States.

The Commission should publish a prioritised assessment of the legal barriers that most impede cross-border investment, with quantified cost estimates where robust evidence exists and explicit uncertainty where it does not. Initial priorities should be insolvency procedures, post-trade operations and the cross-border distribution of investment products, subject to that evidence. This is a targeted programme, not a commitment to harmonise every provision of national company or financial law.

Recommendation 4: Publish an annual integration and supervision dashboard

Lead: ESMA and the Commission, reporting to the co-legislators.

The dashboard should track:

- cross-border equity and fund investment within the EU;
- the number and scale of companies accessing market financing across borders;
- compliance costs and processing times for selected cross-border operations;
- differences in supervisory practice and enforcement outcomes; and
- investor complaints, misconduct findings and relevant financial-stability indicators.

The first three indicators measure integration, the fourth supervisory consistency and the fifth safeguards for investors and stability. Definitions should be consistent and baselines set before implementation. Because market conditions also move these indicators, the ex-post evaluation should account for other economic and regulatory developments rather than attribute every change to the reform. No numerical targets are proposed, as they would be arbitrary without evidence.

Indicative sequencing, counted from adoption of the legislation: in the first 12 months, finalise the scope, identify resource needs and set baselines; from 12 to 24 months, operationalise the agreed responsibilities, improve information-sharing and begin work on the priority legal barriers; from 24 to 36 months, evaluate outcomes and adjust the framework on the evidence rather than expanding centralisation automatically.

Conclusion

Stronger EU-level supervision can reduce fragmentation substantially, but only in part. Where financial activity and risk cross borders, a European supervisor removes an important source of divergence, and the Council's agreement signals acceptance of a larger European role for selected cross-border operators; its narrower scope shows the political limits of centralisation. Supervision cannot, however, resolve differences in insolvency, taxation, company law or the availability of investment opportunities.

The analysis therefore rejects two extremes: a predominantly national system regardless of cross-border consequences, and complete centralisation as an end in itself. The phased, risk-based model set out above is the better course.

The Savings and Investments Union will be judged by practical benefits for companies and investors, such as cheaper cross-border financing, more choice for savers and better-protected markets. The test for the final legislation is whether it can show those benefits, and whether it is built to be measured.

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