



THE SIMPLIFICATION OF EU FINANCIAL REGULATION

ANALYSIS OF THE COMPLEXITY OF THE EU REGULATORY FRAMEWORK FOR BANKING AND FINANCE, THE IMPACT ON THE FINANCIAL SYSTEM AND WIDER ECONOMY, AND HOW TO SIMPLIFY IT

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> *This report frames the complexity of EU financial regulation in the context of market outcomes in EU banking, finance, and capital markets; analyses the evolution of this complexity and its main drivers; and outlines some broad principles for the simplification of both the 'stock' of the existing framework and the 'flow' of future initiatives.*

INTRODUCTION

A call to action

Since the global financial crisis, the financial services industry has (with good reason) been subject to extensive regulatory reform. However, the increased volume and complexity of regulation in the EU has reached a point at which the overall burden of regulation imposes significant direct costs and, perhaps more importantly, indirect costs on market activity and the wider economy.

Given the focus across the EU on growth and competitiveness and on building more integrated capital markets, and the important role that the financial sector can play in supporting that growth, there is a strong case for simplifying the rulebook without undermining the core tenets of financial stability, market integrity, and consumer protection.

We think it is important to evaluate the EU regulatory framework in the context of the sort of market outcomes you might hope for under a well designed, robust, and flexible framework. The starting point for this report is our analysis of market outcomes in the EU over the past decade across more than 30 metrics of activity in different sectors of banking, finance, and capital markets. Unfortunately, in most cases these outcomes have not turned out as well as you might have hoped: EU capital markets are smaller relative to GDP than the US and a group of comparable economies in roughly 80% of metrics; the value of activity relative to GDP shrunk in around half of all sectors; and grew more slowly than the US from a lower base in three-quarters of metrics.

While the analysis of these market outcomes focuses primarily on the capital markets, the main principles of our analysis and our main recommendations can be applied to all areas of the financial markets including banking and insurance.

We are not pointing fingers at anyone or blaming the regulatory framework in isolation for these market outcomes. And it is very clear that an extensive amount of work is already underway in the EU to simplify financial regulation. But we need to ask ourselves whether this really is the best possible framework for addressing risk and for enabling investment - and if it isn't (and our analysis suggests that it isn't), what we can do more to make things better.

Done right, a simpler framework would be easier to understand, explain, implement, and supervise - and could lead to better (and stricter) regulation.

The first section of this paper is a short version of the report in eight pages. The second part analyses in more detail how complexity is added at every stage of the rulemaking process in the EU; and what the EU, member states, national supervisors, and the banking and finance industry can do about it.

The challenges that this paper identifies cannot be solved overnight, and we do not have all the answers, but we hope our paper provides useful insights and encourages a productive debate. We would like to thank the more than 30 organisations who shared their views and insights with us, and the Danish Ministry of Economic Affairs for their feedback and support of this project.

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EXECUTIVE SUMMARY

Here is a 10-point summary of this paper:

- 1. The context:** reforms since the global financial crisis have made the EU financial system much stronger. It has weathered many market events in the past decade - from the fallout from the euro crisis to Brexit, Covid, the Russian invasion of Ukraine, and the 2023 'mini' banking crisis. But given the renewed focus across the EU on growth and competitiveness, and the important role that the financial sector can play in supporting that, there is a strong case for simplifying the complex framework of EU financial regulation without undermining the core tenets of financial stability, market integrity, and consumer protection.
- 2. A focus on market outcomes:** our starting point is our analysis of market outcomes in the EU over the past decade across more than 30 metrics of activity in different sectors of banking, finance, and capital markets. EU capital markets are smaller relative to GDP than the US and a group of other comparable economies in roughly 80% of these metrics; the value of activity relative to GDP shrunk in around half of all sectors; and grew more slowly than the US from a lower base in three-quarters of metrics.
- 3. Defining 'complexity' and 'simplification':** we draw a clear distinction between simplification and de-regulation: simplification makes adjustments to formatting, clarity, detail, volume, process; de-regulation lowers or removes substantive requirements on capital, liquidity, resolution, or consumer safeguards.
- 4. The main drivers of complexity:** complexity is added into the EU framework at every stage of the process by all stakeholders through level 1 ambiguity, level 2 proliferation, level 3 expansion, institutional mission creep, silo-based thinking, and national fragmentation. It is a feature of the system, not a bug.
- 5. The increase in complexity:** one way of thinking about the complexity of the EU regulatory framework is to look at the sheer volume of texts across the different levels of legislation and regulation. All in, the formal texts around MiFID II across levels 1, 2, and 3 are longer than most versions of the Bible. MiFID II is just one of the 78 main legal texts covering financial services in the EU.
- 6. The costs of complexity:** the complexity of EU rules for the financial markets has a real-life impact in terms of the direct costs (on regulators and supervisors as well as market participants) and indirect opportunity costs (on activity, growth, competition, competitiveness, and innovation) that it creates.
- 7. Better problem statements at the 'level 0':** we propose to upgrade existing inception impact assessments to include clearer statements on the principles of any piece of financial regulation that focus on what the problem is it is trying to solve, what the sort of market outcomes are that successful implementation would deliver, and why existing rules are insufficient to achieve these outcomes.
- 8. Recommendations to simplify the existing rulebook:** simplifying the existing rulebook for financial markets in the EU is much easier said than done. However, we outline three broad principles that EU policymakers could follow in tackling this challenge including establishing a structured and thematic review process; setting clear objectives; and identifying a few "big hitters".
- 9. Recommendations to simplify the creation of future rules :** the cumulative effects of small, sensible steps to tweak, streamline, and simplify the creation of future EU financial regulation could over time be significant. We make 10 recommendations ranging from strengthening clarity and problem definition at level 1; improving impact assessments across all levels; limiting over-prescription at levels 2 and 3; better coordinating timing; promoting cross-sector, cross-rule, and cross-border consistency; and embedding simplification into regulatory culture and incentives.
- 10. Reducing complexity from the bottom up:** we end our paper with a selection of questions for individual member states, finance ministries, and national supervisors to encourage debate about what measures they could take on their own to create a simpler, more efficient rulebook in the EU.

MEASURING MARKET OUTCOMES IN THE EU

Fig.1 (Un)intended consequences

This table shows a summary of the depth of 25 different sectors of banking, finance, and capital markets in the EU and how they performed from 2014 to 2024 (or 2023 where data is not yet available). Red shows a negative outcome, green shows a positive outcome. We compared i) the depth of EU capital markets with the US and a basket of developed economies (UK, Australia, Canada, Japan, and Switzerland) ii) growth in activity in the EU in real terms and relative to GDP and iii) the rate of growth in EU capital markets over the past decade versus growth in the US and in the basket of selected markets.

Metric	Depth		Growth		Relative growth	
	Depth vs US today	Depth vs basket today	Real growth in past decade	Growth vs GDP	Growth vs US	Growth vs basket
Pools of capital						
Pension assets	✗ 20%	✗ 31%	✓ 16%	✓	✗	✓
Insurance assets	✓ 122%	✗ 81%	✗ -10%	✗	✗	✓
Household financial assets	✗ 50%	✗ 68%	✓ 7%	✓	✗	✓
Retail investment assets	✗ 25%	✗ 73%	✓ 7%	✓	✗	✓
Cash deposits	✓ 128%	✗ 58%	✓ 5%	✓	✗	✓
Equity markets						
Stock market value	✗ 31%	✗ 44%	✓ 11%	✓	✗	✓
All equity issuance	✗ 61%	✗ 46%	✗ -68%	✗	✗	✗
IPOs	✗ 80%	✗ 60%	✗ -61%	✗	✓	✓
Equity trading	✗ 54%	✓ 103%	✗ -0.4%	✗	✗	✗
Debt capital markets						
Value of corporate bond market	✗ 36%	✗ 59%	✓ 8%	✓	✗	✓
Corporate bond issuance	✗ 65%	✗ 68%	✗ -21%	✗	✗	✗
High-yield bond issuance	✗ 61%	✓ 113%	✗ -38%	✗	✓	✓
Securitisation outstanding	✗ 9%	✗ 83%	✗ -50%	✗	✗	✗
Securitisation issuance	✗ 7%	✗ 33%	✗ -69%	✗	✗	✗
Leveraged loans	✗ 28%	✗ 88%	✓ 15%	✓	✓	✓
Bank lending						
Bank assets	✓ 269%	✗ 80%	✗ -15%	✗	✗	✗
Stock of bank lending to companies	✓ 339%	✓ 101%	✗ -18%	✗	✗	✗
Flow of net lending to companies	✓ 1,669%	✗ 82%	✗ -9%	✗	✗	✓
Private markets & venture capital						
Private credit	✗ 12%	✗ 31%	✓ 53%	✓	✓	✓
Private equity fundraising	✗ 33%	✗ 55%	✓ 150%	✓	✓	✓
Private equity activity	✗ 28%	✗ 42%	✗ -13%	✗	✗	✗
Venture capital activity	✗ 25%	✗ 61%	✓ 288%	✓	✓	✗
Early-stage investment	✗ 28%	✗ 62%	✓ 547%	✓	✓	✗
Corporate activity						
All M&A	✗ 51%	✗ 61%	✗ -8%	✗	✗	✗
Domestic M&A	✗ 35%	✗ 56%	✓ 3%	✓	✗	✗
Number of ✗ negative / ✓ positive	20 / 5	22 / 3	13 / 12	13 / 12	18 / 7	12 / 13

Note: for more details on sourcing and methodology see [page 21](#)

SUMMARY: MARKET OUTCOMES IN THE EU (I)

A closer look

Here is a summary of the key findings from our analysis of the depth and performance of EU banking, finance, and capital markets across the three broad areas of i) depth ii) growth over the past decade and iii) relative growth over the past decade. In total, we analysed activity in 31 different segments, and compared activity in the three years to the end of 2024 with the three years to the end of 2014.

1) Depth: are EU capital markets deeper than...

...the US?

Yes

21%

No

79%

...comparable markets?

11%

89%

What we measured: for each metric we measured the average value of activity in the three years to the end of 2024 and converted it into a percentage of average GDP. This shows the 'depth' of activity in the EU compared with the US and a basket of comparable economies.

What we found: in nearly 80% of metrics, activity in the EU is less developed than in US and in nearly 90% of sectors activity is less developed than in the basket of comparable developed economies. The majority of sectors where activity in the EU is deeper than in the US is in areas where you might not necessarily want it to be: cash deposits in the EU are about a quarter bigger relative to GDP than in the US, the stock of bank lending to companies is more than three times as large, and the net flow of bank lending is more than 16 times as big.

Pools of long-term capital are much smaller in the EU than in the US: pensions assets are just one-fifth as large relative to GDP, retail investment just a quarter the size of the US, and household financial assets half as big. Equity markets and bond markets are around half as deep as in the US, while venture capital and private markets are less than a third as developed.

2) Growth: has EU activity grown...

...in real terms?

42%

58%

...relative to GDP?

42%

58%

What we measured: for each metric we measured the growth in activity in real terms over the past decade and growth relative to GDP (in other words, has activity got 'deeper' over the past decade).

What we found: in more than half of the sectors activity shrunk in real terms and shrunk relative to GDP over the past decade (in other words, activity has gone backwards over the past 10 years).

In positive news, four of the five measures of pools of capital grew in real terms and relative to GDP. Activity in private markets grew in real terms and relative to GDP in four out of five sectors. Most notably, venture capital investment in the EU nearly tripled and wider early stage investment grew more than fivefold - although they started from a low base.

In less positive news, most metrics under equity markets and corporate bond markets shrunk, suggesting that they have not stepped up to replace the decline in bank lending.

3) Relative growth: has EU activity grown faster than...

...the US?

29%

71%

...comparable markets?

46%

54%

What we measured: we measured the absolute growth of activity over the past decade in the EU and compared it with the rate of growth in the US and in comparable economies.

What we found: activity in the EU grew at a slower rate than in the US in nearly three quarters of metrics (often from a much lower base) but broadly kept pace with the rate of growth in other markets.

All five metrics under pools of capital grew at a slower rate than in the US over the past decade (in other words, the gap between the EU and US is getting wider) although they all grew at a faster rate than in other comparable markets. The majority of segments of equity markets and corporate bond markets grew at a slower rate than the US. In more positive news, most segments of private markets and venture capital grew at a faster rate than in the US (though it is worth noting that they started from a lower base and that venture capital and early-stage investment grew at a slower rate than in comparable developed economies).

SUMMARY: MARKET OUTCOMES IN THE EU (II)

A cumulative impact

The low level of development and poor relative performance in most of the sectors of EU banking, finance, and capital markets over the past decade is not something that can be specifically blamed on the complexity of the regulatory framework. But the regulatory framework should be evaluated in the context of market outcomes, investment, growth, and competitiveness.

Desirable outcomes: the main objectives of EU regulation in banking, finance, and capital markets over the past decade have been to boost financial stability and resilience, improve transparency, and protect investors. While the EU financial system is clearly stronger, more resilient, and more transparent than before, it is not always clear how to reconcile this progress with the EU's wider ambitions of supporting growth, investment, and competitiveness across the wider economy.

Some of the desired outcomes that you might hope for under a robust framework might include: an increase in the flow of capital raising and borrowing by EU companies - particularly risk capital for high growth companies; a shift in the balance between bank lending and market financing; progress towards more integrated capital markets; and a gradual increase in the value of pensions and investment funds. These outcomes combined would all contribute to higher investment, productivity, and growth in the economy.

Actual outcomes: the actual outcomes in EU markets in the decade to 2024 have been disappointing. EU capital markets are smaller relative to GDP than in the US or a basket of comparable economies (the UK, Australia, Canada, Japan, and Switzerland) in roughly 80% of the metrics we analysed (and in many cases significantly less developed). The value of activity declined in real terms and shrunk relative to GDP in over half of sectors. Over the past decade, the rate of growth (often from a much lower base) has been lower than in the US in three-quarters of metrics, although it has been roughly in line with growth in comparable economies. This shows that a) there is plenty of work ahead to build bigger and better capital markets in the EU and b) that the EU economy will be dependent on bank savings and bank lending for the foreseeable future. In each case it is important to ensure that the EU has an appropriate framework.

Unintended consequences: the low level of development of EU capital markets and low relative growth has real-world consequences. When you compare capital markets in the EU with other economies, you get a sense that the long-term health of the EU economy and the future prosperity of its citizens are falling behind. For example, pools of long-term capital are in aggregate much less developed and growing more slowly than in the US, which reduces the amount of capital that could be put to work in the EU economy and lowers the long-term prosperity of the EU.

Of course, there are many different factors that contribute to these market outcomes in the EU and other economies that are beyond the scope of this report. And the complexity of the regulatory framework and process for banking and finance would be a less significant problem if markets were more developed (the structure of financial regulation in the US is very complex and there are growing calls to simplify the US framework). Even within the EU, there is a wide range in the depth of capital markets, in the balance between savings and investments, and between bank lending and market-based financing (with markets like Sweden, the Netherlands, and Denmark leading the way) which suggests that the development of capital markets is as much a member state issue at the national level as an EU one.

But at a time when the EU economy needs all the help it can get it is important to evaluate whether and how the complexity of EU financial regulation may have contributed to these outcomes. This also provides a lens to help connect 'simplification' with improving competitiveness, boosting investment, and supporting growth to ensure that simplification does not become a technical exercise or an end in itself.

BETTER PROBLEM STATEMENTS AT THE 'LEVEL 0'

Introducing more structure and clear principles

A huge amount of work is already underway in the EU to simplify its rulebook in all areas of the economy including the financial markets. In response to calls from the European Council for a 'simplification' revolution, the current European Commission has a dedicated Commissioner tasked with overseeing and coordinating the simplification process; ESMA has launched a data strategy to reduce duplication and improve timing and coordination; the EBA has established a simplification taskforce; EIOPA is reducing the volume of prudential reporting; and DG FISMA is reviewing the relevance of upcoming level 2 measures and has pressed pause on nearly one-third of them.

There is a real need to simplify EU financial regulation through more discipline and focus across levels 1 to 3, but we think it is even more important to get more clarity at the beginning of the process at the 'level 0' on i) whether a new rule is necessary in the first place and ii) how this rule can then be developed and implemented as simply as possible considering other already existing regulations. The Commission already prepares 'inception impact assessments' that aim to provide this clarity, but we received near universal feedback from market participants that in many cases it still is not clear (enough) what new rules are trying to achieve and how they will interact with the existing framework.

We propose to upgrade these inception impact assessments to include a much clearer statement on the principles of any piece of financial regulation that really focuses on what the problem is it is trying to solve, what the sort of market outcomes are that successful implementation would deliver, and why existing rules and measures are insufficient to achieve these outcomes. This can ensure simpler and more effective new rules, reduce overlaps and contradictions, and achieve better timing and sequencing. Co-legislators, ESAs, and other stakeholders would be invited to share feedback on and discuss these principles. Upgraded inception impact assessments should also indicate a true openness *not* to introduce new rules if their benefits are not crystal clear (in theory, this is already the case today but in practice it is very rare for the Commission not to continue working on a proposal after an inception impact assessment).

Here are some suggested questions that upgraded inception impact assessments could address:

- 1) What is the overall objective of this measure?** A clearer problem statement including what a measure is aiming to achieve would better help guide the drafting of any legal texts and steer level 2 and 3 negotiations, changes, and technical standards. It would also enable stakeholders to better understand the purpose of new rules and help them suggest different, perhaps simpler ways of achieving objectives. (And the answer to this question cannot (only) be: 'to regulate a market segment or activity that was not regulated before'...)
- 2) What sort of market outcomes could this measure help deliver?** A best guess on the change in market activity - with potentially the inclusion of which market outcomes the Commission is going to use to measure progress of this particular measure. ('We think this measure will encourage more European companies to go public and lead to a reduction in the number of companies choosing to list overseas or to delist.')
- 3) Which other existing rules does this measure touch?** Better coordination between different rules and frameworks (think, for example, GDPR and AI) would help identify overlaps or might even make the introduction of new rules unnecessary if existing rules are identified that can be used to meet stated objectives.
- 4) How does this measure relate to other planned future rules?** This would help policymakers sequence incoming new rules better (to avoid a repeat of the problem that was created when SFDR was introduced before CSRD) and enable market participants to better prepare for their implementation.
- 5) What existing data points and disclosures could be used?** Too often different authorities and different rules ask for very similar or even the same data points but in slightly different ways. This question would encourage policymakers to assess how existing data and disclosures could support and inform new rules instead of developing new data asks and reporting requirements.

SUMMARY: SIMPLIFYING EU FINANCIAL REGULATION

Recommendations to simplify the stock of existing EU financial regulation

Simplifying the existing rulebook for financial markets in the EU is much easier said than done. Here are three principles that EU policymakers could follow when trying to tackle this difficult challenge:

- 1) **Establish a structured and thematic review process:** focus more on the 'why' and 'how' to contextualise broader quantitative targets which can be useful but should not be an end in themselves.
- 2) **Set clear objectives to avoid unintended consequences:** test simplification measures against the savings they will generate and how they will help the EU make progress towards more growth and competitiveness.
- 3) **Identify a few 'big hitters':** a good starting point could be to review legislative initiatives that are already underway but have not been implemented yet - and then apply learnings to the existing stock of regulation.

Recommendations to simplify the creation of future EU financial regulation

Here are 10 recommendations to tweak, streamline, and simplify the creation of future EU financial regulation. The cumulative effects of these small, sensible steps could over time be significant:

- 1) **Develop better problem statements at the 'level 0'** through upgraded inception impact assessments that sense check proposals for new rules before work on them fully starts.
- 2) **Strengthen strategic clarity and problem definition at level 1** to enable the Commission to draft a clearer proposal, narrow down what it would like to achieve, better negotiate feedback and changes proposed by Council and Parliament, and give fewer but clearer mandates to ESAs on what to focus on at levels 2 and 3.
- 3) **Improve impact assessments and accountability across all levels** to more realistically measure the impact of final rules after levels 2 and 3 changes in the context of what a piece of regulation is trying to achieve.
- 4) **Limit over-prescription:** clearer problem definition and objectives at level 1 could naturally help reduce the 'scope creep' at levels 2 and 3 and discourage in particular ESAs from drafting an excessive number of technical standards, guidelines, and Q&As.
- 5) **Simplify and shorten technical standards:** every stakeholder involved at the level 2 should aim to go 'back to the roots' and focus on what level 2 is supposed to do: provide short, unambiguous, technical standards.
- 6) **Apply proportionality and competitiveness checks consistently** by all stakeholders across all levels.
- 7) **Coordinate timing and implementation:** clearer sequencing and timing of incoming rules and regulations would ease the implementation burden on market participants and, ideally, better align with business cycles.
- 8) **Promote cross-sector, cross-rule, and cross-border consistency:** the Commission or another suited body should assume a much stronger 'air traffic control' function which would have a definitive overview of what is happening where and when and could advise on where rules overlap or conflict with each other.
- 9) **Enhance coordination and roles across institutions** to implement a 'report once' principle, develop and use shared definitions, and build an overall more harmonised framework.
- 10) **Embed simplification into regulatory culture and incentives:** promote a shift in the EU's regulatory culture towards an approach that is much more focused and nuanced and considers the bigger picture.

A MORE DETAILED ANALYSIS

The first section of this paper is a short version of the report in eight pages. This second part for more motivated readers and policymakers analyses in more detail what we mean by 'complexity' and 'simplification'; how complexity is added at every stage of the policymaking and legislative process in the EU; and what EU, member states, regulators, and the banking and finance industry can do about it.

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DEFINING 'COMPLEXITY' AND 'SIMPLIFICATION'

Fig.2 What do we mean by 'complexity' and 'simplification' in the context of EU financial regulation?



An important distinction

The first step to successfully simplify the EU regulatory framework for banking, finance, and the capital markets is to establish a common definition of what we mean by the concepts of complexity and simplification, and how they relate (or do not relate) to de-regulation. Fig.2 shows our understanding of complexity, simplification, and de-regulation:

- **Complexity:** overlapping, inconsistent, confusing, overly detailed rules, often with unclear purpose and benefit.
- **Simplification:** reducing duplication, redundancy, excessive disclosure asks, and tensions between different levels.
- **De-regulation:** reducing substantial requirements such as on capital, liquidity, resolution, or consumer protection.

There is an argument to be made that simplification and de-regulation are points on a continuum, not binary. One way to sense check whether measures and reforms achieve the aim of simplifying rules without interfering with core objectives could be to introduce case-by-case tests. Asking 'will this change (significantly) affect the substance of the regulation?' can be a high level but simple way of testing whether a change is simplification (if the answer is 'no') or de-regulation (if the answer is 'yes').

We think it is important to move on from a very binary debate (any reform equals de-regulation and is therefore bad, and all regulation is bad so any reform therefore good) to a conversation that is much more nuanced and grown-up. But this report will not be exploring or recommending measures to de-regulate on our definition. The key challenge is to reform the framework without putting resilience at risk: another financial crisis would be really, really expensive.

EXPLAINER: THE EU REGULATORY & LEGISLATIVE PROCESS

Fig.3 A multi-layered process

This simplified flowchart shows how rules and regulations for the financial services industry in the EU are developed, negotiated, agreed, and implemented under the 'Lamfalussy Process' - and how complexity is added into the process at every stage.

Level 1 - directives and regulations ('hard law')

What happens?

- European Commission sets priorities in mission letters for Commissioners and drafts proposals for new rules
- European Commission, European Parliament, and Council of the EU (the co-legislators) reach agreement on key principles, aims, and mandates through the 'trilogue' process to create the final level 1 text

Scope for complexity:

- Commission's impact assessments on initial proposals are often unrealistic
- Commission may add additional complexity to its initial proposal in anticipation of the response of member states or Parliament
- Political negotiations and trade-offs (often under time pressure and in the middle of the night) further expand and complicate level 1 proposals
- Where political agreement cannot be reached, level 1 texts can remain unclear and / or delegate difficult questions to level 2 or 3
- Impact assessments are rarely updated to reflect the final level 1 agreement

Level 2 - technical standards

What happens?

- Commission and ESAs (and soon AMLA) produce more detailed technical standards to clarify and implement level 1 principles
- These take the form of delegated acts or implementing acts
- Parliament and Council have a right to object to delegated acts (but usually don't)

Scope for complexity:

- ESAs may go beyond legal requirements where level 1 text is vague or where political agreement on an issue could not be reached
- Governance model of ESAs and consultations enable individual member states and industry sectors to influence the final outcomes
- MEPs often do not have the resource and capacity to properly scrutinise delegated acts in Parliament
- Level 2 technical standards are sometimes not ready by the time level 1 legislation enters into force

Level 3 - guidelines, opinions, Q&As ('soft law')

What happens?

- ESAs provide additional guidelines, opinions, and Q&As to explain to member states and the industry how to apply the agreed legislation and technical standards
- The ECB and SRB also provide their own guidelines and recommendations

Scope for complexity:

- While guidelines, opinions, and Q&A are officially not legally binding, in many cases most market participants and member states treat them as hard law and de facto regulation
- ESAs may go beyond legal requirements of the level 1 text and agreed level 2 standards, effectively creating 'own initiative' regulation
- Inconsistencies in definitions and requirements between levels 1, 2, and 3 and between different dossiers in similar areas creates complexity

Implementation at a member state level

What happens?

- National competent authorities (NCAs) in individual member states implement, supervise, and enforce
- ESAs and Commission review and enforce implementation by NCAs

Scope for complexity:

- Directives allow NCAs more discretion to implement slightly different versions of the same rules
- Member states may add additional 'gold-plating' to rules or implement rules in (slightly) different ways
- Supervisory expectations and approaches may differ between NCAs based on national needs, frameworks, and culture

A feature, not a bug

Complexity is added into the EU framework for banking, finance, and the capital markets at every stage of the process. This is paper not intended to be a blame game, a critique of the EU, its institutions, its member states, or the European financial services industry; and we are not aiming to identify individual 'culprits'. But with every stakeholder behaving rationally within the context of the existing framework, complexity becomes a feature and not a bug of the EU's unique structure and rulemaking process - and reflects the complex reality of a complex financial sector. Here are some of the main drivers and sources of complexity, ranging from culture and behaviour to the process itself:

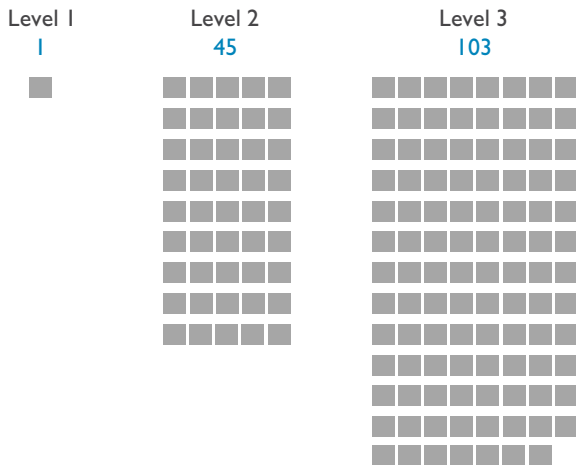
- **Level 1 ambiguity:** in an ideal world, EU co-legislators would develop level 1 regulation with clear aims and mandates. In practice, the reality of multi-stakeholder negotiations often bakes in political compromises and stakeholder demands at this first stage already, leading to broad, sometimes conflicting mandates that make use level 2 and 3 regulation as 'compromise tools' in political negotiations. To make matters worse, after level 1 there is no further comprehensive impact assessment (which would assess the final new rules and incorporate significant changes introduced at level 2 and 3), and less political accountability.
- **Level 2 proliferation:** with level 1 often not clear enough on aims and objectives, level 2 then has the difficult task to fill gaps and clarify ambiguity. While level 2 should focus on implementation and technical standards, the broad and sometimes vague mandates from level 1 can force level 2 to make decisions that really are political in nature (which may raise questions around their overall democratic legitimacy). To 'get it right', there is then often a large volume of level 2 measures adding reporting templates, data points, and requests for frequent updates (even though they were not necessarily outlined at level 1). To outsiders, this can seem like the level 2 focusing on the 'interesting' not the 'necessary'. The long time it takes to develop the level 2 detail creates another problem for market participants which are increasingly often forced to start implementing level 1 regulations when level 2 implementation rules are not ready yet.
- **Level 3 expansion:** guidelines, recommendations, and supervisory expectations issued by ESAs at level 3 can (and often do) exceed original mandates due to level 1 not being clear enough; due to market participants or NCAs asking for more detail and clarification; or because it simply is the job of a rulemaking body to write rules and clarify expectations. While national regulators can decide not to implement these non-binding guidelines, in practice they usually become de facto additional regulation. Market participants, too, have told us that they would never recommend their boards to ignore these guides even though they are intended to be 'soft law'.
- **Institutional 'mission creep':** EU institutions, regulators, and supervisors have responded perfectly well to the incentives that were in front of them after the 2007-2008 global financial crisis, but over the years this has created a culture where more regulation seems to be always the default choice. Each rule and regulation usually is useful, rational, and necessary in its own right. But like the game of Tetris, as more new rules keep coming and layering on top of each other, it becomes harder and harder to fit them together. The prevalent ambition to regulate (seemingly) every detail has led to a large volume of regulation that has become nearly unmanageable and created a slow and complex process where often years pass by before regulatory needs are addressed.
- **Silo-based thinking and sequencing:** every sector of the financial markets has its own legislation, trilogue, and definitions, with level 2 detail written specifically for individual pieces of level 1 regulations, all happening in a linear fashion ('do regulation X and then move on to doing regulation Y'). This leads to difference in definitions and duplication of reporting requirements.
- **Gold-plating and national fragmentation:** member states often add extra national requirements when implementing EU rules, either by design (gold-plating) or accidentally (through translation errors), creating inconsistent rules across the EU's 27 jurisdictions.

THE INCREASE IN COMPLEXITY

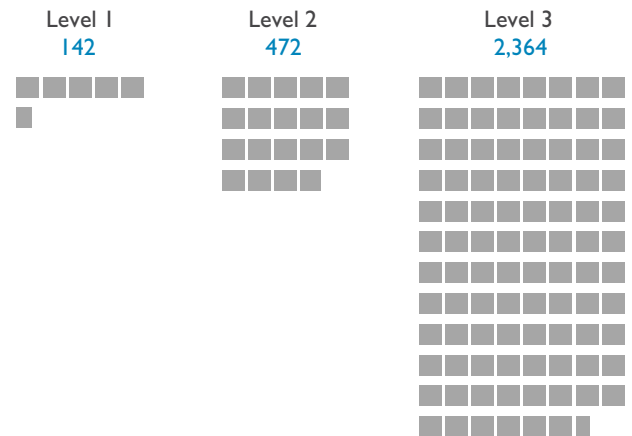
Fig.4 The exponential increase in the volume of regulation between levels 1, 2, and 3

This chart shows the volume of regulation in terms of i) the number of documents and ii) the number of pages for MiFID II, the EU's second Markets in Financial Instruments Directive.

i) Number of documents (■ = 1 document)



ii) Number of pages (■ = 25 pages)



Source: New Financial analysis of data from the European Commission

A biblical scale

One way of thinking about the complexity of the EU regulatory framework is to look at the sheer volume of financial regulation across the different areas and levels of legislation. We are currently trying to map the entire rulebook for financial services in the EU and our best estimate so far is that there are: 78 level 1 texts, 742 level 2 measures, and 785 level 3 measures (a total of over 1,600 documents). This adds up to 40,200 pages (94,100 including annexes) and a total of 1.6 million words. The chart above zooms in on MiFID II, one of the main directives covering investment firms and securities trading, and shows the number of documents and pages across levels 1, 2, and 3. It is important to note that MiFID II is just one of the 78 level 1 texts covering the main areas of EU financial regulation.

The main level 1 legislative text for MiFID II is 142 pages long, has 97 articles covering specific aspects of the legislation (plus four annexes), and adds up to nearly 57,500 words - not unreasonable for such an important text in a complex field. However, we counted a further 45 level 2 measures under MiFID II (including amendments to previous level 2 measures) which add up to 472 pages and roughly 189,000 words. And then we identified at least 103 additional level 3 measures (such as guidelines and opinions) which contained more than 2,350 pages with nearly 950,000 words. All in, the formal texts around MiFID II add up to 149 different documents, with more than 2,975 pages and just under 1.2 million words. To put that in perspective, most versions of the Bible run to about 750,000 words, and Marcel Proust's *À la recherche du temps perdu* contains about 1.25 million words.

This analysis excludes the dozens of consultations, reports, and reviews from the European Commission and ESMA across levels 1, 2, and 3 of MiFID II (which usually include 25 to 75 pages). It also excludes the regulatory texts and reports published by national supervisors in individual member states in implementing MiFID II. This provides scope for additional complexity: when EU directives are implemented, member states in every corner of the EU often impose additional burdens - a process known as 'gold-plating'. While it is difficult to quantify the extent of gold-plating across the EU, a [recent research report](#) by the CFA Society in Poland listed more than 210 specific examples of gold-plating in capital markets law from just nine EU member states, with some countries more prone to it than others. The resulting fragmentation makes it more complex and more costly for businesses to operate across the EU.

HOW DIFFERENT STAKEHOLDERS ADD COMPLEXITY

Everyone, everywhere, all at once

Different stakeholders add complexity in different ways for different reasons. It is probably fair to say that nobody actively *wants* to make the EU regulatory framework for the financial markets more complex, but through the process that exists within the EU and the many stakeholder that it involves, complexity is almost an inevitable outcome. Not everyone will agree with every point that we make on this page but here is a simplified overview of a few examples of how and why different stakeholders add complexity even when they act as rationally as possible:

European Commission

How: by trying to anticipate responses from Parliament and Council (formed of 27 member states with 27 different views) and proposing level 1 regulations that already include compromises and complexity; or by offloading politically challenging questions to levels 2 and 3 or through the frequent use of automatic review clauses.

Why: to facilitate quicker agreement of proposals at level 1.

Council of the European Union / EU member states

How: by securing amendments to, exceptions from, or additions to rules and frameworks in political negotiations, often late at night and in exchange for something else in another section of the text (or even in entirely different, unrelated files); or by gold-plating rules when implementing directives in member states' own jurisdictions.

Why: to reflect (and protect) national markets, frameworks, regulations, culture, and political views and debates.

European Parliament

How: by adding amendments and exceptions to level 1 proposals and often *not* making use of its ability to object to excessive or overly cumbersome level 2 measures.

Why: the politics of the European Parliament; a lack of time and capacity (between 2019 and 2023, the ECON Committee was asked to scrutinise 193 delegated acts - over three per month...).

European Supervisory Authorities (ESAs)

How: by adding (too much) detail and going beyond the (often unclear) objective, remit, and mandates from level 1 when drafting technical standards at level 2 or Q&As, guides, and guidelines at level 3.

Why: to address ambiguity, fill gaps, and respond to calls for clarification from national authorities and market participants.

National Competent Authorities (NCAs)

How: by adapting their approach to regulation and supervision to local market dynamics and then being unable to defer regulation and supervision of entities to authorities in other member states because they do the same thing slightly differently.

Why: to address their statutory objectives of stability, market integrity, and consumer protection in the best way possible based on national needs, frameworks, and culture.

Financial services industry

How: by asking for too many things at once (there are nearly 2,700 organisations with an interest in banking and finance listed in the EU transparency register), lobbying national governments and regulators for one thing and EU institutions for another, and sometimes contradicting itself ('we want principles based legislation but also want to be told exactly what we need to do'); or by over-complying with rules.

Why: if the industry expects complex, detailed, and burdensome rules, it will ask for exceptions and carve-outs, making the framework even more complex and detailed.

A real-world impact

The complexity of the EU framework for the financial markets has a real-life impact in terms of the direct and indirect opportunity costs that it creates. While it is virtually impossible to build a comprehensive dataset of the total costs across the EU, here is a headline overview of the direct costs of complexity on supervisors and market participants:

- **Supervisory cost and resources:** there is a direct impact on the ability of NCAs in the EU to efficiently regulate and supervise the markets. In particular smaller member states' NCAs are increasingly feeling the pressure of not having enough resource to follow, assess, and adequately implement all legal texts and changes. Not every NCA has the capacity to actively participate in all of the roughly 200 working groups by the ESAs. And in a [letter to the chairs of the ESAs](#) last year, the Nordic NCAs estimated the cost for the IT development for the European Single Access Point (ESAP) to be €3-6m per authority (!) when the initial estimated cost from the Commission's impact assessment was €50,000.
- **Industry & customer cost and resources:** complexity increases compliance costs as firms need more staff, technology investments, and IT upgrades to comply with the regulatory framework. Overlapping reporting requirements, for example, increase costs as each required report needs its own development, testing, rollout, maintenance, and IT connections with supervisors. A large volume of meetings with supervisors, examinations, and data requests often involve senior management and frontline executives. While it is difficult to quantify these costs across the European financial services industry, the ECB's spending on supervision was €681m in 2024 (+27% since 2020), while the combined budget of the ESAs increased by 30% to €165m over the same period. This increase will have been amplified across the financial services industry, and these additional costs will have been passed on to customers in the real economy.

Impact assessments in theory are a good way to estimate costs before implementing new rules, but currently in the EU process impact assessments are done at the level 1, and not updated after level 2 and 3 if significant changes and clarifications have been made, meaning that assessments do not capture the bulk of complexity that is being added.

An even bigger problem are the indirect, opportunity costs of a complex framework. A simpler regulatory regime on its own is not enough to magically create deep, liquid, effective, and competitive capital markets, but complexity is acting as a drag on activity, growth, competition, innovation, and ultimately European competitiveness through:

- **Raising barriers to entry and growth:** new firms with innovative ideas might launch or scale their businesses in jurisdictions outside of the EU with less complex and burdensome rules, or - after starting in one EU member state - might struggle to enter another member state with their business models because slightly different rules apply and cross-border activity is more complicated than it should be.
- **Reducing competition:** the complexity of framework and process means that 'smaller' firms (which may well be big firms in smaller member states) do not always have the resource and capacity to track ongoing legislative initiatives which puts them at a competitive disadvantage in relation to their bigger peers.
- **Stifling competitiveness and innovation:** a too complex web of rules creates an opportunity cost on market activity, growth, and participation when firms spend their limited resources on compliance and IT upgrades instead of product innovation and serving their clients and the real economy better. This contradicts the EU's stated aim to boost economic growth and increase its global competitiveness. The market outcomes that we outlined [earlier in this paper](#) cannot be specifically blamed on the EU regulatory framework, but the way it has been designed, implemented, and expanded has played a role.

At the same time, another financial crisis would be even more expensive. The key challenge is to reform the framework without putting core objectives such as capital, liquidity, resolution, and consumer protection at risk.

Recommendations to simplify the stock of existing EU financial regulation

The work done by the EU in the last decade or so has resulted in a hugely complex rulebook for the financial markets. Every stakeholder in this debate agrees in principle that simplification efforts by the EU should focus on the existing stock of financial regulation too. But this is much easier said than done, and when pressed for specific examples of how to do this, many experts in supervisory authorities and the industry became surprisingly shy. Realistically it may not be feasible to comprehensively simplify the stock of existing EU financial regulation - but here are three principles that EU policymakers could follow when trying to tackle this difficult challenge:

1) Establish a structured and thematic review process: quantitative targets ('we're cutting X% of data reporting requirements') can be a useful north star but on their own do not necessarily help in simplifying the existing rulebook and could make things worse by cutting the wrong sections and having a negative impact on the consistency and coherence of the framework as a whole. A thematic omnibus approach that establishes i) where there are duplications ii) where there are differences in definitions iii) where there are provisions that are no longer needed iv) how changes in one text interact with other texts (for example how changes of rules for funds would affect distribution legislation) v) how these changes would help deliver more positive market outcomes and increase the EU's competitiveness without affecting the core objectives of regulation could be much more useful in identifying areas for simplification. The use of artificial intelligence and large language models could support the more manual tasks, for example when it comes to identifying duplications, differences in definitions, and interconnections between rules.

2) Set clear objectives to avoid unintended consequences: every change of existing rules (even if it is something as 'simple' as an operational reporting template) has to be agreed by all relevant stakeholders in the process and implemented by market participants, ESAs, and NCAs leading to another round of extra negotiations, extra efforts, and extra costs. There is an additional risk that wanting to make a few small tweaks in texts here and there might lead to opening a can of worms and inviting stakeholders to using this opportunity to address all the other bits and pieces of a text that they do not like.

Any measure to simplify the existing rulebook should be tested against the level of savings it will generate (factoring in any new implementation costs), and whether and how it will help the EU make progress towards more growth and competitiveness. In some cases the results of this test may be that it would be better to leave rules as they are and accept the sunken costs. In others, the test could help identify which bits of a rule (and other, interconnected rules) are worth tweaking and ensure co-legislators and other stakeholders focus on what is necessary not what is interesting in the simplification process.

3) Identify a few 'big hitters': instead of trying to do everything at once it would be useful for the Commission initially to identify a few high impact areas that could show its simplification drive is on the right track (like it has done with the sustainability omnibus directive). These could be individual files that have turned out to be too complex, or areas that cut across files such as more integrated disclosure and reporting. A good starting point could be to review legislative initiatives that are already underway but have not been implemented yet, and then apply learnings to the existing stock of regulation. (A radical but perhaps warranted step would be to hit snooze and pause all initiatives that are in train to assess what they are aiming to achieve and whether they actually make sense before continuing to work on them.)

At the same time, an example of how difficult this all is the Commission's DG FISMA pausing 122 level 2 measures that were coming down the pipeline. On the one hand this is exactly what market participants are asking for. But on the other, firms now are raising questions about whether this will make it more difficult for them to implement and comply with the level 1 measures that have already been agreed.

10 GUIDELINES TO SIMPLIFY THE CREATION OF RULES (I)

Recommendations to simplify the creation of future EU financial regulation

If you were to design the EU's rulemaking process for financial regulation from scratch today you probably would not start from where we are now. A simpler regulatory framework can strengthen understanding and compliance of rules by market participants and help make progress towards the sort of more positive market outcomes that the EU would like to see. The cumulative effects of small, sensible steps to tweak, adjust, streamline, and simplify the creation of future EU financial regulation could over time be significant. Here are 10 ideas and recommendations that can help policymakers and market participants in the EU simplify the creation of future rules:

1) Develop better problem statements at the 'level 0': upgraded inception impact assessments as proposed earlier in this report can help focus minds, create simpler and more effective rules, reduce overlaps and contradictions, and achieve better timing and sequencing. They would focus on what the problem is that any new piece of financial regulation is trying to solve, what sort of market outcomes a successful implementation would deliver, and why existing rules are insufficient to achieve these outcomes.

2) Strengthen strategic clarity and problem definition at level 1: if 'level 0' shows that a new rule makes sense and addresses a clear need, it should be much easier to define a specific market failure or risk in the level 1 text that a new piece of regulation will address. Clearer objectives would enable Commission to draft a clearer proposal, narrow down what it would like to achieve, better negotiate (and perhaps push back on) feedback and changes proposed by Council and Parliament, and give fewer but clearer mandates to ESAs on what to focus on at levels 2 and 3. This would require more discipline by Commission not to complicate things in advance by anticipating feedback from stakeholders and baking this into the initial proposal; more discipline from member states and Parliament not to add in pet political projects; more discipline not to delegate issues to levels 2 and 3 that really should be negotiated and agreed on at level 1; and more strategic KPIs and measures of success ('this new rule will have been successful when we see a market outcome of X' not 'this new rule will have been successful when it has gone through the legislative process').

3) Improve impact assessments and accountability across all levels: at the moment full impact assessments are only done on the initial level 1 proposal, not on the finished agreement after feedback from Council and Parliament has been included or after all level 2 and 3 measures have been added. A more comprehensive (and realistic - see ESAP) impact assessment on the final rules that includes an analysis of the estimated impact on market activity and competitiveness in the context of other legislations, texts, and reporting requirements would help sense-check whether problems and definitions that were outlined at level 1 can be met without excessive burden on industry and supervisors (or whether the benefits outweigh any burdens). Better impact assessments could also help increase the accountability of Council, Parliament, ESAs, and NCAs.

4) Limit over-prescription: clearer problem definition and objectives at level 1 could naturally help reduce the 'scope creep' at levels 2 and 3 that happens when in particular ESAs draft an excessive number of technical standards, guidelines, and Q&As by i) giving policymakers at the ESAs a better understanding of what a piece of regulation is trying to achieve ii) helping the Commission test level 2 technical standards against the objectives that a piece of legislation set out to achieve and push back where necessary iii) helping Council and Parliament object to an overly excessive level 2 technical standard adopted by the Commission.

5) Simplify and shorten technical standards: as part of this, every stakeholder involved at the level 2 should aim to go 'back to the roots' and focus on what level 2 really is supposed to do: provide short, unambiguous, technical standards that are drafted in plain and clear language for the benefit of market participants and supervisory purposes. (A more radical suggestion that was shared with us would be to drastically limit the volume of technical standards to no more than 10 or 20 pages at level 2 which would encourage the development of more outcomes-based regulation instead of excessively detailed rules.)

10 GUIDELINES TO SIMPLIFY THE CREATION OF RULES (II)

6) Apply proportionality and competitiveness checks consistently: the Commission already conducts a competitiveness and proportionality check whenever it is proposing new rules but Council, Parliament, ESAs, and NCAs only do this sporadically or do not do this at all. As a first step the checks that the Commission does should be conducted consistently by all stakeholders across all levels. A second step could be to sharpen and rework these checks into a full-fledged competitiveness mandate, perhaps modelled after the [secondary growth and competitiveness objective](#) that was introduced for the financial regulators in the UK and opened the door to a better conversation about the balance between regulation, risk, and growth while not interfering or conflicting with the regulators' primary objective of financial stability and market integrity.

7) Coordinate timing and implementation: clearer sequencing and timing of incoming rules and regulations would ease the implementation burden on market participants and, in an ideal world, better align with business cycles and IT upgrades. Level 1 provisions should not enter into force when level 2 technical standards are not ready yet (which has happened in the cases of EMIR 3 and SFDR), and ESAs should be able to issue 'no action' letters (meaning that they will not enforce level 1 rules) when it does happen. One very useful first step to better coordinate timing and implementation would be to establish an easily accessible 'super register' of all level 1, 2, and 3 texts that have been implemented, are still in train, or are planned to come down the pipeline in the coming months including a timeline of what stakeholders can expect by when (perhaps similar to the [regulatory initiatives grid](#) in the UK).

8) Promote cross-sector, cross-rule, and cross-border consistency: too much of the EU's rulemaking is happening in silos, resulting in fragmentation across files and sectors. As a first step the Commission could focus more on regulations than directives (the danger of frontloading the complicated work could be addressed by being much more specific on the objectives of each piece of regulation). Ultimately though, the Commission or another suited body should assume a much stronger 'air traffic control' function which would have a definitive overview of what is happening where and when and could advise on where rules overlap or conflict with each other. This would need to include a look beyond financial regulation and an understanding of how rules and regulations in other areas of the economy have an impact on the financial markets (think GDPR and anti-money laundering, or reporting of climate transition measures for non-financial corporations).

9) Enhance coordination and roles across institutions: better coordination between stakeholders should also focus on the implementation and operationalisation of rules. A 'report once' principle with a single point of contact for larger market participants would reduce the disclosure burden especially on firms with a cross border footprint. Shared definitions (for example what texts mean by 'board') could strengthen compliance. And an overall more harmonised framework could encourage and promote cross-border activity as NCAs could defer to other member states' frameworks and supervisors when supervising pan-European firms.

10) Embed simplification into regulatory culture and incentives: none of these changes will happen if people do not want them to happen. One of the most impactful changes that the EU could see would be a shift in its regulatory and supervisory culture away from trying to regulate every single detail (and then occasionally getting lost in the detail) towards an approach that is much more focused and nuanced and considers the bigger picture. This change in thinking and behaviour is already underway in some senior executive teams at some ESAs and NCAs but needs to filter down throughout each body. Just as every stakeholder is adding complexity into the EU's regulatory framework, every stakeholder needs to embody this new culture: the Commission by more often asking itself if a regulatory initiative really is making sense; Council and Parliament by being more assertive when assessing whether a regulation meets its stated objectives; market participants by having fewer but more specific lobbying asks that focus more on whether they make sense for the EU as a whole rather than on national carve-outs; and everyone by trusting each other more. Encouraging all policymakers and regulators above a particular level to work on secondment in the industry for perhaps a year (and vice versa!) could do wonders in helping everyone understand each other's views better...

A rebalancing act

Readers with a sharp eye will have noticed that this report is not recommending having a single markets supervisor and single supervision to address the complexity in the EU's framework. This is not an accident: we think such a reform today would consume a huge amount of political capital, paralyse the debate, and delay achievable progress in other areas. Instead, to really make progress within the system that the EU has today, everyone will need to play their part: EU institutions, regulators, and policymakers from the top down to improve harmonisation and convergence - and national governments, finance ministries, politicians, and regulatory bodies from the bottom up to align supervisory practices, streamline authorisations, and share best practice.

The good news is that there is a growing recognition by individual EU member states that they need to take more responsibility for developing capital markets in the EU and addressing the many problems that have built up in the framework over the past decade or so. Here is a short selection of questions for individual member states, finance ministries, and national regulators and supervisors to encourage debate about what measures they could take on their own or in partnership with their neighbours to create a simpler, more efficient rulebook in the EU:

- 1) No gold medals for gold-plating:** do you have a (very) good reason for every single example of gold-plating in your jurisdiction? If you conducted an impact assessment on gold-plating in your jurisdiction, what would be the result? If you extended this impact assessment across all instances of gold-plating in all EU member states, what would be the result? Can you take precautions, for example in legal form, to discourage or even prevent gold-plating? Do we really need 27 different versions of the *single* rulebook?
- 2) Cross-border cooperation:** how could pan-European regional cooperation in regulation and supervision with other EU member states help boost your economy? How can national authorities better share data to prevent duplicative reporting for pan-European firms? Do you have the right systems and structures in place to encourage and facilitate this sort of cooperation at a government, regulator, supervisor, and firm level? And yet... are there areas in which different approaches in different member states could encourage healthy competition between market participants and ultimately strengthen system and economy?
- 3) Operational effectiveness:** where can you improve and streamline your own implementation of EU rules? How good is your national framework in its day-to-day interaction with market participants? How can you make your processes around supervision and authorisation more efficient? Do your teams in finance ministries, regulators, and supervisors have the tools and skills they need to accurately translate EU rules into local languages? How can you benchmark your operational effectiveness and compare your performance with other frameworks inside and outside of the EU?
- 4) A pan-European approach:** how can you think less in terms of protecting your own national banking and finance industry and more in terms of how it could thrive in a strengthened European economy with bigger and better European capital markets? In which areas might it make sense to support a more European approach to tweaking rules and regulations? Where is it sensible to focus on local firms, activities, and consumer patterns? How can you encourage your national banking and finance industry to focus less on the national picture and more on the EU as a whole in their lobbying and advocacy work?
- 5) The bigger picture:** how well regulated is your economy and your financial system? On what metrics? How does the structure, process, and complexity of your system compare to other countries inside and outside of the EU? What barriers, if any, do your regulatory system and implementation of EU rules present to growth and investment? Are there any specific measures (perhaps technology-based) that you could take within the existing EU framework to reduce the administrative burden of regulation and improve efficiency?

NEW FINANCIAL

Rethinking capital markets

Lead authors



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[Searching for growth: the future of EU capital markets](#)

[Comparing the asset allocation of global pension systems](#)

[The future of pensions and retail investment in the EU](#)

[A renewed vision for EU capital markets](#)

APPENDIX: METHODOLOGY & SOURCING

Our sample:

We analysed the size of banking, finance, and capital markets in the following 31 sectors of activity in all 27 EU member states, the US, and a basket of developed economies (UK, Australia, Canada, Japan, and Switzerland):

- **Pools of capital:** funded workplace pensions assets, insurance assets, household financial assets (excluding property), retail investment assets (excluding pensions, insurance, cash deposits, and unlisted equity), and cash deposits.
 - *Sources include: OECD, Eurostat, EIOPA, ECB, national statistics agencies*
- **Equity markets:** stock market value, all equity issuance (including initial public offerings, secondary equity issues, convertible bonds), IPOs, smaller company IPOs (<\$100m), equity trading, number of listed companies.
 - *Sources include: Dealogic, bigXYT, World Federation of Exchanges, Federation of European Securities Exchanges, national exchanges*
- **Debt capital markets:** corporate bond market value, corporate bond issuance, high-yield bond issuance, value of outstanding securitisation, securitisation issuance, and leveraged loan issuance.
 - *Sources include: Dealogic, BIS, ECB, AFME, SIFMA, national central banks*
- **Banking:** value of bank assets by nationality, stock of bank lending to non-financial corporations, net flow of bank lending to non-financial corporations, and gross flow of bank lending to non-financial corporations (total, large companies, and small companies).
 - *Sources include: BIS, ECB, national central banks and finance ministries*
- **Private markets & venture capital:** private credit activity, private equity fundraising, private equity activity, venture capital activity, early-stage investment.
 - *Sources include: Dealogic, Preqin, Invest Europe, national trade associations*
- **Corporate activity:** all M&A by target nationality, domestic M&A, intra-EU M&A.
 - *Sources include: Dealogic*

Measuring depth:

In each sector and country we measured the value of activity as a percentage of GDP on a three-year rolling basis from 2012 to 2024 to iron out the annual volatility in capital markets.

Specific examples of complexity in EU financial regulation

We asked the more than 30 organisations that we engaged with as part of our work on this paper (ranging from market participants to regulators, supervisors, national governments, and EU institutions) to suggest specific examples of complexity in EU financial regulation. The following pages include a selection of the submissions that were shared with us. We have grouped the examples by three overarching themes: i) lack of clarity and objectives or too much prescriptive detail in legislation and regulation ii) inconsistency, overlap, duplication, or redundancy in aims, definitions, data, reporting requirements, and implementation iii) clashes in timelines and sequencing. Some of the examples reflect complexity in the existing rulebook, while others flag up misunderstandings by market participants, or proposals and initiatives that have not been implemented yet but created a degree of confusion with real-world consequences when internal teams started working to assess the likely impact of such initiatives should they materialise.

Please note that this list of examples is not intended to be definitive or exhaustive, and by including these examples in our paper we do not necessarily endorse them. We assume that for every single example you might find someone who will be able to defend it and identify very good reasons for why things are how they are - but overall we think this list will give readers a good feeling for the complexity that is inherent in EU financial regulation:

Lack of clarity and objectives or too much prescriptive detail in legislation and regulation

- **Unclear objectives (1):** market participants say the overall objective of the EU's Financial Data Access Regulation (FiDA) is unclear, with a lack of evidence of consumer group demand; a lack of use cases; and a lack of impact assessment across the various activities that are brought within scope of the proposal.
- **Unclear objectives (2):** the ESMA proposal to create an 'EU label' for basic and simple investment products, including 'basic UCITS funds', risks making UCITS much more complicated than they are today and could damage the global success of UCITS.
- **Over and above international best practice:** the current requirement for market participants to publicly disclose their short position in an EU stock if it exceeds 0.5% of the issued share capital discourages firms to engage in short selling in the EU. (For reference, the UK has legislated this year to only disclose aggregate net short positions by issuer.)
- **Over and above international standards:** regulators and market participants generally agree that central clearing counterparties (CCPs) should employ anti-procyclicality (APC) measures, but the EU has implemented very rigid prescriptive rules: the EU gives CCPs the option to choose one of only three pre defined APC tools, while international standard setters take a more outcomes-based approach.
- **Over and above the level 1 remit:** when ESMA issued guidance at the level 3 that it would set a quantitative 80% threshold of sustainable investments if funds wanted to qualify for an ESG label or use sustainability and ESG related terms in their names, it effectively set the law (as this quantitative threshold had not been specified in level 1 or 2 mandates).
- **Too many data points:** one market participant told us that the Digital Operational Resilience Act (DORA) will require them to transfer around 150,000 pieces of information into a reporting template. Not all of it is readily available. The information demanded per information and communication technology provider spans 94 data fields and has to be encoded in a specific way into numeric and alphanumeric codes.

Inconsistency, overlap, duplication, or redundancy in aims, definitions, data, reporting requirements, and implementation

- **Dual-sided transaction reporting:** MiFID II rules require that both sell-side and buy-side firms must report the same transaction data, duplicating processes and burdens. This approach is not adopted in other relevant jurisdictions such as the US, Singapore, or Hong Kong. The Financial Conduct Authority (FCA) in the UK currently has a similar approach but is actively reviewing this requirement as part of a consultation exercise that was launched earlier this year.
- **Reporting the same thing twice:** overlapping data requirements and reports under the European Market Infrastructure Regulation (EMIR), the Markets in Financial Instruments Regulation (MiFIR), and the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) create duplication and unnecessary efforts. Examples include identical data fields under article 9 of EMIR and article 8 of REMIT, or exchange-traded derivatives transaction reporting under both article 9 of EMIR and article 26 of MiFIR. Further complexity comes from redundant reporting under EMIR, MiFID II, MiFIR, REMIT, and the Markets Abuse Regulation (MAR), particularly for energy derivatives. For each reporting obligation, IT connections with numerous financial and non-financial supervisors such as the Agency for the Cooperation of Energy Regulators (ACER), ESMA, Commission, Trade Repositories, NCAs, and non-EU authorities are necessary.
- **Cross-border fragmentation (1):** the AMF and AFM proposal to rethink the supervision of cross-border activities through passporting, in particular in the area of retail investing, and their suggestion for a stronger role of the host state regulator could ultimately lead to further fragmentation in regulation and supervision across member states. (The average ongoing costs of cross-border UCITS equity funds are already higher than of funds offered in only one country despite their larger scale due to different national requirements for the distribution of cross-border funds.)
- **Cross-border fragmentation (2):** the requirement in MiFID II on market operators under article 53 is that member states shall require a regulated market to establish, implement, and maintain transparent and non-discriminatory rules, based on objective criteria, governing access to, or membership of the regulated market. MiFID II does not mandate specific ex ante approval by the NCA. However, there are different approaches taken across EU member states, with some requiring ex ante approval while others do not.
- **Cross-border fragmentation (3):** diverging regulatory and technical standards for the issuance of a security lead to legal uncertainty and additional costs. Today, around 70% of international securities are based on UK executable law (!), even if the securities are traded, cleared, and settled on EU market infrastructure. This situation arises partially due to the divergent legal frameworks within the EU, as the lack of EU-wide harmonised standards for legal terms and conditions creates legal uncertainty.
- **Double standards (1):** DORA allows cross-border groups of financial institutions belonging to the same category (such as credit institutions) to simplify and consolidate reporting but does not allow this for market infrastructure providers belonging to the same group as there is no recognition of groups of trading venues in MiFID II, and consolidation of reporting requirements is not allowed by NCAs.
- **Double standards (2):** the Corporate Sustainability Reporting Directive (CSRD) introduces different obligations for listed and unlisted SMEs. Listed SMEs in regulated markets will be subject to mandatory ESG reporting which they must apply from 2026-2028. Unlisted SMEs will not be subject to this reporting. This creates an uneven playing field between companies with comparable footprints and company sizes but different sources of financing (public or private).

APPENDIX: SPECIFIC EXAMPLES OF COMPLEXITY (III)

- **Unclear responsibilities:** one market participant told us that they will stay under the supervision of their NCA when it comes to anti-money laundering measures but that their NCA currently will not talk to them about the sixth Anti-Money Laundering Directive (AMLD6) because the AMLA is not ready yet.
- **Translation errors:** the initial Danish translation of annex 1 and 2 of the European Sustainability Reporting Standards (ESRS) as part of the EU's CSRD regulation adopted by the Commission included lots of errors, used different terms in Danish for the same English term, and was missing whole sections of the text in several cases (both half sentences and text missing from visual material). We were told that some of the translated sentences made no sense at all anymore whereas the English version did. Around 14,000 errors had to be corrected in the new version of the Danish translation. Translation errors were found in the French, Polish, Swedish, and Finnish versions of the ESRS too. (This is likely a problem not unique to financial regulation and therefore a horizontal question relevant to the whole EU regulatory framework.)
- **No translations:** level 3 texts are mostly published in English which creates challenges especially for smaller firms in smaller member states when 'soft law' becomes de facto regulation.

Clashes in timelines and sequencing

- **Level 1 implementation without level 2 clarification:** market participants were expected to implement certain EMIR 3 level 1 provisions (for example the operational and representativeness requirements for active accounts) before relevant level 2 regulatory technical standards were finalised. (Similar examples exist for MiFIR II, DORA, and SFDR.)
- **Last-minute surprises:** article 21c of the EU's sixth Capital Requirements Directive (CRD6) introduces a significant change by restricting the provision of core banking services (including cross-border lending) by third-country institutions into the EU. The change was inserted into the proposal by the Commission at the last minute and was not subject to consultation or included in any impact assessment.
- **A lucky coincidence:** the Central Securities Depository Regulation (CSDR - not to be confused with CSRD...) mandatory buy-in regime was originally due to take effect in February 2022. Market participants, Commission, and ESMA agreed that this implementation should be delayed partly because of industry preparedness and partly because of another upcoming review of CSDR which would make further changes to the regime. In order to change the implementation date in the level 1 text, the Commission had to persuade the co-legislators to add an amendment to the Distributed Ledger Technology (DLT) pilot regime proposal, which just happened to be going through the legislative process at the right time (although this still relied on the trilogues finishing as planned). The process created uncertainty for the industry, and it is unclear what the Commission would have done if there had not been a piece of legislation at that stage in the legislative process to use as a vehicle to make the change.
- **A lack of powers:** ESAs currently do not have the ability to suspend or delay the application of regulatory requirements unless in very specific circumstances through a request to Commission and NCAs. This creates uncertainty and, often, last-minute solutions to urgent issues (such as when the clearing exemption for equity options was only extended via an ESMA letter asking NCAs not to prioritise supervision on 22 December 2023 when the clearing obligation would have entered into force on 4 January 2024).