

FEASIBLE STEPS TO FINANCE INNOVATION IN EUROPE

SIX PROPOSALS TO STRENGTHEN EU CAPITAL MARKETS



A REPORT BY
A REFLECTION GROUP
CONVENED BY THE
Institute for European
Policymaking (IEP@BU)

CHAIRED BY
Ignazio Angeloni

RAPPORTEUR
Andrea Cavallini



Università
Bocconi

IEP@BU
Institute for European
Policymaking



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ABSTRACT

This report, prepared by a Reflection Group coordinated by the Institute for European Policymaking at Bocconi University, proposes a two-pronged initiative to improve the functioning of European capital markets. Priority is given to proposals aimed at improving the flow of savings to young innovative enterprises, acting in six areas: new personal saving instruments; new defined-contribution retirement instruments; a new world-class EU IPO platform; removing cross-border obstacles to custodian services; promoting innovation-friendly securitisation; and enhancing the role of the EIB Group. As a second step, the report sets out a set of principles that should guide the design of a 28th regime for companies and securities markets, the creation of an EU-wide market supervisor, and new EU-wide online informational and financial education platforms. The goal of this report is to contribute to the successful launch of a Savings and Investment Union.

RECOMMENDED CITATION

European capital markets continue to struggle in channelling sufficient funding to innovative, high-growth firms, limiting Europe's productivity and growth potential. To address this issue, the report outlines a pragmatic strategy to support the development of the forthcoming Savings and Investment Union (SIU). It argues that actionable, consensus-building measures must come before broader institutional reforms and proposes six concrete initiatives to improve the flow of savings toward young enterprises. The goal is to unblock investment, enhance market functioning, and create the foundations for future reforms in EU capital-market governance and financial education.

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LIST OF ABBREVIATIONS

AIF	= Alternative Investment Fund	GSEs	= US Government Sponsored Enterprises (Fannie Mae and Freddie Mac)
CAST	= Crypto-Asset Service Providers	IBIP	= Insurance Based Investment Product
CCP	= Central Counterparty	ICSD	= International Central Securities Depository
CD	= Certificate of Deposit	IEP	= Institute for European Policymaking at Bocconi University
CDS	= Credit Default Swap	IMF	= International Monetary Fund
CMU	= Capital Markets Union	IPO	= Initial Public Offering
CRD	= Capital Requirements Directive	MiCA	= Market in Crypto-Assets (EU legislation)
CRR	= Capital Requirements Regulation	MIP	= Market Integration Package of the EU Commission
CSD	= Central Securities Depository	NGEU	= Next Generation EU
CSDR	= Central Securities Depository Regulation	PE	= Private Equity
DLT	= Distributed Ledger Technology	PEMO	= Pan-European Market Operator
ECB	= European Central Bank	PEPP	= Pan-European Pension Plan
EET	= Exempt-Exempt-Taxed pension model (contributions; accumulation; benefits)	PER	= Plan d'épargne retraite
EIB	= European Investment Bank	PERCO	= Plan d'épargne pour la retraite collectif
EIBG	= European Investment Bank Group, composed of EIB and EIF	PERP	= Plan d'épargne retraite populaire
EIC	= European Innovation Council	R&D	= Research and Development
EIF	= European Investment Fund	SECREG	= Securitisation Regulation
EIOPA	= European Insurance and Occupational Pensions Authority	SIA	= Savings and Investment Accounts
EFAMA	= European Fund and Asset Management Association	SIU	= Savings and Investments Union
ELTIF	= European Long Term Investment Funds	SME	= Small and Medium Enterprises
EMEA	= Europe, Middle East and Africa	SPAC IPO	= Special Purpose Acquisition Company Initial Public Offering
EMU	= Economic and Monetary Union	SPO	= Secondary Public Offering
EP	= European Parliament	SRD	= Shareholder Rights Directive
EPTF	= European Post Trade Forum	SRT	= Significant Risk Transfer (securitisation)
ESMA	= European Securities Markets Authority	SSM	= Single Supervisory Mechanism
ESG	= Environmental Social and Governance	SSS	= Securities Settlement Systems
ESO	= Employee Stock Option	STS	= Simple, Transparent and Standardised (securitisation)
ETCI	= European Tech Champions Initiative	TEE	= Taxed-Exempt-Exempt pension model (contributions; accumulation; benefits)
ETF	= Exchange Traded Funds	T2S	= Target2 Securities
EU	= European Union	VC	= Venture Capital
EUR IPO	= European IPO Instrument	VD	= Venture Debt
EUTech	= European Technology		
FASTER	= Faster and Safer Tax Relief of Excess Withholding Taxes Directive		
FCA	= Financial Conduct Authority		

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EXECUTIVE SUMMARY

This report, prepared by a **Reflection Group convened by the Institute for European Policymaking at Bocconi University** comprising representatives from a broad range of financial institutions and other experts, proposes a **two-pronged strategy to improve the functioning of European capital markets**. Its aim is to contribute to the plans being developed by the European Commission to launch a Savings and Investment Union (SIU).

The report builds on **two premises**. First, past efforts to launch a Capital Markets Union (CMU) have not reached the desired results partly because they combined **broadly agreeable concrete steps** to enhance market efficiency and **ambitious wide-ranging institutional reforms** which, no matter what their rationale might have been, could not gather sufficient consensus. This report builds on the pragmatic assumption that **these two elements must be separated: feasible actions to achieve concrete results must come first**. A second premise is that today, more than when CMU was originally conceived, the **overriding priority is to unblock the financing of innovative European enterprises with high growth and productivity potential**. The rest of the design is more easily implemented gradually at a later time.

Accordingly, the **report puts forth six proposals** aimed at improving the flow of savings to young innovative enterprises.

1. Introducing **new individual savings instruments** incentivising risk capital investment by individuals with tax advantages, simple investor-friendly schemes and flexible choice of legal jurisdiction;
2. Introducing **new defined-contribution voluntary retirement instruments** for individuals and employers with tax and regulatory advantages, portability and dynamic risk profiles;
3. Launching a **new euro-wide IPO instrument** offering scale-up companies the full range of pre- and post-IPO services, broad access to EU savings pools and the best available post-trading services;
4. **Removing cross-border obstacles to securities custodians** with generalised use of T2S, free access to post-trading locations and mobility and interoperability among post-trading platforms;
5. Setting-up an **innovation-friendly securitisation environment** by means of a more market-friendly regulatory treatment and a new private market-making structure, with EIB-EIF support;
6. **Enhancing the EIB Group's role** by facilitating its access to EU savings pools and by having it act as a strategic anchor investor in support of the new securitisation platform.

The six proposals are meant to complement each other and would be most effective if implemented in combination. However, they would also benefit if enacted partially, in a few countries only and involving a group of large wide-reaching financial institutions.

In the second part, the report **sketches the contours of broader reforms to complete the design of EU capital markets**, which could also be implemented in steps.

In particular, it lists principles that should guide the design of a **28th optional legal regime for companies and securities markets** and the further gradual transition of supervisory responsibilities to an **EU-wide market supervisor**. Finally, the report suggests ways to enhance the EU **online informational and financial education platforms**.

While this report was readied for publication, the EU Commission published a comprehensive legislative proposal aimed at enhancing market integration as part of its Savings and Investments Union program. An outline of these proposals and a comparison with those made here are contained in Section 2 of this report.

Pragmatism is a method
for settling disputes that otherwise
might be interminable

— WILLIAM JAMES, 1907 —

Only the young can run

— TAYLOR SWIFT, 2020 —

1. INTRODUCTION

1. INTRODUCTION

Creating an efficient and competitive capital market modelled on the US has long been a goal of EU policymakers. Recently, the way in which that ambition is presented – its rationale, urgency, and the strategies to pursue it – has changed. The year 2020 was a watershed. In the midst of the Covid pandemic, the EU launched Next Generation EU (NGEU), a programme of investments and reforms to prepare the continent for multiple challenges: not only the next health crisis, but also the digital gap, climate change, productivity decline, energy dependency, and more. Events after that – Russia's invasion of Ukraine (2022) and the return of Donald Trump to the White House (2025) – only increased the scale of the challenge, adding a security crisis and the urgency for Europe to attain "strategic autonomy".

NGEU, meant to last six years barring postponement, is financed entirely by public funds from the EU and member states. However, it has always been clear that Europe's extensive and prolonged financing needs cannot be met without a robust contribution from the private sector. It is equally clear that the present EU financial structure, centred on small-sized banks (globally speaking), unfamiliar with innovative finance and constrained in their growth opportunities by protectionist member states and a half-baked banking union, is unable to provide that contribution. Once these facts were recognised, the so-called Capital Markets Union (CMU), a decade-old project intended to complete Economic and Monetary Union (EMU) by fostering greater "risk sharing" among member countries, morphed from a "nice to have" into an urgent necessity.

As the goal became clearer, the proposed strategies grew more pragmatic. In the last couple of years, a few reports, most notably the one drafted by the group of experts coordinated by former ECB president and Italian prime minister Mario Draghi (2024), contributed reform proposals aimed at increasing the dynamism of Europe's economy, in part by boosting the flow of finance to growth- and productivity-enhancing investments. Some of those contributions are summarised below. Unfortunately, implementation of the Draghi plan is dramatically lagging (Draghi, 2025). Meanwhile, the European Commission has launched a re-edition of the CMU plan, renamed the Savings and Investment Union (SIU), in which capital market reform is combined with a renewed push to complete the banking union as part of a single, unitary design.

This report, prepared by a Reflection Group convened in spring 2025 by Bocconi's Institute for European Policymaking (IEP), fits into this evolution and pushes further in the same direction. The Group, which includes representatives from banks, asset managers, pension funds, insurance and exchange platforms, alongside independent experts and some authorities in an observer role (see the list of participants at the end of this report), worked on the basis of two premises.

The first is that recommendations should be limited to actions which, though ambitious, remain within the realm of "feasible steps", that is, initiatives that do not require major institutional changes (such as EU Treaty amendments) or unanimous support from all member states. The second premise is that proposals should focus primarily on facilitating an efficient flow of finance to the EU

“innovative sector”: producers of goods and services characterised by high innovation in their production processes and high productivity. The title of the report (“Feasible Steps to Finance Innovation in Europe”) reflects these two concepts. A pragmatic and targeted approach may help overcome the stalemate that has held back capital market reform for more than a decade.

This approach has several consequences that distinguish our contribution from others, including the aforementioned reports.

Our focus on the “innovative sector”, as opposed to the economy as a whole, implies that the boundary and characteristics of this sector must be defined. Surprisingly, given the prominence of innovation in much recent literature, such a definition is rarely made explicit. What qualifies a company as innovative? What characterises its performance? How do companies in this class finance themselves? In which economic sectors and geographical areas do they operate? How does their performance compare with that of their peers? One section of this report addresses some of these questions using a detailed firm-level dataset.

Our analysis of why the EU financial sector needs reform is kept to a minimum; after many diagnoses, we view this as well-trodden ground. To save the reader time, we move quickly to the proposals, providing background only where needed.

We also refrain from discussing in detail ambitious proposals regarded as priorities by other contributions; for example, the idea that reforming Europe’s capital markets requires creating a euro-denominated “safe asset” (advocated by the Draghi Report), or that centralising market supervisory powers at ESMA, Europe’s agency that today just coordinates national market supervisors, is essential (Noyer Report). To us, these reforms lie between the “nice to have” and the “inescapable in the long run”, but are not *directly* necessary to improve access to finance for innovative firms in the shortest foreseeable timeframe. However, we do believe they matter *indirectly*, as we shall explain, and should follow in short sequence. The second part of the report outlines a set of principles in that regard.

A final caveat is needed. We recognise that Europe’s lack of dynamism relative to the US and parts of Asia *is not only* the consequence of a lack of finance or of the inefficient way in which finance is provided. Recent analyses suggest that financial constraints, while a *significant obstacle* per se, are not *the most important obstacle* to investment and growth (see, for example, CEPS, 2025). Accordingly, the Draghi Report devotes most of its pages to non-financial factors underlying Europe’s competitiveness gap. To our knowledge, no estimate exists that breaks down Europe’s competitiveness gap into financial and non-financial components. The Reflection Group believes that the reasons why EU innovative companies struggle to prosper relative to their US or Asian competitors lie more in the broader regulatory and business environment than in the structure of capital markets. Capital markets assign a lower valuation to EU innovation because regulatory barriers and inefficiencies *tout court* limit the chance of success. These barriers include burdensome taxation, an inefficient judiciary, obstacles to reaching

1. INTRODUCTION

addressable markets, and bureaucratic hurdles, all considerably higher in at least part of the EU than in more innovation-friendly jurisdictions. Addressing these issues is of paramount importance. On top of that, however, the Reflection Group considers that financial roadblocks *matter to a sufficient extent* to make the effort of removing them worthwhile.

The report is structured as follows. Section 2 briefly traces the path of the CMU project over the last decade, showing how its intended purpose has evolved. This supports the argument that, from our current standpoint, it is efficient to begin with a limited set of reforms aimed specifically at unblocking finance for the innovative company sector, leaving the completion of the Union's capital market architecture to a later stage.

Section 3 uses a detailed firm-level dataset to characterise these companies, showing their features, the way they are currently financed, and the factors that prevent them from receiving finance to the extent and in the form they require.

Section 4 lays the groundwork for the proposals that follow by identifying the roadblocks that hinder an adequate flow of financing to innovative enterprises, especially at the scale-up phase. It then outlines six specific proposals:

- 1.** introducing new personal saving instruments;
- 2.** introducing new retirement instruments;
- 3.** creating a new world-class EU IPO platform;
- 4.** removing obstacles to the cross-border provision of securities custodian services;
- 5.** promoting innovation-friendly securitisation;
- 6.** enhancing the role of the EIB Group in VC and PE financing and securitisation.

Section 5 presents, with less detail, suggestions on how to address the "unfinished agenda" for a single EU capital market: introducing a new legal framework for companies and securities markets in the form of a "28th regime" optionally available to security issuers and investors; gradually moving toward a single area-wide market supervisor; and enhancing EU-wide online informational and financial education platforms.

Section 6 concludes.

Four annexes follow.

Annexes 1 and 2 complement the evidence provided in Section 3 with supplementary charts and tables on the structure and activity of EU innovative enterprises. Annex 3 summarises the results of a survey among the Reflection Group participants aimed at identifying the main issues in improving the financing of the EU's innovative sector and ways to address them. Annex 4 lists the composition of the Reflection Group.

2. TOWARD A NEW STRATEGY FOR EU CAPITAL MARKETS

CMU first appeared in the EU's policy space in 2014, as one of the objectives accompanying the launch of the Juncker presidency. In the then new Commission President's programme, CMU appeared as an element within one of ten policy areas; almost an incidental aside, a minor detail among other challenges. Its rationale was phrased as follows: *"Over time, I believe we should complement the new European rules for banks with a Capital Markets Union. To improve the financing of our economy, we should further develop and integrate capital markets. This would cut the cost of raising capital, notably for SMEs, and help reduce our very high dependence on bank funding. This would also increase the attractiveness of Europe as a place to invest"* (Juncker, 2014).

At that time, three reasons justified optimism regarding a swift development of EU capital markets. The Union had recently completed the successful launch of single banking supervision in the ECB. The inauguration of the Single Supervisory Mechanism (SSM) in that same year, with 19 sovereign nations agreeing to centralise banking supervision in the ECB, was an unprecedented success, seemingly creating conditions for further steps in the same direction. The European economy was slowly but steadily emerging from recession, with the ECB and its President, Mario Draghi, having gained much credibility and prestige for overcoming the euro debt crisis – the famous “whatever it takes” statement of July 2012 marking the turning point. A capital market reform supported by the new Commission President and an ECB President endowed with such reputation looked eminently possible, almost easy. Last but not least, the Brexit referendum had not yet appeared on the horizon; the EU was still home to the largest and most efficient capital market in the world, the City of London. Support from the UK, with a UK national overseeing the agenda as Commissioner for financial markets, contributed credibility and trust to the CMU plan.

The high point of optimism coincided with the publication of the Five Presidents' Report (2015). In that document, CMU was enshrined in a four-pronged reform programme including the completion of the economic and monetary union, a fiscal union, and a political union, all to be completed by 2025. The rationale for CMU was cast in terms of ‘broadening’ financial sources, complementing bank finance, and promoting ‘risk sharing’ – smoothing local shocks and making the euro area economy more resilient. For enhancing risk sharing, capital market integration was seen as a substitute for a centralised EU budget, under the implicit assumption that reforming financial market regulation would prove politically more manageable than shifting fiscal policy (including taxation) to EU level.

With hindsight, the obstacles to CMU were underestimated. In the more stable post-crisis environment, especially after the successful clean-up and recapitalisation of the banking sector led by the SSM, a powerful incentive for further reforms was removed. Also underestimated was the fact that financial markets are inherently complex to reform because of the diversity of instruments, participants, and vested interests involved – exchanges, investment firms, securities depositories, asset managers in several capacities – each embedded in national frameworks and overseen by authorities often acting in support of local

interests. Capital market integration increasingly overlaps with heavily protected national prerogatives such as taxation, and on practices deeply rooted in national traditions and cultures, such as bankruptcy laws.

Ex post, one must acknowledge that in the five years between the Juncker initiative and the first Commission CMU Action Plan (2015), and between that plan and the first major shock after the financial crisis (the Covid pandemic in 2020, which coincided with the second edition of the Action Plan), little or no material progress was made in turning the project into reality, despite some initiatives being implemented. At the end of the second decade of this century, CMU was virtually stuck.

The years 2020 (health crisis), 2022 (Russian invasion of Ukraine and ensuing security crisis) and 2024 (geopolitical repositioning after Trump's re-election as US president) changed the perspective. A grand design, conceptually justified but with benefits difficult to measure in magnitude and timing, morphed into a pragmatic and urgent need over a well-defined horizon. Better-functioning capital markets are now seen as necessary to strengthen the economy so as to defend Europe's sovereignty and self-sufficiency, both under threat. Attention now focuses more on the needs and objectives to be achieved, and less on high-level institutional architectures. This injection of pragmatism creates better conditions for concrete results.

Among the reports that have recently contributed to this debate, four in particular deserve mention because of their more or less extensive relation to the material covered in this paper. Short summaries are provided in Box 1.

Box 1**Selected reports dealing with the EU's innovative sector and financial reform**

The Draghi (2024) Report, the most visible and comprehensive contribution, concentrates on the EU competitiveness gap from the “real side”. Its diagnosis traces the root causes of the EU’s lack of economic dynamism to regulatory barriers, low R&D investment, fragmentation of Europe’s internal market for goods and services, high energy costs, taxation, and a shortage of skills, jointly leading to an ‘innovation deficit’ – inability to transform promising technological breakthroughs into commercially viable propositions. All this generates a lack of demand for innovation finance. While not a central causal factor, the finance side is not absent: Draghi recognises that the large individual savings available in the EU do not meet the demand for innovation investment due to structural impediments, including the dominance of bank intermediation, the absence of a common safe asset, fragmented capital markets, and the lack of a European central fiscal capacity. The recommendations are presented as ambitious end-point objectives: centralise financial market supervision; harmonise taxation and insolvency laws; build more asset-based pension systems; apply less stringent prudential regulation to equity investment (by both banks and insurers); make more efficient and extensive use of the EU budget (including through support to EIB programmes); and, on the banking side, introduce a special legal regime to facilitate cross-border banking (details in Angeloni, 2024).

The report by former Italian prime minister Enrico Letta (2024) focuses on the Single Market, restating its benefits and examining how its structure needs completing and strengthening. While logically covering the financial dimension as well, it does not contain specific proposals in this regard. It does, however, include the suggestion of introducing a 28th regime for company law: “A European Code of Business Law would be a transformative step towards a more unified Single Market, providing businesses with a 28th regime to operate within the Single Market” (Letta, 2024, p. 108).

By contrast, the report published in the same year under the coordination of former ECB Vice-President and Bank of France Governor Christian Noyer (2024) focuses entirely on reforming the financial sector. The real/financial split of driving factors is not addressed; instead, the report provides detailed evidence documenting the underdevelopment and fragmentation of EU capital markets at all levels – trading, settlement, securities depository, and asset management. The policy recommendations are grouped under four headings: introducing new equity-based saving and retirement instruments; reviving securitisation; centralising capital market supervision (transforming ESMA into an EU-wide integrated supervisor, on the SSM model); and reducing fragmentation of post-trading, ultimately centralising the securities-depository function at EU level, possibly using blockchain techniques. The recommendations of the Draghi and Noyer reports are complementary, though their approaches and emphases differ considerably.

A recent Occasional Paper by the ECB (2025a), also focused on the financial sector, provides additional specifics. It first documents that over the last ten years objectives and priorities for capital market reform have shifted away from risk sharing, financial stability, and integration, and more towards supporting competitiveness and economic growth. The ECB advocates a “pragmatic agenda” focused on a small number of initiatives with transformative potential. It recommends action in five main areas: introducing new and more long-term and risk-oriented individual saving instruments; integrating trading and post-trading architecture; upgrading the supervisory framework, with greater centralisation - in particular, reforming ESMA’s governance as a precondition to expanding its responsibilities; relaunching securitisation through new rules and supervision; and enhancing firms’ access to equity capital by developing VC financing and listing. The list is accompanied by suggested actions, though the degree of detail varies.

On 4 December 2025, while this report was being prepared for publication, the EU Commission issued a comprehensive package of legislative proposals titled the "Market Integration Package" (henceforth MIP), aimed at addressing several of the issues discussed in this report. According to the Commission, the objective of the MIP is "to eliminate barriers to integration in trading, post-trading, and asset management [...] and to enable market participants to operate more seamlessly across Member States, thus reducing cost differences between domestic and cross-border transactions" (EU Commission, 2025i). This initiative follows other proposals recently presented by the Commission – also under the Savings and Investment Union (SIU) – in areas such as securitisation (EU Commission, 2025b) and retirement savings (EU Commission, 2025h). The main proposals for the MIP are summarised in Box 2 and Table 1.

Box 2

The EU Commission's Market Integration Package (MIP)

The MIP is an extensive and complex package of legislative proposals covering five areas: trading; post-trading; asset management; supervision (the role and governance of ESMA); and technological innovation, in particular the rules governing the EU Pilot regime for the use of Distributed Ledger Technologies (DLTs) in financial markets.

- **Trading.** The MIP foresees new harmonised rules for trading venues, eliminating duplications and divergent national requirements. Larger cross-border operators would benefit from unifying supervision under ESMA, thereby removing multiple compliance processes and requirements. Groups active in several Member States would be able to manage their activities more efficiently within the Union, supported by easier intra-group allocation of resources, a swift passporting process, and the creation of a new optional Pan-European Market Operator (PEMO) status, allowing trading platforms to streamline their corporate structures and licences into a single-entity format.
- **Post-trading.** In this area, the MIP addresses fragmentation by introducing a CSD "hub and spoke" model: cross-border CSDs processing high volumes of settlements and qualifying as hubs would be required to establish links with one another. Spoke CSDs, in turn, would be required to connect to at least one hub. This structure would enhance interconnectedness among CSDs and facilitate access to all securities issued in EU CSDs. All EU CSDs would settle their transactions in T2S. CSDs settling in any of the currencies supported by T2S would be required to connect to the platform and offer T2S settlement services to their participants. ESMA's supervisory responsibility would be extended to CSDs deemed "significant" by virtue of their volume and cross-border reach.
- **Asset management.** The principal proposed change concerns the introduction of a new automatic passporting and mutual recognition system for asset managers. Both UCITS fund managers and alternative fund managers would gain simplified access to multiple national markets. As part of the authorisation procedure, an applicant UCITS must inform its home competent authority of the Member States in which it intends to market its units. Likewise, AIFMs must, during the authorisation process, inform their home competent authorities of the EU AIFs they manage and the Member States in which they intend to market them to professional investors. Thereafter, free passporting would apply. Asset managers would no longer be bound to national custodians but could appoint their depositaries anywhere in the Union. ESMA would not supervise asset managers directly but would receive strengthened powers to coordinate the activities of national supervisors.

- **Supervision.** ESMA's responsibilities would be extended. It would become the direct supervisor of all market infrastructures and service providers considered significant for the EU economy or for financial stability, including major CCPs, CSDs and trading venues, as well as pan-European operators and trading venues such as PEMOs. ESMA would also acquire powers of authorisation and supervision over crypto-asset service providers (CASPs), as defined under MiCA. In addition, ESMA would supervise non-CASPs entities providing crypto-assets services (e.g. investment firms) if the provision of crypto-asset services becomes their main activity—except if those entities are banks. To support this enhanced role, ESMA's governance would be revised: the Management Board would be replaced by a five-member Executive Board and competencies reallocated among the governing bodies. The Board of Supervisors will remain ESMA's main decision-making body for regulatory matters and supervisory convergence, while the Executive Board will focus on supervisory decisions and day-to-day management. The two bodies will operate under a system of checks and balances: the Board of Supervisors may object to certain key supervisory decisions through a non-objection procedure, and the Executive Board members will sit on the Board of Supervisors, contributing their expertise and voting on supervisory-convergence issues.
- **Innovation and DLTs.** The MIP's proposals regarding technological innovation concern DLTs. In particular, it is envisaged that the scale and scope of the DLT Pilot Regime, launched in 2023, be expanded, with increased flexibility and proportionality and with concerns about its long-term durability addressed. These amendments aim to ensure that financial institutions can test a variety of business models and technical solutions, while participants can scale their operations, thereby encouraging investment in DLT-based market infrastructures.

Taken together, the MIP differs in several respects from the present report; nevertheless, several proposals point in the same direction. Table 1 provides, in summary form, our assessment of the main points of comparison. This assessment is necessarily preliminary, as the Commission's package is complex and its examination requires more time than the preparation of this report allows.

The most evident difference concerns the scope: the central objective of the MIP is the financial system as a whole, whereas the proposals in this report aim specifically at the innovative sector. Accordingly, the Commission's market coverage is the financial market in its entirety—and possibly beyond, given that the 28th regime announced for 2026 may involve insolvency law and other areas. This broader scope carries through to the specifics. The Commission's approach envisages detailed amendments to the entire body of EU financial-market legislation, whereas this report proposes few targeted modifications and limited reliance on legislative instruments. Moreover, the narrower and more clearly defined goal of this report facilitates the measurement and monitoring of progress.

Implementation of the Commission package will be lengthy, given the need for approval by the co-legislators—the Council and the Parliament, acting by qualified majority—and the transitional period required before the new rules take full effect. We expect the lag between proposal and entry into force to be measured in years, not months. By contrast, the changes proposed in this report—some of which could be implemented by a “coalition of the willing,” as discussed later—could move forward more rapidly.

As noted, the Commission's proposals, which follow earlier initiatives this year on securitisation, retirement savings, and related matters, are complex. In our view, the likelihood that they may undergo changes during the approval process, and thus be diluted or derailed, is significant. The process will involve national stakeholders, whose support will need to be secured, possibly through concessions. By contrast, the proposals in this report reflect discussions within a Reflection Group benefiting from input from a (partial) sample of the EU financial sector.

The two sets of proposals converge most clearly in the areas of supervision and regulatory reform. Both advocate a partial transfer of responsibilities to ESMA, together with targeted adjustments in the financial architecture. Neither calls for radical or abrupt changes to the supervisory framework. Bocconi's report suggests complementing the existing regulatory structure with an optional 28th regime for securities, companies and related fields. The Commission will propose a 28th regime for companies operating across the single market and it stated that they may consider additional initiatives in these areas. While neither document specifies the details, this report offers, in its final section, several guiding principles for the design of such a regime.

Table 1: Summary comparison between the European Commission's proposals in MIP and the Bocconi Report.

	Commission MIP proposals	Bocconi Report
Focus goal	Whole economy	Innovative sector; whole economy to be affected in the longer run
Market coverage	Whole financial sector	Targeted segments relevant for the innovative sector
Legislative instrument(s)	Extensive revision of multiple Directives and Regulations (specified in detail)	Light and targeted legislative requirements (not specified in detail)
Approval requirement(s)	EU-wide qualified majority voting	Coalition of the willing
Implementation timing	Probably long: requires preliminary approval by co-legislators	Potentially limited: depends mainly on the response of market participants
Complexity	High	Limited
Risk of derailment and dilution	High	Medium
Industry support	Uncertain (to be evaluated)	Tested in a limited way
Supervisory framework	Partial transfer of responsibilities to ESMA	Partial transfer of responsibilities to ESMA
Regulatory framework	28 th regime legislation to be detailed in the future	General guidelines for a 28 th regime

Source: Own elaboration.

While taking stock of these important documents and sharing many of their conclusions, the Reflection Group preferred to focus on a limited set of pragmatic recommendations. Accordingly, the first and main goal of this report is to identify a few feasible actions that, undertaken in cooperation between policymakers and market participants, are implementable and stand a good chance of improving the financing conditions of the EU innovative sector.

The innovative sector is a dynamic, rapidly evolving collection of firms that are

2. TOWARD A NEW STRATEGY FOR EU CAPITAL MARKETS

younger, more productive, and faster growing than the economy's average. Largely, though not exclusively located in the service sector, they concentrate primarily on technology, health, biotech, and energy, but also include various specialisations that use advanced technology in the production process. They range from age zero (start-ups) to middle age (scale-ups) to more mature stages. As they grow demographically, successful companies also grow in size, from near zero (early start-ups) to one or a few dozen employees and valuations in the millions of euros, up to several thousand employees and valuations of a billion euros (the so-called *unicorns*) and beyond (*multicorns*). OECD (2025a) analyses distinguish start-ups from scale-ups, the latter having an average age of approximately three years and employing more than ten people, often ranging from fifty to several hundred. Before they reach that stage, firms are primarily financed by venture capital funds and other specialised investors. Beyond that level, they are, in principle, candidates for listing, a crucial and complex step that determines much of their long-term success as public companies.

While placing most emphasis on financing innovation, the Reflection Group is of the view that such a limited focus would ultimately not be sufficient. The financial sector is an interconnected whole whose components are linked to one another and, once integrated and well-functioning, contribute to the market-oriented mindset of all its participants, which benefits all compartments. In the longer run, completing the design is inescapable. After the detailed outline of the six proposals in Section 4, Section 5 examines how the financial sector may look once those actions are implemented and what additional reforms are needed.

3. CHARTING THE EU INNOVATIVE SECTOR



3.A – DEFINITIONS AND MEASUREMENT

This section provides an overview of the ecosystem of innovative firms in the EU. The analysis is based on the firm-level dataset by Dealroom.co (2025), which includes detailed information on firms' transactions, such as funding rounds, exits, acquisitions, and IPOs. Dealroom.co is a global provider of data and intelligence on start-ups and tech ecosystems, widely recognised in the industry, that utilises LLMs and data engineering to assemble one of the most comprehensive databases of start-ups, growth companies, and ecosystems worldwide.

In our analysis, an innovative firm is defined as any company whose source of funding includes – or has included, even in a minority form – venture capital (VC) investment. This definition covers firms of all sizes and across all primary capital sources, with the only requirement being that they were, at least temporarily during their lifespan, VC-backed. Venture capital remains an important source of financing for innovative firms and is often associated with rapid firm growth, new business creation, and high productivity. We believe this definition well reflects the dynamics of innovative firms in the EU. We limit our focus to firms founded in or after 1999 (the introduction of the euro is taken as the reference horizon) and headquartered in a member state of the EU. Our sample includes a total of 64,536 innovative firms. We categorise these firms primarily according to standard classifications, including firm size, age, and type of funding received:

- **Start-ups:** Small, newly created companies designed to search for a repeatable and scalable business model. They often consist of high-risk and highly-innovative businesses, relying on external funding – e.g. angel investors, early venture capital. Their market valuation can range from a few thousands to a million dollars.
- **Scale-ups:** Companies with a solid, profitable, and scalable business model characterised by rapid growth. Typically, these companies register growing revenues or headcount by more than 20% per year for several years. Their typical market valuation spans from one to a hundred million dollars.
- **Unicorns:** Companies founded since 1999 valued at \$1 billion or more. These firms are often positioned as leaders in tech-driven sectors.

We also distinguish different phases in the venture capital financing cycle, and we cluster them into three main groups (see Figure 1): early venture capital, growth phase, IPOs/post-IPOs.

Figure 1: Grouping of the Innovative Firm Growth Phases and Financing Rounds.

Source: Author's editing on Dealroom.co's financing rounds categorisation.

3.B – FINANCING CONSTRAINTS

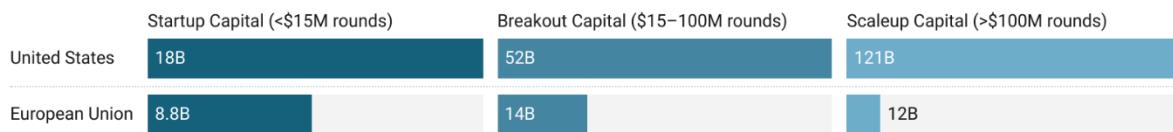
Innovative EU firms face constraints in financing and access to capital at all stages of growth (EIB 2024a; EIB 2025), and these constraints are more pronounced both relative to other firms and to those in other advanced economies, such as the United States. These limitations are particularly significant in the later stages of growth¹, where most highly innovative and productive companies are concentrated.

These two phases are particularly important in a company's successful development. As firms move from start-ups to scale-ups and eventually to IPOs, their financial challenges intensify. Growing companies typically no longer rely on a single funding source but instead require a mix of financing (e.g. equity, debt and working capital, and alternative instruments). It is during this phase that strategic decisions about ownership arise – whether to sell, go public, or remain private – making robust exit options essential for sustaining early-stage investor appetite. For European firms, the hurdle is particularly steep: later-stage growth demands larger injections of capital while, from the investor's perspective, perceived risk remains high. At this point, scale-ups generally need to draw on a broader spectrum of financing, positioned between traditional venture capital and corporate or project finance, to cover both working capital needs and long-term investment requirements. As a result, these stages require larger volumes of capital that extend beyond traditional VC sources. However, the EU financial sector currently lacks the capacity to provide such a broad range of financing options, both qualitatively and quantitatively. When comparing VC investment between the EU and the US across different firm growth phases, the EU's financing gap relative to the United States widens significantly: from just under 50% in the start-up phase, to 27% in the break-out phase, and to less than 10% in the scale-up phase (see Figure 2).

¹ For a more detailed discussion on the topic, see EIB (2024a) and Böninghausen et al. (2025).

3. CHARTING THE EU INNOVATIVE SECTOR

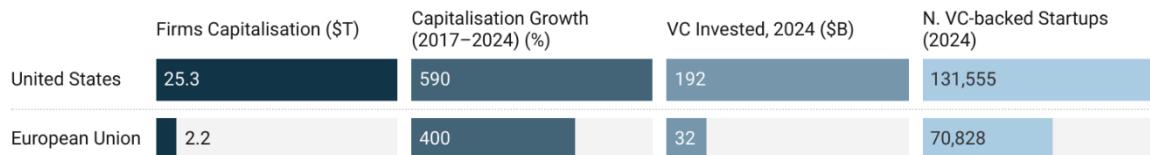
Figure 2: Comparison of VC investment by Growth Phase in 2024 – EU vs. US.



Source: Own elaboration on Dealroom.co (2025) data.

As shown in Figure 3, gaps also remain in the depth of financial markets (measured by firms' capitalisation), total VC investment, and the number of VC-backed firms between the two regions. Globally, venture capital investment in the United States continues to outpace that of the EU, reinforcing the persistent scale-up gap. Market capitalisation is one of the main drivers. In 2024, US firms reached a combined market capitalisation of \$25.3 trillion, compared with \$2.2 trillion in the EU (8.7% of the US market size), with growth since 2017 accelerating more quickly in both relative and absolute terms. VC investment volumes mirror this imbalance: \$192 billion in the US versus just \$32 billion in the EU. While Europe supports more than 70,000 VC-backed start-ups, the average funding depth per company remains far below that seen overseas, where over 130,000 firms benefit from a much larger capital pool.

Figure 3: Overall comparison of VC investment in 2024 – EU vs. US.



Source: Own elaboration on Dealroom.co (2025) data.

What emerges is not only a lack of funding for innovative companies in their early stages – shown by the fact that VC investment in the EU in 2024 amounted to just 16.7% of that in the US and that the total number of firms reached by such investment is roughly 46% lower in Europe – but, more importantly, a structural shortfall in later-stage financing and high market valuations, which limits the ability of promising firms to scale globally. This helps explain why many EU-based late-stage firms look to develop in non-EU markets that offer larger volumes of risk capital. The EIB Investment Survey (EIB 2024b) points to the same issue: on average, 35% of EU firms interviewed reported dissatisfaction with the total amount of financing received. The share is higher in peripheral countries, where the cost of (bank) financing is generally greater (see Figure 4a).

Figure 4a: Dissatisfaction with external finance received in the EU by country in 2024.

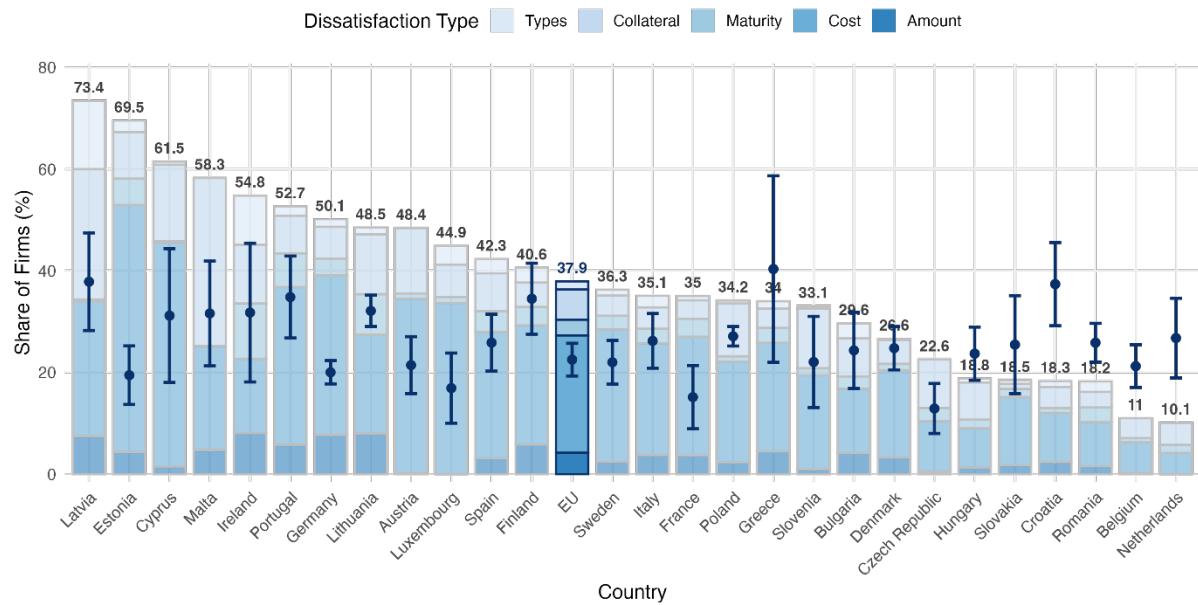
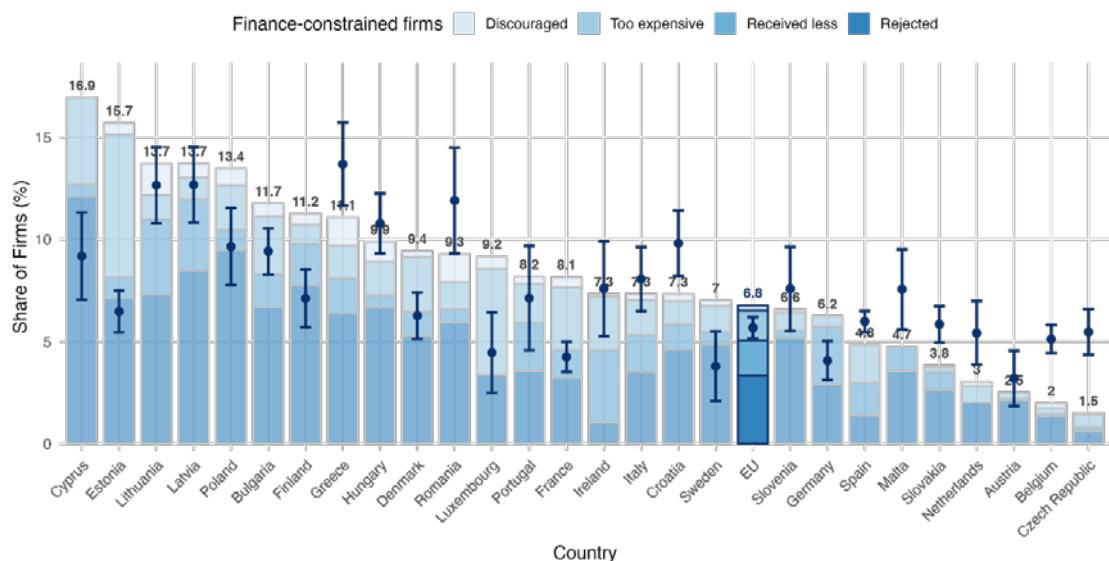


Figure 4b: Share of finance-constrained firms in the EU by country in 2024.



Source: Author's elaboration on EIB (2024b) data. Note: Bars represent dissatisfaction values for year 2023 from the EIB Investment Survey 2024 wave. The blue dots with 95% confidence intervals represent the average dissatisfaction and the average share of finance-constrained firms in the 2016-2023 period from previous EIB Investment Survey data. All firms (excluding don't know/refused responses). For questions referring to the last financial year, the reference year is the previous calendar year.

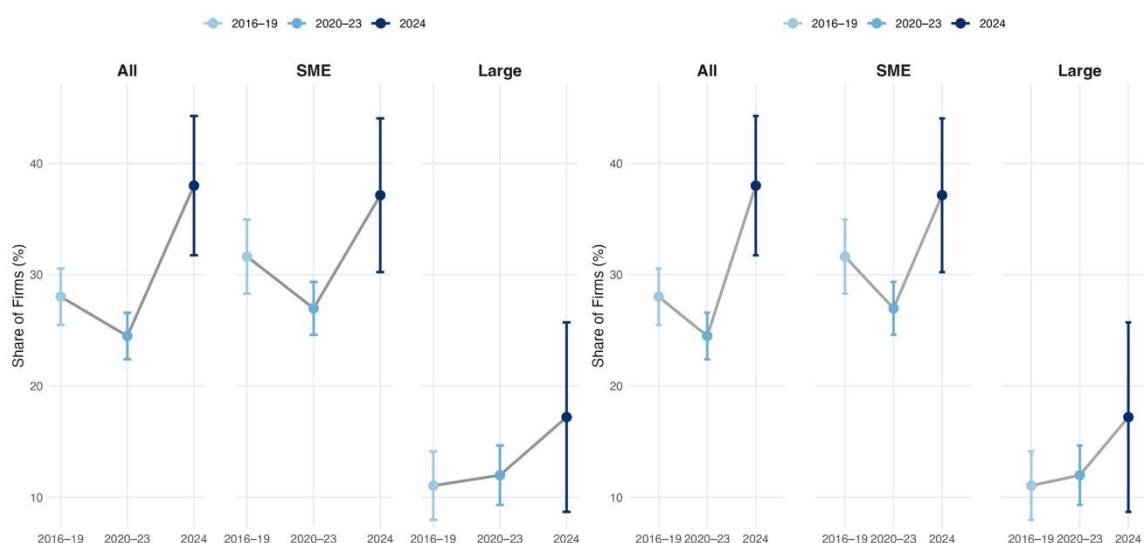
3. CHARTING THE EU INNOVATIVE SECTOR

Cost and qualitative features are not the only constraints. On average, around 7% of the firms interviewed reported being unable to access external finance at all. The share rises above 10% in some EU peripheral countries, where requests for external finance are, in many cases, rejected (see Figure 4b).

Heterogeneity arises not only across countries but, to some degree, also within the sample when comparing different firm sizes (see Figure 5). Most of the overall dissatisfaction with external finance received is concentrated among SMEs and accounts for almost 40%, a share that has been rising compared with previous survey waves (Figure 5a). A similar pattern appears in the share of firms reporting financial constraints (Figure 5b), which is considerably higher and increasing among SMEs, while moving in the opposite direction for larger firms.

Figure 5: EIB Investment Survey data on the financing status of EU firms in the 2016-2024 survey waves by firm size.

Panel (a): Dissatisfaction with external finance **Panel (b): Share of finance-constrained firms received.**

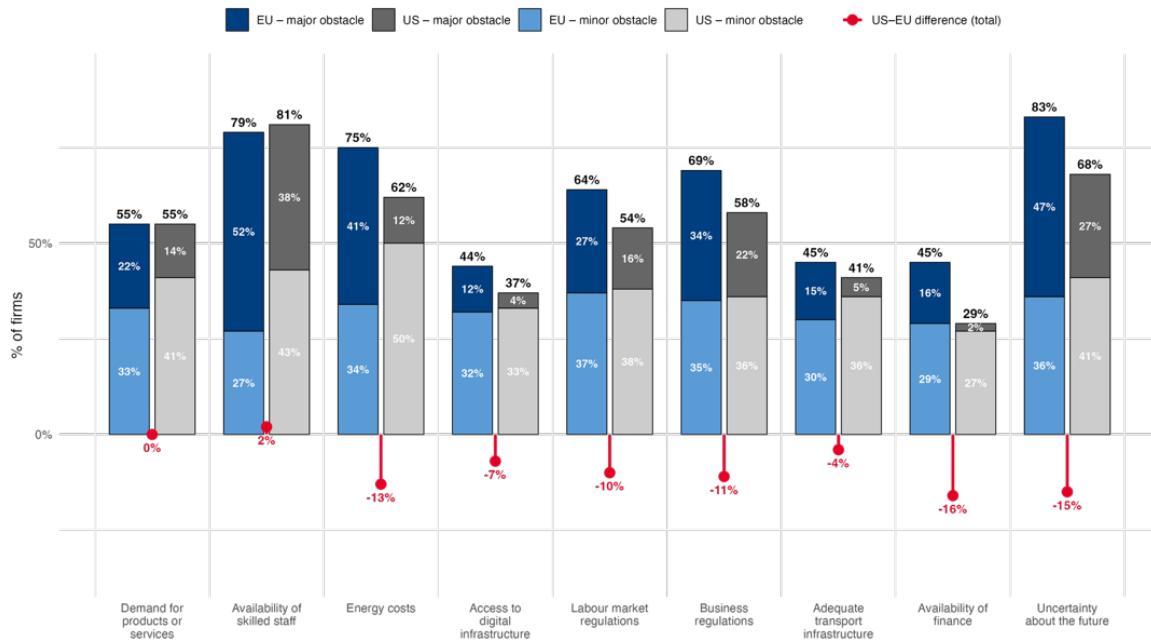


Source: Author's elaboration on EIB (2024b) data, European Investment Bank. Note: The EIB Investment Survey waves responses have been averaged over the 3-year period over 2016-2023. The observations available for the last wave (EIB, 2024b) have been reported with no time averaging. Error bars are representative of a 95% confidence interval across all observations from EU countries.

Comparing survey responses between the EU and the US further highlights the impediments to investment financing that exist in Europe's financial structure. Figure 6 shows the differences between the two regions with respect to long-term barriers to investment. At the top of the list, the availability of finance remains the main difference in long-term investment constraints between the EU and the US (a 16% gap), although this gap has narrowed compared with the previous EIB survey. A further discrepancy arises in the share of firms that consider the availability of finance a major obstacle to investment: 16% of European firms report this concern, compared with only 2% of US firms. This is followed by

uncertainty about the future (15% difference) and energy costs (13% difference).

Figure 6: Firms' Obstacles to Long-Term Investment EU vs. US in 2025.

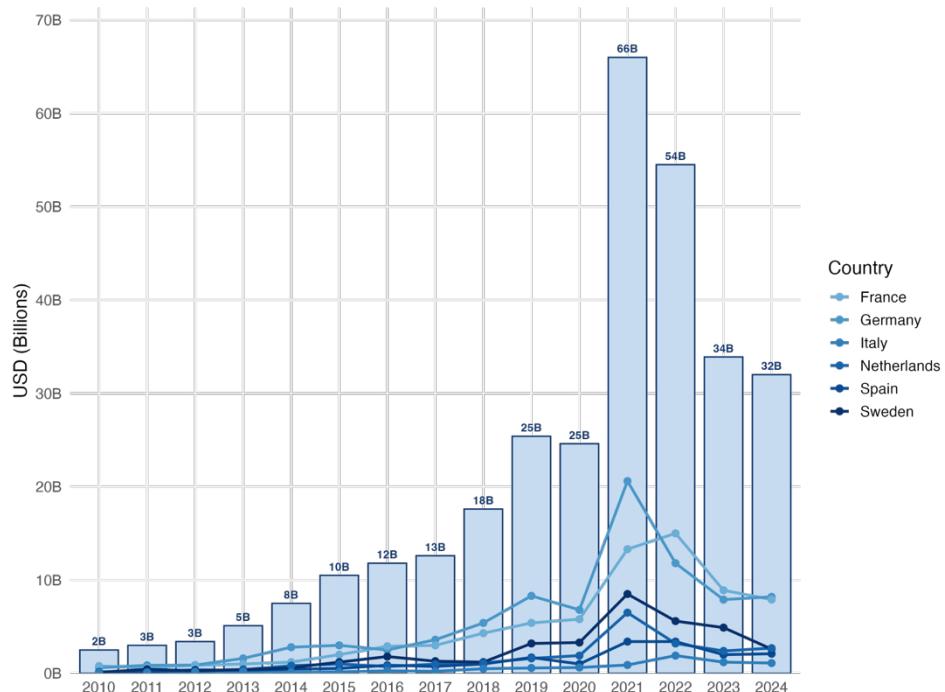


Source: Author's elaboration on EIB (2025) data. Note: Bars represent survey values for year 2024 from the EIB Investment Survey 2024 wave.

3.C – VENTURE CAPITAL SECTOR

Venture capital investment in European firms remains limited and highly fragmented. In 2024, the total reached roughly USD 32 billion, marking a decline from the previous year and less than half the peak of USD 66 billion recorded in 2021. However, from a longer-term perspective, VC investment in the EU has grown rapidly since 2010: the flows observed in 2024 are more than twelve times those of 2010 and twice those of 2017 (see Figure 7).

Figure 7: Venture Capital Investment Flows in the EU by Country (2010-2024).



Source: Own elaboration on Dealroom.co (2025) data. Blue bars represent total annual VC investment in the EU.

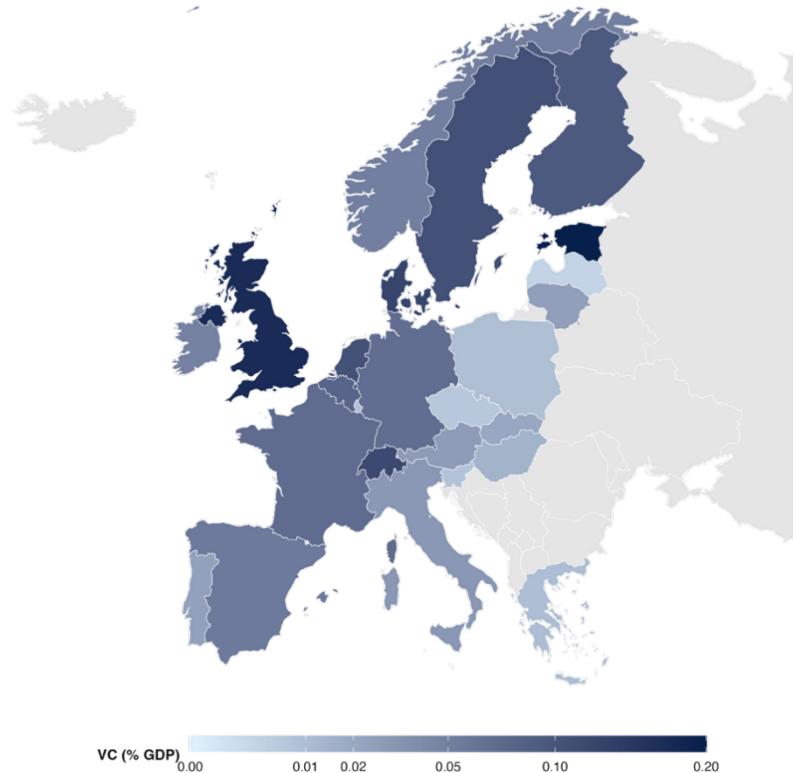
VC investment rose steadily until 2021, supported by abundant liquidity and low interest rates. On this basis, VC financing appears to display a high elasticity with respect to its cost (although systematic analyses are not available to our knowledge). After the peak, there was a noticeable correction in 2022–2023, coinciding with rising interest rates and heightened economic and geopolitical uncertainty, which redirected capital flows toward safer assets. Public sector funding – at both European and national levels – was another key driver behind the growth of venture capital financing during the early 2020s. Public resources helped establish numerous venture capital funds across the EU, including large contributions from the EIF. Public money often served as an anchor to attract private investors and mobilise capital towards innovative firms.

Venture capital flows are highly heterogeneous across countries and sectors (see Figures 1 and 2, Appendix). In recent years, larger allocations have gone to the energy, transportation, and healthcare sectors², while flows to fintech and software technologies have declined. Germany and France lead the EU in investment volumes, although they lag significantly in VC-to-GDP terms compared with other advanced economies. In most EU countries, VC volumes relative to GDP rarely exceed 0.10% (see Figure 8). This is not the case for the UK (0.18%), Canada (0.20%), and the United States (0.53%), which are leaders in both investment

² For the sector categorisation, we follow the taxonomy used by Dealroom.co. For further information on the industries and sub-industries, see glossary: https://knowledge.dealroom.co/knowledge/industries-and-sub-industries?_ga=2.146542710.399711619.1756390901-18084080.1756113319.

activity and the attractiveness of risky capital.

Figure 8: Venture Capital Investment in Europe as % of GDP in 2024.



Note: Own elaboration on OECD (2025c) data.

3.D – THE FIRM ECOSYSTEM

Mirroring VC flows, the distribution of venture capital-backed firms across the EU is highly concentrated (see Figure 9). Germany and France are the only two countries with more than 10,000 innovative firms each, and they also host the highest numbers of unicorns in the EU – 64 and 42 respectively, out of a total of 299³ (see Figures 3 and 4, Appendix). These numbers are, however, modest when compared with those of the UK (175 unicorns) and the US (1,755). Germany and France also dominate in terms of aggregate valuation and employment, making them the primary centres of scale and the main European hubs⁴. Figure 10 divides EU innovative firms into “low-valuation” and “high-valuation” segments. Most of the leading innovative hubs in the EU are located in the largest countries, where firm density is highest, while the periphery is characterised by fewer and smaller

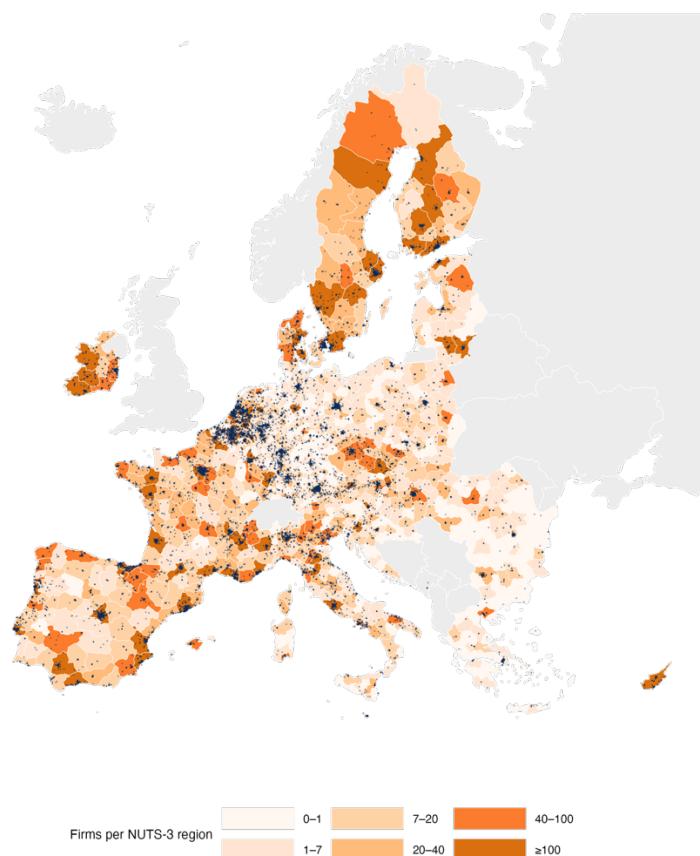
³ The total cumulative counts are provided by Dealroom.co and refer to the time of writing (August 2025).

⁴ For further details, see the EIF Report: <https://engage.eif.org/the-vc-factor/eu-vc-ecosystem>.

companies, with substantial disparities in total capitalisation (see Figure 5, Appendix). Together, Germany and France account for more than €350 billion in total capitalisation and represent the largest hubs in terms of both company numbers and employment, reflecting the capital- and labour-intensive nature of their innovative sectors.

Based on this evidence, it is difficult to disentangle two interrelated phenomena: the lack of innovative enterprises, particularly in certain areas of the EU, and the insufficient financing (in both quality and quantity) available to them. From this point onward, and throughout the rest of the paper, we assume that both phenomena are present.

Figure 9: Density Map of the Innovative Firm Ecosystem in the EU (1999-2025).

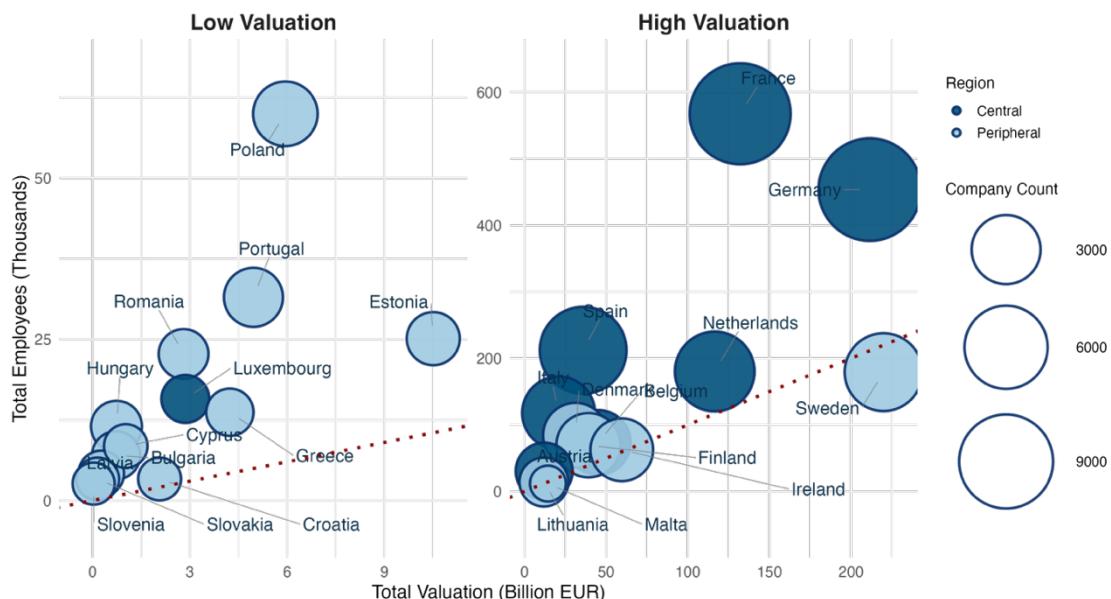


Source: Own elaboration on Dealroom.co (2025) data. Note: Blue dots represent individual EU innovative firm. To represent geographical location, data on the specific longitude and latitude of the firm's HQ have been used. The orange shading shows the total number of innovative firms per country-region (NUTS-3 level).

Smaller hubs such as Sweden, the Netherlands, Ireland, and Finland exhibit relatively high valuations relative to their employment base, suggesting less labour-intensive ecosystems capable of generating substantial firm value without proportionally large workforces. By contrast, most Central and Eastern European member states, as well as several southern economies, remain at the lower end

of the distribution, with valuations below €10 billion and limited employment. Such evidence highlights persistent disparities within the EU venture landscape in both factor productivity and financial market development. Although a positive relationship between total valuation and employment can be observed, the high degree of dispersion points to significant heterogeneity. This further backs the thesis that Europe's venture capital market and innovative firm ecosystem are not integrated but rather segmented into a small group of high-value hubs and a dispersed set of peripheral markets. High degrees of fragmentation are problematic, as much research shows that integrated and connected innovation clusters, particularly when combined with research facilities, foster productivity, growth, and high-value employment.

Figure 10: Cluster of EU Countries by Market Valuation, Employees and Number of Firms.



Source: Own elaboration on Dealroom.co (2025) data. Note: Data on the total number of employees and firm valuation are referenced to the time of the data extraction (July 2025). The size of the dots is proportional to the total number of innovative firms in each country.

Heterogeneity also persists across the development phases of innovative firms. Table 2 presents a clustering of all funding stages in our sample into three main groups, corresponding to the previously defined development phases: early phase, growth phase, and public/post-IPO. We also include two additional categories ("hybrid and debt instruments" and "other"), which capture firms using financing types that cannot be attributed to a specific development phase, as well as funding stages that cannot be assigned to a single category because they span multiple points in a firm's financing lifecycle. Hybrid instruments refer to financing sources used across more than one development stage or only under specific conditions (e.g. long-term project financing), and therefore cannot be exclusively

3. CHARTING THE EU INNOVATIVE SECTOR

allocated to any of the previously defined groups⁵. Most firms in our sample fall into the early-phase category, and these companies require, on average, more than three years to develop and reach one of the initial funding stages in the first cluster. This stage is also characterised by generally younger firms⁶, lower capitalisation, and fewer employees.

Table 2: Summary Statistics of the EU Innovative Firm Ecosystem – Average Values 1999-2024.

	Time to Funding - Last Round (years)	Firm Age (years)	Capitalisation (EUR Million)	N. Employees	N. Firms	% Total Firms
Early Phase	3.30	8.83	15.6	24.3	38910	60.3
Growth Phase	7.92	13.5	138.0	116.0	8955	13.9
Public and post-IPO	12.2	16.3	987.0	435.0	443	0.7
Debt and Hybrid Instruments	4.91	9.36	128.0	82.4	1398	2.2
Other	1.52	9.96	18.7	23.2	14830	23

Note: Own calculations from Dealroom.co (2025). Description: The table represents the average values of the main summary statistics of the dataset used in the chapter. "Time to funding" has been computed as the number of years between the year of the firm's last funding round and the year the firm has been created. "Firm age" is intended as the number of years since creation with respect to 2025.

This aspect largely reflects the composition of European firms, which consist mostly of SMEs- the early-stage innovative cluster represents more than 60% of the total sample. The table shows that the early stage is characterised by firms with an average age of almost nine years and an average time to funding of 3.3 years, meaning that, on average, firms in this phase secure one of the early funding stages within four years of their creation. These numbers tend to increase as the development stage and age progresses: firms in the public and post-IPO cluster have an average age of around 16 years and take roughly 12 years to reach the IPO phase. Compared with the US, the innovative cluster of European firms takes around two years longer than the standard representative US firm to reach this stage⁷, but considerably less time than other non-innovative European firms, whose average time to IPO is 23.1 years (Böninghausen et al., 2025).

⁵ The full list of funding stages used by Dealroom.co is available here: Early Phase: Angel; Early VC; Grant; Seed; Series A; Series B; Support Program; Media for Equity; ICO. Growth / Expansion: Series C; Series D; Series E; Series F; Series G; Series H; Late VC; Growth Equity VC; Growth Equity Non VC; Secondary; Buyout; Merger; Acquisition; Spinout; Corporate Spinout; Private Placement VC; Private Placement Non VC. Public / Post-IPO: IPO; SPAC IPO; Post IPO Equity; Post IPO Debt; Post IPO Convertible; Post IPO Secondary. Debt / Hybrid Instruments: Debt; Convertible; Lending Capital; Project, Real Estate, Infrastructure Finance. Other / Special Situations: any other round not listed above and NAs.

⁶ The firm's specific age is computed considering the year of foundation until the year of data extraction (2025).

⁷ We have no information on the average time to IPO for highly innovative firms in the US. The statement is based on the ECB's analysis of a large sample of firms in the US that does not define "innovative firms" in the same way we do in the report.

It is also notable that, in the EU, only a very small share of firms analysed – just 0.7% – manage to reach the final development stage while retaining their headquarters in the EU. Most innovative transactions occur at the lower end of the distribution. The limited number of firms advancing to later development phases represents a setback for start-ups, as it reduces opportunities to scale and reflects the absence of a sufficiently vibrant ecosystem and supportive financial structure. Nevertheless, firms in the final development stages are the primary drivers of capitalisation dynamics in the EU. Unicorns alone account for more than 50% of the total capitalisation value of innovative firms (see Figure 5, Appendix).

Similar dynamics appear in the financing statistics. The early phase is characterised by an average of two financing rounds and very limited capital accumulation (see Table 3). These figures rise as firms progress in their development, reaching more than five rounds on average by the time a company goes public. Funding amounts in the growth phase are also higher than in the expansion phase (public and IPO), although we are unable to track capital valuation immediately after the IPO, which may involve additional capital raising.

Investor composition adds another layer of heterogeneity to financing sources (see Figure 6, Appendix). Most VC investment in innovative firms occurs at the national level (34.7% on average between 2020 and 2024), with national investors–public or private– allocating risk capital to companies within their own countries. This share has remained relatively stable throughout 2010–2024. The second-largest source of funding comes from other European investors, contributing a substantial and consistent portion (around 25–30%), rising to more than 60% when combined with national investments. A significant share also comes directly from US investors (22.8% on average between 2020 and 2024), who represent the largest external source of funding for EU innovative companies, particularly during the scale-up phase.

Table 3: Summary Statistics of the EU Innovative Firms Financing Rounds in 1999-2024.

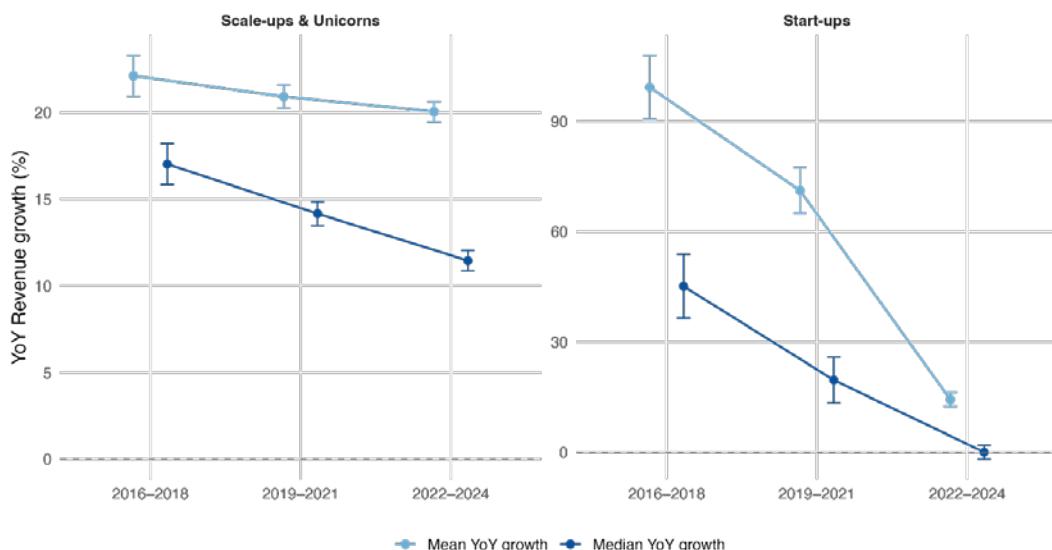
	N. Average Total Financing Rounds	N. Median Total Financing Rounds	Average Last Amount (EUR Million)	Median Last Amount (EUR Million)	N. Firms
Early Phase	2.00	1	2.78	0.7	38910
Growth Phase	2.93	2	96.70	15.0	8955
Public and post-IPO	5.30	4	73.90	8.95	443
Debt and Hybrid Instruments	2.34	2	22.40	0.10	1398
Other	0.28	0	2.30	0.60	14830

Note: Own calculations from Dealroom.co (2025).

3.E – FIRMS’ PERFORMANCE

There is substantial evidence that innovative firms are more productive than their peers in the wider economy. Using our sample, we are able to break down the development phases of innovative firms and compare growth and performance across these different stages. Revenue growth patterns among innovative firms tend to follow a consistent trajectory (see Figure 11): rapid and volatile expansion in the early stages, followed by a sharp slowdown as companies scale and mature. Start-ups exhibit the most aggressive yet unstable growth, with average year-on-year increases often exceeding 90% in peak years (from very low starting levels) but swinging sharply into contraction during downturns. Scale-ups and unicorns, while less extreme, still display considerable volatility: their growth surged above 60% on average around 2019–2021, but then contracted markedly and returned to single digits by 2022–2024.

Figure 11: Yearly Revenue Growth by Firm Category – Average and Median Values 2016–2024.



Source: Own elaboration on Dealroom.co (2025) data. Note: Year-over-Year (Y-o-Y) revenue growth by year subperiods (3-year blocks) and firm category. Firm categories are defined as follows: start-ups are young firms (age ≤ 3) with limited labour force (≤ 10 employees); scale-ups and unicorns are more mature firms (age > 3) and a larger number of employees (> 10 employees). Error bars represent 95% confidence intervals, accounting for sample size within each category and period.

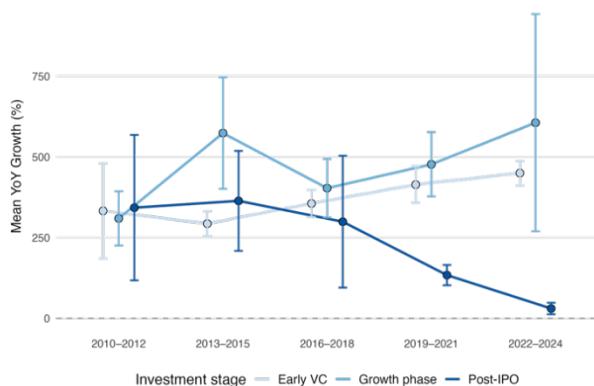
Notably, 2021–2022 marked a surge in growth across all categories, likely driven by abundant liquidity and digital acceleration, but this momentum reversed sharply in 2023–2024 as monetary conditions tightened. The evidence highlights a central dynamic of the innovative EU ecosystem: higher returns are concentrated in early-stage, lower-valuation firms, while sustained value creation requires a transition from hyper-growth phases to more mature stages.

Figure 12 shows that firms in the growth phase consistently outperformed, recording average growth of around 500% in strong years, though with very wide

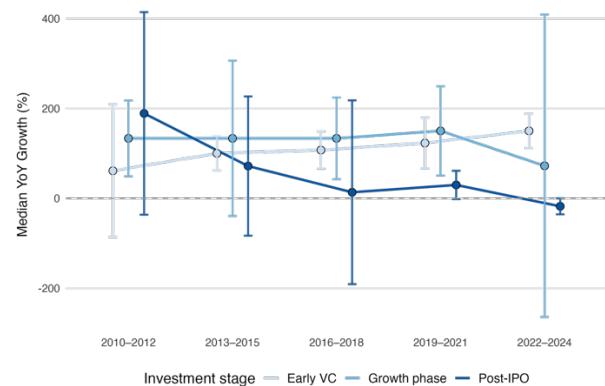
error margins signalling high volatility in capital expansion. Early VC-backed firms also exhibit rapid increases in estimated capital value, albeit generally less pronounced than in the growth phase. Post-IPO firms, by contrast, rarely exceeded 100–200% growth, underscoring a compression of growth capital as firms mature. Valuation trends reinforce these dynamics (see Figure 7, Appendix): firms valued below \$200 million and those in the \$200 million–\$1 billion range experienced dramatic spikes, with occasional outliers surpassing 1,000% growth, while companies valued above \$1 billion have seen their growth stabilise at flatter rates in recent years. The common pattern is one of diminishing returns to scale, amplified by macroeconomic cycles, followed by a marked deceleration in 2023–2024 as liquidity tightened and investor risk tolerance declined.

Figure 12: Average and Median Yearly Capitalisation Growth by Investment Stage – Average Values 2010–2024 by sub-periods.

Panel (a): Average YoY Valuation Growth.



Panel (b): Median YoY Valuation Growth.



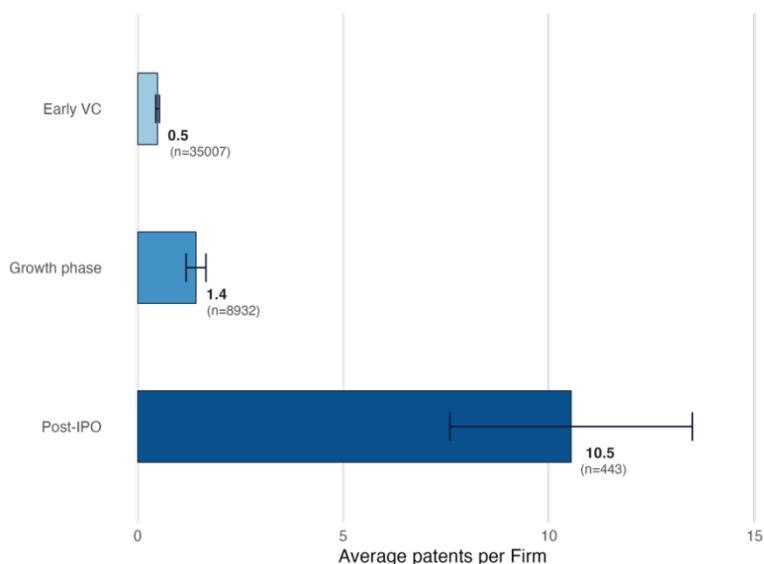
Source: Own elaboration on Dealroom.co (2025) data. Note: Error bars represent 90% confidence intervals around investment stage and time sub-period.

The scale-up process also influences the degree of innovation. Data indicate that intellectual property among innovative firms in the EU is highly concentrated, apparently even more so than in the US⁸. The distribution of patents across investment stages shows a strong divergence between early and mature firms. Figure 13 reports the average number of patents held by firms in the sample over the 1999–2024 period. Companies in the early VC stage hold, on average, just 0.5 patents, underscoring their focus on rapid technological discovery and market entry rather than formal intellectual property protection. This rises only slightly in the growth phase to 1.4 patents per firm, suggesting that while some firms begin to formalise their intellectual property strategies, many still prioritise scaling and customer acquisition over R&D-intensive innovation. By contrast, post-IPO firms

⁸ At our knowledge, there are no specific studies that provide information on patent or intellectual property concentration in the US. However, data from the U.S. Census Bureau highlight a higher concentration of patenting firms also in the young (< 6 years old) firm segment, as well as in the small size share (< 20 employees), averaging a 50% of the total (U.S. Census Bureau, 2025).

hold nearly 11 patents on average, reflecting both the resource capacity and the strategic imperative of public companies to protect their innovative capabilities. The wide confidence intervals at this stage also point to industry-specific concentration, with deep-tech and life-sciences firms driving patent intensity far more than software or services. Taken together, the data suggest that patenting is less a driver of early-stage growth and more a feature of later, more mature stages, where firms aim to consolidate competitive advantage and enhance market valuations through demonstrable innovation assets.

Figure 13: Average Number of Patents by Investment Stage – Average Values 1999-2024.



Source: Own elaboration on Dealroom.co (2025) data. Note: Error bars represent 90% confidence intervals, accounting for investment stage of the whole sample period. In parenthesis, the total number of firms for each stage.

However, patents and R&D activities do not provide a competitive advantage in terms of financing. Gaps in the current prudential legislation tend to undervalue firms rich in intangible assets. In mature financial markets, intangible assets related to the development and implementation of high-tech products and R&D promote firms' access to finance (Brassell and Boschmans, 2019) and support productivity growth (Demmou and Franco, 2021). In Europe, however, when firms seek to leverage their intangible value, financing mechanisms suited to this purpose – such as intangible-based loans – are penalised under capital regulations, discouraging bank lending to high-innovation firms and contributing to their late-stage financing shortfall.

3.F – EXIT STRATEGIES

This section examines the exit rounds of innovative firms in the EU. In our sample, 6,973 firms exited their national markets and relocated elsewhere during the period under consideration. Exit rounds mainly occur through three types of operations: acquisitions, buyouts, and IPOs/SPAC IPOs. Table 3 reports the main summary statistics. Typically, exits take place at more mature stages. Most transactions occur through acquisitions by other companies, either within the EU or abroad. A smaller share involves high-value buyouts, while a significant portion of firms reaches the IPO stage, with an average time to exit of more than 10 years. Although IPOs are associated with lower average amounts of capital raised – partly due to the newly issued shares and issue price – the total average company valuation in this category is substantially higher than in the other exit options.

Table 4: Summary Statistics of Companies in the Exit Round – Average Values 1999-2024.

	Years to Exit	N. Firms	Amount Raised Exit Round (EUR million)	Total Valuation after Exit Round (EUR million)
Acquisition	9.50	5323	285	492
Buyout	13.4	395	545	1089
IPO/SPACIPO	10.2	788	146	1124
Other	–	476	–	–

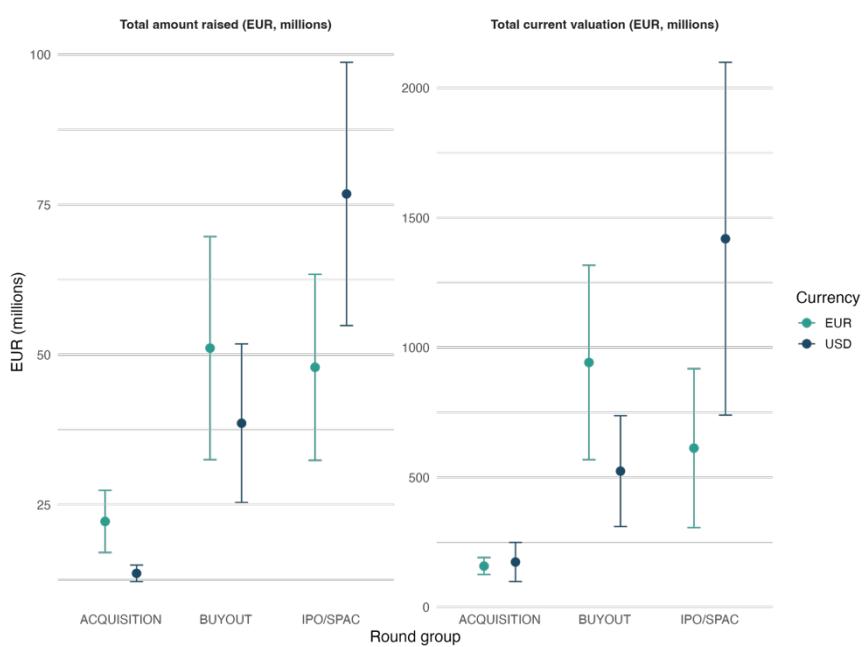
Note: Own calculations from Dealroom.co, 2025.

To better understand exit dynamics, it is useful to examine the relationship between the amount of VC funding firms receive at different stages of their development and their subsequent likelihood of growth and, ultimately, successful exit. Financing firms that are already in a growth phase and show strong exit potential can be particularly profitable for VC investors, as this reduces capital holding periods and accelerates the realisation of cash flows. As shown in previous sections, the distribution in the EU is much more tilted towards larger firms compared with the US. The fact that VC funds tend to finance larger firms (with more than 1,200 employees) to a far greater extent than in the US requires interpretation. It likely reflects the fact that US innovative scale-ups tend to go public at a much younger age (see ECB, 2025), thereby exiting earlier the stage in which they depend on venture capital.

Another aspect to consider is the currency denomination of deals and transactions. Figure 14 shows the average amount raised by exit group and currency, together with their confidence intervals. Despite some considerable volatility in the buyout and IPO phases, IPOs of EU firms issued in USD tend to involve significantly higher capital raised at the time of exit and higher post-exit valuations. This reinforces the observation that many late-stage growth firms seeking to go public opt to list in markets with higher valuations outside the EU.

Although we do not have systematic granular information on the country of listing, EU companies issuing in USD tend, on average over the period analysed, to raise more than 60% more – in currency-equivalent terms – than companies choosing to list in EUR. Even more striking is the current total valuation⁹ of companies listed in USD: on average, 132% higher than those listed in EUR. This gap partly reflects the deeper US capital markets and higher investor risk tolerance, effectively indicating the larger scale at which transactions occur in the US.

Figure 14: Amount Raised in the Exit Round and Total Valuation (EUR million) by Currency (in absolute PPP) – Average Values 1999-2024.



Source: Own elaboration on Dealroom.co (2025) data. Note: The amounts have been expressed in the same currency for comparison accounting for the exchange rate conversion. Dots represent the average values for each category. Error bars denote 90% confidence intervals around the median values.

The situation differs for companies in the acquisition and buyout phases, which tend to benefit from higher transaction values when deals are conducted in EUR compared with those executed in USD. Although it is not possible to track each individual transaction, we are able to synthesise information on exit flows by currency across the three defined categories and measure their size. Figure 15 shows the currency destination of the exit transactions realised.

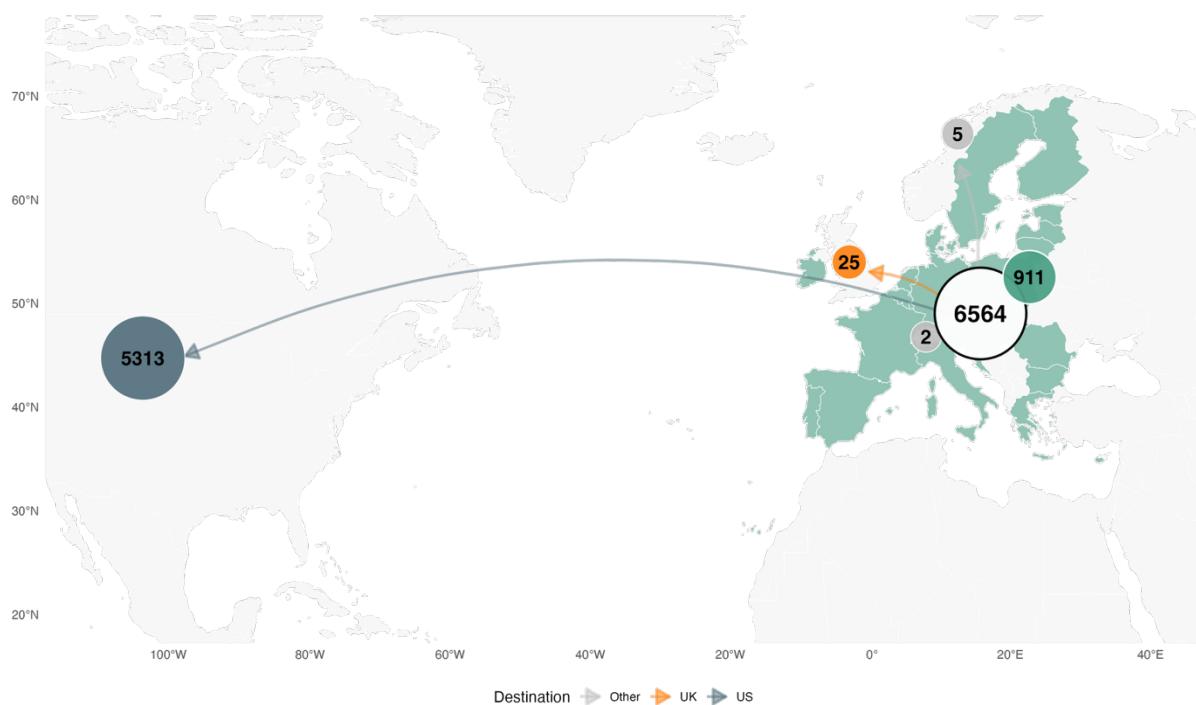
Of the 6,564 exit transactions undertaken by innovative firms between 1999 and 2024, 5,313 were denominated in USD. This does not mean that all companies exiting their national headquarters market were relocated to, or acquired by, a US-based company. Rather, they chose to conduct the transaction in the most

⁹ The current valuation in EUR refers to value extract from Dealroom.co in July 2025.

liquid global currency. Only a small minority (911 firms) carried out market operations denominated in EUR (see Figure 8, Appendix, for IPO transactions only¹⁰). However, this exit geography reflects only part of a broader picture.

Global flows of exits and acquisitions reveal a highly concentrated pattern dominated by Europe and the United States (see Figure 16). Although it is difficult to track all exit deal locations in the data, we have been able to extract information on the new destination countries of some exiting firms. For a subset of transactions, we have information on the acquiror country (whether through an acquisition, a buyout, an IPO, or another type of transaction), and we have mapped these flows in the figure below. For many other deals, however, we do not have information on the acquiror's location. It is therefore useful to complement this analysis with the currency data presented earlier, bearing in mind that - although not very common- some transactions within the EU may be denominated in USD for the reasons previously discussed, if chosen by the parties involved.

Figure 15: Exit Flows of Innovative Firms to Currency Denominated Destinations – Total Values 1999-2024.



Source: Own elaboration on Dealroom.co (2025) data. Note: The graph represents the total number of

¹⁰ We dispose of high-quality data on the currency used in exit deals, but less precise information on the actual exit location. For this reason, our analysis focuses primarily on currency. In most cases, currency and location coincide: it is quite difficult – due to regulatory and compliance requirements – to list a company in the EU in USD. While uncommon, it is not legally impossible. Therefore, we refrain from drawing firm conclusions about the precise exit location, except for Figure 16, where we do have reliable data on the geographic location of the exit.

3. CHARTING THE EU INNOVATIVE SECTOR

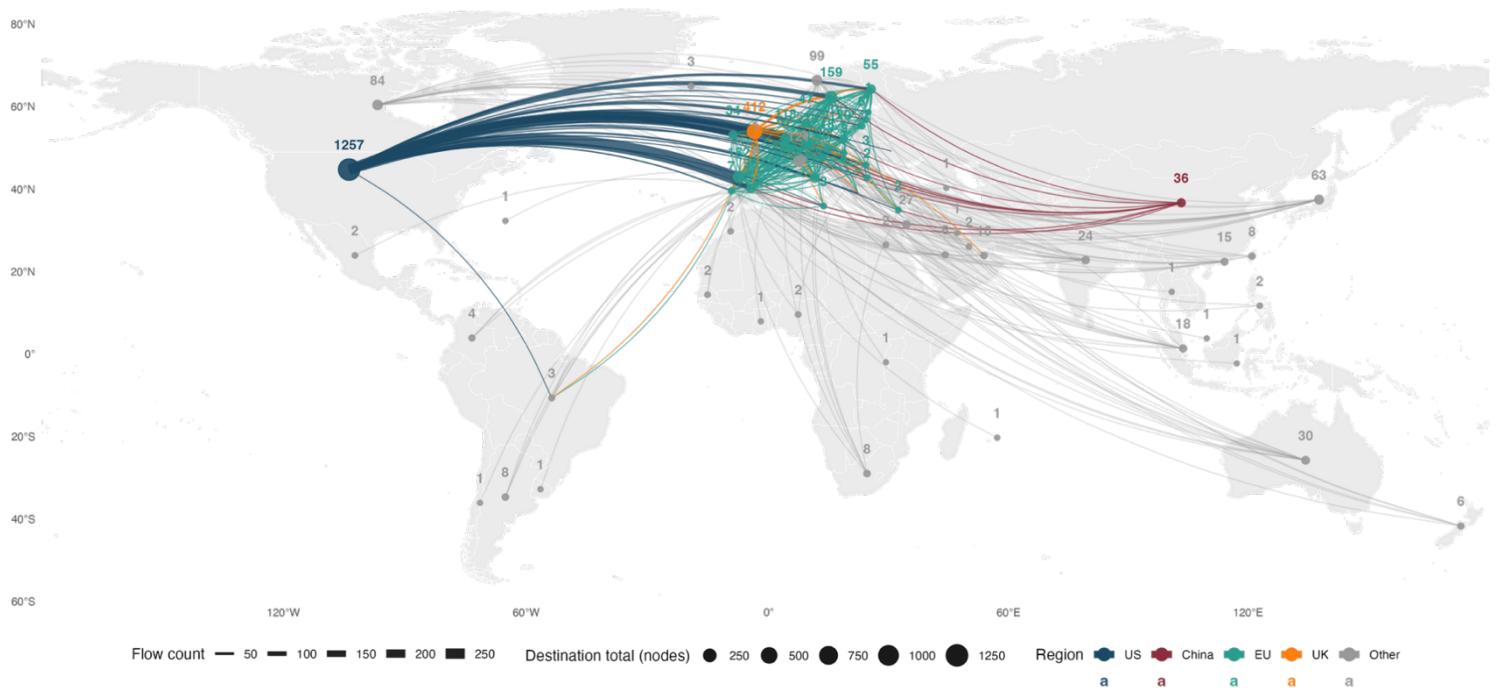
innovative firms exiting the EU by the currency denomination' country. The white dot represents the total number of EU firms exiting the European market. Using data on the currency transaction for the firm's exiting round and their good data quality, the map shows that, to the largest extent, most of the exits are dollar denominated (blue dot). The green dot represents the total number of EUR denominated exit deals. This indicator is a strong signal – however, not exclusive – that the acquiror region is the same as the one emitting the currency of the deal.

The exit flows in Figure 16 show that European firms account for the majority of cross-border exits, with dense interconnections across EU countries and a particularly strong flow toward US acquirors. Most exits occur within the EU, with EU firms acquiring other EU firms or listing publicly in an EU country. The United States emerges as the single largest non-EU destination, with 1,257 direct acquisitions (across all exit categories) originating from other geographies, underlining its role as a central hub for scaling firms seeking liquidity, higher valuations, or strategic buyers. The United Kingdom is another major hub, accounting for 412 exit transactions involving EU innovative firms. By contrast, China's role remains comparatively modest, registering only 56 inbound acquisitions, and reflecting of both regulatory constraints and geopolitical factors that limit its participation in European M&A.

Overall, the map demonstrates a core-periphery structure for EU innovative firms: acquisitions cluster heavily in established innovation ecosystems, with the US as the gravitational centre, Europe as a dense secondary hub, and the rest of the world contributing far smaller, more sporadic flows. The flow volumes are, however, asymmetric: relatively few foreign companies choose to list in Europe, and this share has been steadily declining in recent years (ECB, 2024).

This concentration highlights ongoing challenges for capital-market depth and the significant role played by the US as an attractor of EU firms. Beyond financing considerations, other factors that are harder to measure may also push firms to seek funding abroad. Strategic motives could also play a role: firms aiming to scale may view foreign venture capital as a pathway to entering larger markets. This would reinforce the idea that the US remains the dominant player- both in market size and investment – for high-tech and highly innovative products.

Figure 16: Firms Exit Flows by Destination Country (HQ Based) – All Exit Categories 1999-2024.

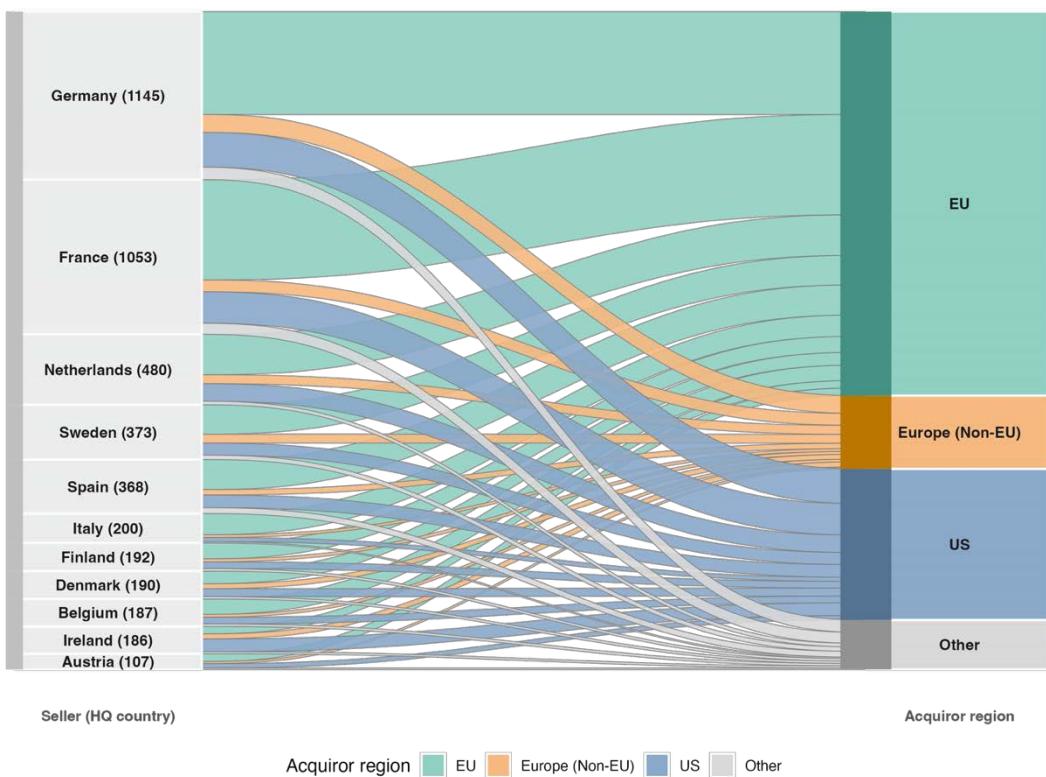


Source: Authors' elaboration on Dealroom.co data (2025). Description: Network of exit flows of EU innovative firms by destination country between 1999 and 2024. The size of the nodes and the thickness of the flows are proportional to the total number of firms to the destination country. All types of exits have been included in the mapping.

Refining the data further, it is possible to break down the geographical distribution to acquisition activities only (see Figure 17). Merger or acquisition represents the alternative outcome for a scale-up once it reaches IPO-ready age. We can imagine a successful firm, around eight to nine years old, seeking a strategy for further growth. It may attempt to go public, either in Europe or elsewhere (with the US likely being the first choice). If this strategy is unfeasible or does not succeed, merging becomes the alternative. The chart shows that most mergers take place with non-EU firms, and within this group, the majority of M&As involve a US firm. This represents another dimension of the greater ability of the US system to provide growth-enhancing finance to EU firms, while also offering favourable conditions for an IPO.

3. CHARTING THE EU INNOVATIVE SECTOR

Figure 17: Acquisition flows of EU innovative companies from the seller to the acquirer region in the 1999-2024 period.



Source: Own elaboration on Dealroom.co (2025) data. Note: The threshold for representation in the graph has been set to a total number of at least 100 acquisitions in the whole-time sample from the seller country to the acquirer region.

3.G – KEY TAKEAWAYS

The evidence just described can be condensed into a few key messages, useful for informing the policy proposals in the following sections.

1. EU innovative firms are more productive and dynamic than the rest of the economy. This highlights the particular importance of a financial sector that supports their operations and growth.
2. EU innovative firms tend to be not only clustered – a pattern common to this and other firm categories – but also to be unevenly distributed across countries, likely reflecting more or less favourable local business and financing environments.
3. Overall, the evidence supports the conclusion that financing obstacles exist across all classes of innovative firms.
4. Such obstacles are unevenly distributed across countries and across firm categories; in particular, they are more significant for scale-up firms than for start-ups.
5. Scale-up firms are characterised by lower average growth rates than start-ups, underscoring that growth declines as firms mature.
6. Scale-up firms tend to be intellectually and technologically more dynamic, as reflected in a higher concentration of patents.
7. EU financing mechanisms penalise intellectually and technologically rich scale-up firms.
8. Scale-up firms most often exit in two directions: by acquisition or by going public outside the EU or in US dollars. IPOs in euro within Europe appear to be comparatively rare, based on the available information.

4. UNBLOCKING FINANCE TO THE INNOVATIVE SECTOR

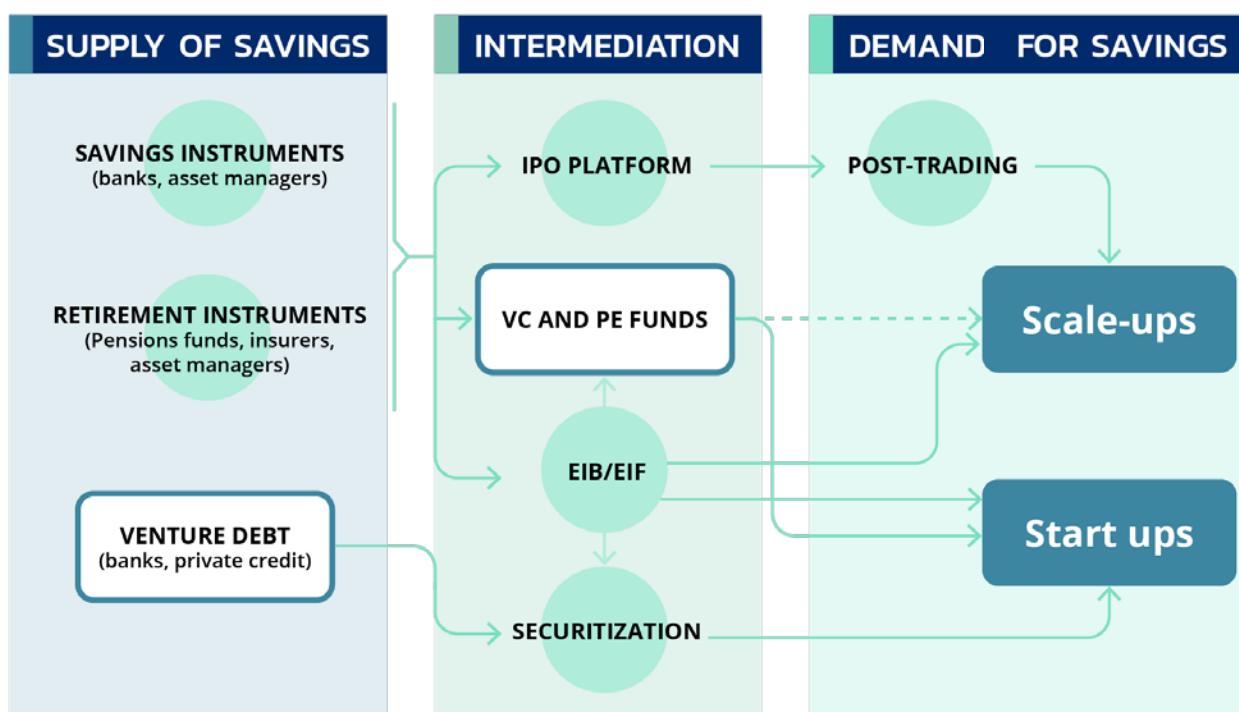
4.A – DIAGNOSIS AND STRATEGY

Figure 18 outlines the way in which the following six elements are intended to interact:

1. New personal saving instruments;
2. New retirement saving instruments;
3. A new EU-wide IPO instrument;
4. Removal of post-trading inefficiencies;
5. A new securitisation framework;
6. An enhanced role for the EIB Group in the venture capital and securitisation spaces.

The logic is to promote the financing of the innovative sector by acting on three fronts: the *formation* of savings; the *use* of savings; and the *intermediation between* the *supply of and demand for savings*. The reader should note that the figure highlights only the links that the proposals in this report aim to strengthen, not all existing links. For example, the EIB borrows a large part of its funds from the bond market, which is not shown here.

Figure 18: Synopsis of the proposals.



Source: Own elaboration.

The interaction among the proposals is as follows. Proposals 1 and 2 aim to stimulate the formation of personal and retirement savings by introducing more

attractive equity-based instruments. These savings would then be channelled to the innovative sector in two ways. The first, more suited to scale-up firms, involves the creation of a new state-of-the-art EU-wide IPO platform (Proposal 3). The second, primarily targeting start-ups, consists of enhancing the role of the EIB as a provider of venture capital and private equity for nascent and young firms, notably by providing funding to national VC and PE funds (Proposal 6). Both channels would benefit from the additional savings generated by Proposals 1 and 2.

Two additional steps complement and reinforce the previous ones. Proposal 4 aims to mitigate post-issuance and post-trading inefficiencies, making the IPO platform more attractive. This does not create a single EU-wide post-trading platform, but moves in that direction by facilitating the cross-border provision of post-trading services. Proposal 5 aims to support the recovery of securitisation for bank credit through a new market-making platform backed by the EIB Group. As explained below, venture debt complements venture and scale-up capital; enabling banks to liquidate their asset side more easily through securitisation strengthens their capacity to act as short-term liquidity providers to the innovative sector.

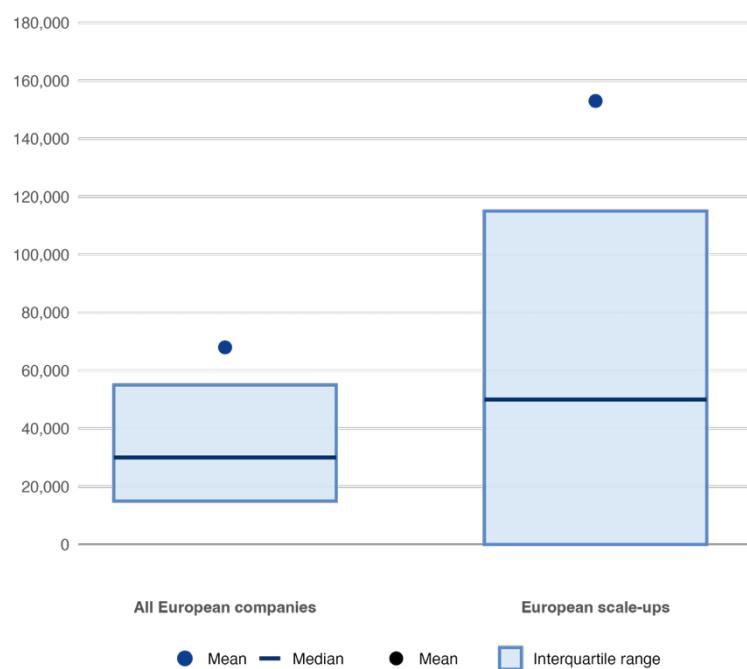
Before turning to the details, it is worth examining how the proposals address long-standing weaknesses in the EU financial structure. Households in most EU countries, particularly the larger ones, tend to concentrate their investments in low-risk savings instruments, mainly sight and short-term time deposits or CDs. Retail banks, which receive these funds, hedge their risk by underwriting sovereign instruments and extending credit to safe and large corporates, typically characterised by below-average innovation and productivity. Constrained by the short duration of their funding and strict prudential regulation, banks tend to finance the corporate establishment, mainly low-growth firms with conservative business models. EU banks lack both the expertise and the risk culture needed to finance innovation and are not encouraged by regulation to develop such a culture.

As a result, the VC sector suffers from chronic capital shortages, more pronounced in some countries (e.g. Italy) than in others (e.g. France), as shown in Section 3. Scale-up firms face similar but larger problems. They do not find favourable conditions for raising public capital (IPO and SPO) or private capital for two main reasons: the absence of efficient issuance and trading venues connected to deep savings pools, and the high cost and low quality of post-trading services, caused by fragmentation and limited competition in the custodian sector both across and within markets.

The lack of attractive instruments for personal and retirement savings is a long-standing issue, identified by other reports (e.g. Draghi, 2024; ECB, 2025). While these areas share several problems, lifelong savings and pension instruments must be addressed separately because their regulatory frameworks differ and savings flow through different channels. Sections 4.b and 4.c set out proposals in these areas.

Moreover, start-up and scale-up firms face distinct challenges that require different solutions. Data in Section 3 show that financing constraints exist on both sides but are more binding and consequential for scale-up firms (see also EIB, 2024a). While the start-up phase is crucial for sowing the seeds of innovation, Section 3 also shows that the scale-up segment is more impactful from both an intellectual and technological perspective and from a macroeconomic standpoint: according to the OECD, *“New start-ups aged 5-years old or younger have been estimated to account for around 20% of employment and create almost half of new jobs in OECD countries. Meanwhile, scale-ups typically contribute as much as half of all new jobs created by SMEs”* (OECD, 2025a). Scale-up firms tend to be more productive than the European average (Figure 19, drawn from EIB, 2024a).

Figure 19: Labour productivity of EU firms (value added per employee in €).



Source: EIB (2024a).

After three to five years of successful activity, typically with low revenues and little or no profits, start-ups are ready to scale up in terms of size, market reach, profitability, and recognition. It is crucial that the financial structure facilitates this transition. Going public is not only a way for scale-ups to attract finance but also a means of signalling growth potential to investors, enhancing their standing, strengthening their balance sheet, and providing transparency.

The set of activities carried out prior to an IPO (selection of advisers, preparation of the prospectus, roadshows, accounting compliance, investor-network building, etc.) is as important as the listing operation itself. The choice of listing location, in particular, is a critical turning point.

Figure 20 shows the number of IPOs in Europe and the US (total and VC-supported) over the last fifteen years. Until 2018, Europe-based IPOs (including the UK) outnumbered US-based ones, but this trend later reversed. In 2021, a peak year for IPO activity worldwide, Europe-based IPOs were less than half the number recorded in the US, and that tendency persisted thereafter as global IPO activity collapsed.

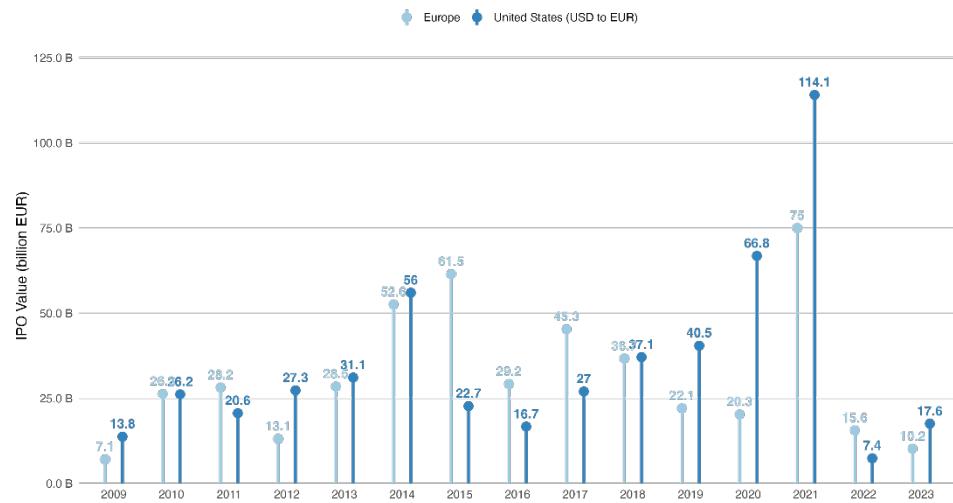
Figure 20: Number of IPOs in Europe and the US from 2009 to 2024.



Source: Author's elaboration on data from Statista. Note: IPOs conducted in the United Kingdom are included in the European total.

If the total value of IPOs is considered (see Figure 21), the level US-based IPOs is usually much larger, especially in the peak years 2020 and 2021.

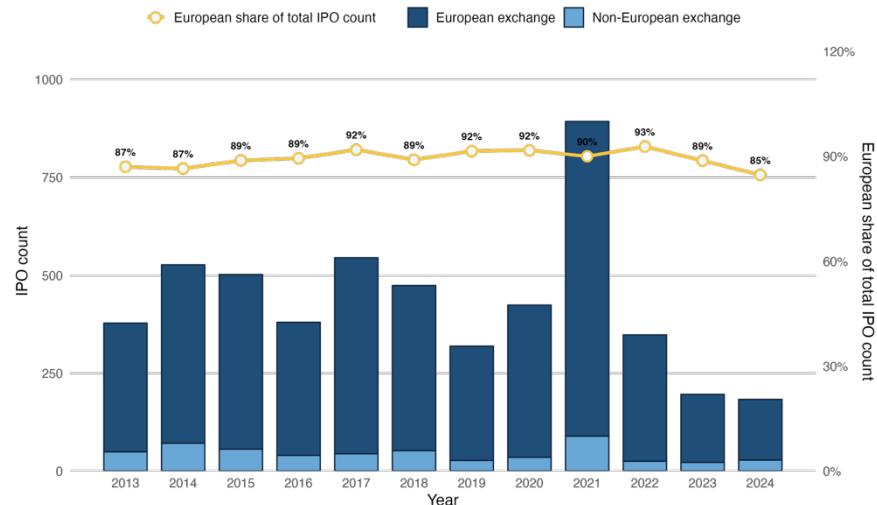
Figure 21: Value of IPOs in Europe and the US (in EUR billion).



Source: Statista. Note: The total value of the IPOs conducted in the United Kingdom is included in the European total. The data conversion from USD to EUR has been conducted using historical annual exchange rate averages.

Focusing on the European IPO market specifically, Figure 22 shows the incidence of European-driven IPOs taking place on European exchanges compared with those executed outside the region, with both the number of operations and their share reported. What stands out is the unprecedented decline in the share of European IPOs conducted locally: 15.3% of the 183 European company IPOs in 2024 were held on foreign exchanges, up from 11.2% in 2023 and 7% in 2022. Only part of this decline is attributable to the UK (included in the EMEA statistics). Among the non-European exchanges, the US is the largest recipient (see Section 4.d). The practice of listing in the US is widespread and not without consequence. Firms listed in the US often relocate a significant share of their operations and managerial structure there (EIB, 2024a). The post-IPO entity becomes global, but part of its value for the European economy is lost.

Figure 22: IPOs count on European Exchanges vs. Extra-Europe.



Source: PitchBook. Note: The United Kingdom is included in the statistics.

EU scale-ups face increasing capital constraints as they grow more mature. EIB (2024a) compares the capital-raising capacity of EU firms with that of firms in the San Francisco area (mainly tech companies). The gap in favour of US firms is small initially but grows very large after five years, and continues to widen. Importantly, as firms grow older, those in the EU tend to rely increasingly on non-EU sources of finance; this component often becomes the largest after ten years of age. This evidence confirms that capital constraints may not be particularly binding at the start-up phase but become critical as successful firms seek to develop. If financial constraints become prohibitive, they may either force firms to relocate or undermine their development prospects entirely.

EIB (2024a) also reports the cumulative financing gap after ten years, broken down by location. While the gap relative to firms in the San Francisco area is around 50% for the EU as a whole, it appears significantly larger in core countries such as Germany and France (at or below 40%), while it is smaller in Sweden, the Benelux countries, and other smaller economies. Although these differences are substantial, it should be noted that comparisons with the San Francisco area also reflect differences in sectoral composition and other factors influencing capital needs.

All this suggests that it is essential for the EU to create, within its own jurisdiction, an efficient issuing and trading framework for newly listed firms, one able to compete with the highest global standards and access the deepest savings pools. Section 4.d contains a proposal in this regard.

However, this is still insufficient if trading and post-trading are not equally efficient and well-integrated. The EU post-trading infrastructure is particularly fragmented and inefficient (see Oliver Whyman, 2025, and Box 2 for a summary of the main sources of fragmentation). Multiple national securities depositories provide

services under different conditions and using different platforms. While T2S offers settlement services on a competitive basis, clearing and depository services are provided by national CSDs to domestically located issuers, with de facto limited cross-border access. This remains true even in cases where CSDs belong to the same groups, with Euroclear and Euronext being the most prominent examples.

Box 3

Roots of post-trade fragmentation

The EU post-trade landscape suffers from inefficient cross-border access due to legal, operational, and technological differences across member states. This affects the ability of corporates to raise capital through equity and debt financing. Three main types of barriers can be identified.

1. Cross-border access and commercial barriers

Established CSDs maintain dominant positions in their domestic markets, creating high entry barriers for foreign counterparts. Large CSDs may choose not to support cross-border CSD links as they aim to concentrate issuance, including by foreign companies, within their own systems.

The CSD Regulation (CSDR) does not facilitate linkages between CSDs, inhibiting competition and, consequently, innovation. Enhancing cross-border access was identified by the Giovannini Group (2003) as the key way to remove post-trading inefficiencies, and that assessment still applies to both long-standing players and new entrants.

While CSDR grants investor CSDs the right to access issuer CSDs, there is no reciprocal right for CSDs to access the investor base of other CSDs. As a result, corporates choosing to list in one EU jurisdiction cannot access investor liquidity across most EU markets. Smaller markets such as the Baltics and Eastern Europe are disadvantaged, but even in larger markets the investor base is fragmented across Amsterdam, Frankfurt, and Stockholm, whereas in the UK and US investors are aggregated under a single CSD model. T2S has not provided a cost-efficient solution for this, and CSDR has not supported investor aggregation.

Consequently, the cost for local market participants to use the services of an ICSD (the standard model for ETFs in Europe) is high for all users, including essential retail brokers, and access may be entirely limited for smaller participants, preventing efficient settlement. This also poses a roadblock for issuers wishing to pursue local listings while using an ICSD settlement model, despite its suitability for smaller investors.

2. Regulatory barriers

Despite harmonisation efforts, national differences in securities law, corporate law, and tax regimes add complexity. Entering different markets requires substantial costs and resources to comply with local laws and regulations and to ensure that CSD services fit the local environment. Although passporting of CSD services helps reduce barriers, localisation remains necessary. Cross-border securities transactions fall under multiple jurisdictions, each with distinct frameworks governing ownership rights, settlement finality, and insolvency procedures. Key areas include:

- **Commercial practices.** Despite some harmonisation, corporate actions still exhibit significant differences that complicate processing and CSD links. The ECB Advisory Group on Market Infrastructures for Securities and Collateral (2023) highlighted several areas requiring action or compliance. Addressing these gaps is essential for post-trade interoperability.
- **Withholding tax differences.** The FASTER directive aims to harmonise and simplify the withholding-tax process, which remains lengthy, costly, and discouraging for cross-border investors within the EU. Prioritisation of anti-abuse measures means the directive ultimately falls short of full simplification, leaving too much discretion to member states. It is essential that member states implement the FASTER directive promptly and with minimal alterations to restore its simplification potential.
- **Insolvency laws.** Insolvency laws remain unharmonised across the EU. Historically, the EU has resisted harmonisation efforts due to differing legal traditions and principles across member states. This lack of harmonisation complicates cross-border CSD and CCP arrangements and dampens cross-border investors' appetite.
- **Jurisdictional Securities Settlement Systems.** Despite CSDR enabling consolidation, certain CSD operations must remain jurisdictional. CSDs operating largely cross-border must still maintain local Securities Settlement Systems (SSS) in each country where issuers are registered and securities issued and serviced. This requirement adds legal and regulatory complexity.
- **Corporate law and Securities law.** EU Member States differ in laws governing record dates, meeting procedures, investor rights during issuer insolvency, and the definition of a shareholder under the Shareholder Rights Directive (SRD II); for example, the definition of shareholder is not consistent across markets, sometimes referring to the account owner rather than the beneficial owner. Such differences create operational and legal complexity in managing investor assets across borders, requiring additional expertise and advice.

3. Technology and operational barriers

Historical market infrastructures were designed primarily for domestic operations, creating obstacles to efficient cross-border transactions. Differing technical platforms, settlement systems, and messaging standards across CSDs hinder interconnection and integration.

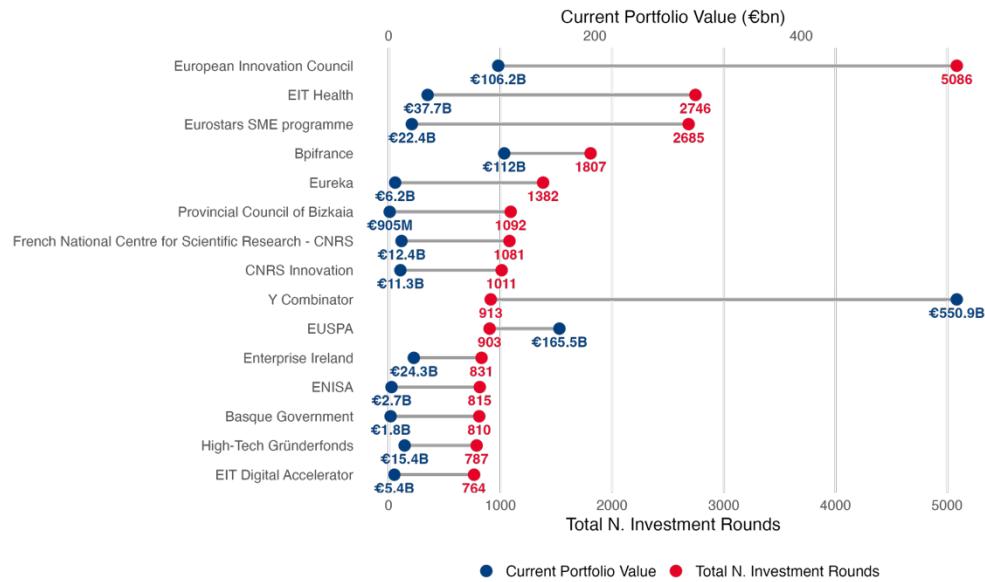
Already identified by the working group led by Alberto Giovannini a quarter of a century ago (Giovannini, 2001 and 2003), cross-border obstacles have largely persisted, as a subsequent survey confirmed (EPTF, 2017). Since the situation may have evolved, the Reflection Group suggests that the Commission and the ECB should undertake a new assessment along similar lines, evaluating which of the so-called "Giovannini Barriers" still exist and whether any new barriers have emerged.

Moreover, a revision of the CSD Regulation should aim to remove obstacles to, and encourage, cross-border access to CSD services, thereby facilitating access to the best and cheapest CSD services available EU-wide. Short of centralising post-trading services, a goal that may only be achievable in the longer term, facilitating access appears to be the most effective way to promote, through competition, a market-driven convergence of costs (downwards) and quality (upwards). Section 4.e sets out proposals in this regard.

The fragmented financial structure translates also into a tighter market for funds and an underdeveloped cross-country ecosystem for private and mutual funds (Arnold et al., 2024). A considerable share of large fund investors operates at the national level (e.g. Bpifrance) or consists of European public institutions (see Figure 23). Among the 10 largest European public investors are EUSPA, the European Innovation Council, EIT Health, EIT Urban Mobility, and EIT Climate KIC. These funds are characterised by a high number of investment rounds and lower portfolio values, operating mostly in the initial phases of the firms' financing rounds¹¹. While the European Innovation Council and other European public institutions rank among the top fund providers in terms of the number of firms reached, the largest portfolio values are predominantly concentrated in private funds. Among the three largest funds operating in the EU in terms of portfolio value, two are US-based (Y Combinator and Google Startups Accelerator). These funds also rank among those with the highest number of exits and the highest total exit value, signalling strong efficiency and reinforcing the evidence on firm exits presented in Section 3.f.

¹¹ The top public investment funds operate mostly at the grant and seed phase, as well as support programs in the firms' financing. The portfolio size is usually large – i.e. financing reaches several firms – and the investment rounds very numerous, but the portfolio value modest with respect to private funds.

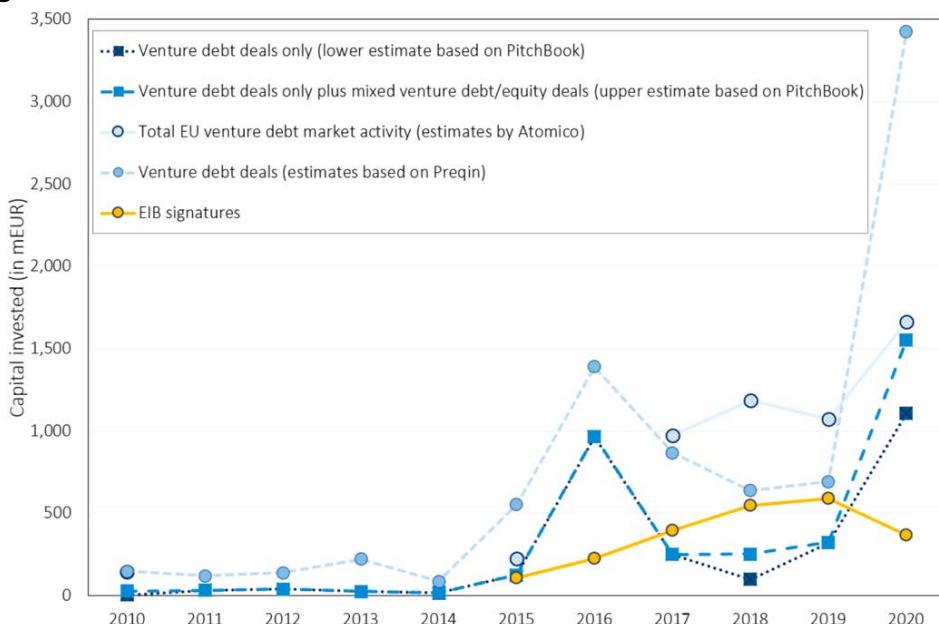
Figure 23: Top 10 funds investors in the EU by portfolio value and investment rounds (2025).



Source: Own elaboration on Dealroom.co (2025) data. Note: The graph shows the 10 largest funds operating in the EU – by means of transaction occurred in the region – for total number of investment rounds and total current portfolio value (as of December 2025).

A parallel financing channel, complementary to venture capital, is venture debt. A relatively new instrument in the VC space, venture debt (VD) has grown substantially in recent years (see Figure 24), supported by multiple sources.

Figure 24: Estimates of EU venture debt and market size.



Source: EIB (2022). Note: Estimates for total market based on Atomico (2020, 2021), and data providers Preqin

(download as of September 2021) and Pitchbook and EIB signatures from EIB Serapis. Estimates of capital invested in Euro millions in EU countries (not including the United Kingdom) from different sources. Estimates by Atomico (2020, 2021) and data from Preqin converted from USD to Euros using exchange rates as reported by OECD.

VD fulfils multiple purposes. As noted by EIB (2022), *“Venture debt is a debt product characterised by long maturity, designed to address the unique funding needs of fast-growing innovative companies that have already raised venture (equity) capital.”* It helps fast-growing firms fill financing gaps that may open up between successive capital raises, thereby removing potential constraints on R&D activity and market expansion, or allowing them to postpone capital raising in order to overcome unfavourable market conditions. Debt-raising also has a signalling function, serving as an effective way to indicate creditworthiness to potential providers of other forms of capital. EIB (2022) notes that recourse to VD becomes more significant at later stages of the life cycle (scale-up rather than start-up).

Although debt should not be the main funding source for an innovative firm, it forms part of a well-balanced capital structure. As the figure shows, the EIB is a major provider of VD, but private sources are significant and growing. This is where securitisation must play a role, helping banks and other intermediaries free up balance-sheet capacity and thereby creating additional lending potential for worthy start-ups and scale-ups. Section 4.f presents ideas to revive securitisation along these lines.

Finally, Section 4.g focuses on the financing needs of start-up firms. While obstacles in this area are real, they appear less prohibitive than in the scale-up sector. National VC funds and, in particular, the EIB Group, especially the EIF, provide a steady flow of finance supported by contributions from EU member states.¹² That said, ways should be explored to enhance and diversify these financing channels further. The newly proposed savings and retirement instruments discussed earlier move in this direction. The financing power of the EIB/EIF can be strengthened as part of the new savings generated by these instruments is channelled, via EIB structures, to national funds and the start-up sector. Section 4.g also outlines how the EIB Group can support the VD market by contributing to the revival of securitisation.

4.B – MOBILISING PERSONAL SAVINGS

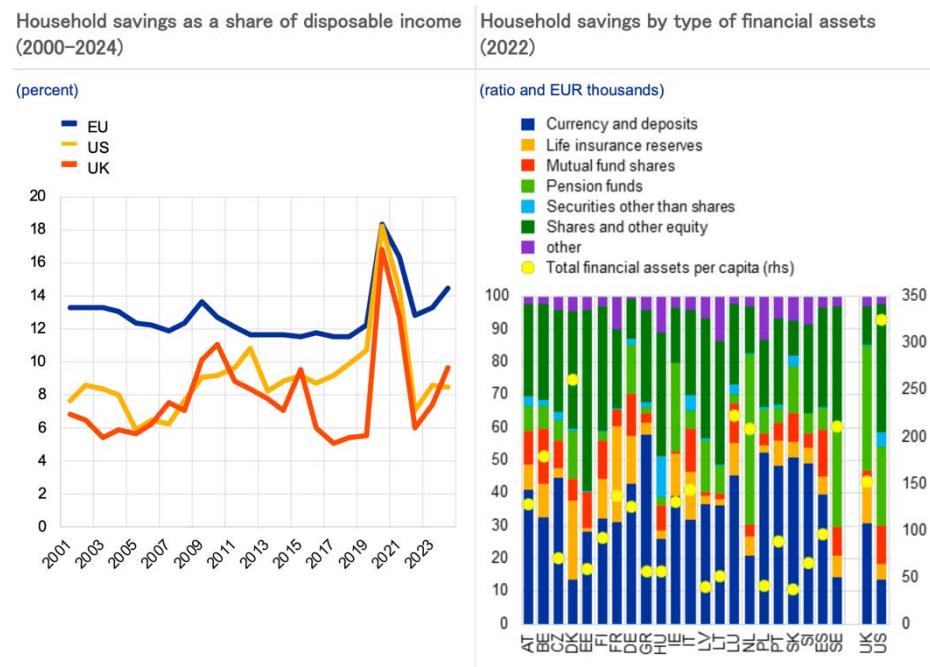
European households save a large proportion of their disposable income, but the way they allocate their portfolios, together with the fragmentation of the area’s retail investment markets, hampers the flow of those funds to innovative enterprises. This limits the extent to which the high savings rate benefits the economy’s productivity and growth. Removing these limitations is a central element of any reform of Europe’s capital markets. This includes offering new saving accounts, or restructuring existing ones, so that they better match the risk-

¹² A recent overview of the EIF activities vis-à-vis acris different classes of enterprises can be found on EIF (2024). For a specific focus on venture capital investment, see EIF (2025).

return combinations that innovative companies need.

Figure 25, taken from ECB (2025a), provides some evidence. EU households save a significantly higher share of disposable income (close to 15% in 2024) than their US and UK counterparts. A large part of their savings is invested in cash and bank deposits (right side of the chart), again higher than in the two other countries. The chart also shows, however, that there are wide differences across EU member states; in particular, Denmark and the Netherlands display higher shares of securities, mutual fund shares, and insurance products in their personal portfolio structures than the EU average.

Figure 25: Household savings in the EU, US and UK.



Source: ECB (2025a)¹³.

¹⁴ Notes: The savings rate for the EU is calculated as gross savings divided by gross disposable income, adjusted for the change in net equity in pension fund reserves and including non-profit institutions serving households (NPISH). The US savings rate is calculated as gross personal savings as a percent of gross disposable income. The UK household savings ratio is households' available savings as a percentage of their total available households' resources. The EU household savings rate is defined as gross savings divided by gross disposable, including the change in the net equity of households in pension funds reserves. It includes non-profit institutions serving households (NPISH).

Table 5 provides a breakdown of personal wealth into real and financial components for the euro area, the US, and the UK. The upper part of the table shows that while personal disposable incomes are far higher across the Atlantic (22.2 trillion USD compared with 9.2 trillion euros, a difference even larger on a per-capita basis), this is more than offset by the higher savings ratio in the euro area (15.3%, versus 9% in the US). Euro area households generate an annual flow of savings which, at 1.3 trillion euros, is larger than that generated by the US personal sector (2.0 trillion USD) once exchange rate adjustments and the relative size of the economies are taken into account.

Table 5: Personal income, savings and wealth allocation in the euro area, US and UK.

Trillions of local currency except where otherwise indicated. Reference date: most recent available figures.			
Category	Euro area	US	UK
Personal disposable income	9.2	22.2	1.9
Personal saving rate (%)	15.3	9.0	10.4
Personal savings	1.3	2.0	0.2
Wealth allocation (%)			
Real estate	66.0	36.0	40.0
Retirement accounts	4.0	34.0	35.0
Financial assets (FA)	20.0	14.0	14.0
Other	10.0	16.0	11.0
Total	100.0	100.0	100.0
(Bank products / FA %)	45.0	31.0	33.0

Source: ECB, US Bureau of Economic Analysis, UK National Statistics Office, Statista and authors' calculations. Trillions in local currency except where otherwise indicated. Reference date: most recent available figures. Disposable income and savings for the US are calculated gross of depreciation, for consistency with Figure 25.

Wealth composition data show stark differences in portfolio allocations between the euro area on one side, and the US and UK on the other. In the US and the UK, household wealth is made up of three roughly equal components, consisting of real estate, retirement wealth, and financial assets. This composition is not dissimilar to that of other countries with advanced market structures. Within the financial assets category, about two thirds comprise instruments that directly fund corporate investment (such as direct stock holdings, business stakes, mutual funds, and other savings plans), with only around one quarter invested in instruments issued by banks.

Comparable data for the euro area present a very different picture. Real estate,

including both primary residences and secondary housing, accounts for more than two thirds of total household wealth (real and financial). Once “other” components of wealth, such as personal businesses and vehicles, are taken into account, the financial-assets component shrinks to about 20%. Of this, 45% consists of bank deposits, while around 40% (approximately 8% of total wealth) is invested in capital-markets instruments, including mutual funds, direct shareholdings, insurance products, and retirement instruments.

Average data across the EU mask sharp differences across countries, particularly pronounced for some indicators. For example, the share of bank deposits in financial assets (45% on average) reaches 90% in Greece and 36% in Luxembourg. The share of real estate in total wealth (82% on average) ranges from 67% in Estonia to 92% in the Netherlands. These asymmetries reflect the varying attractiveness of alternative assets, presumably linked to country-specific regulatory and tax features as well as individual preferences; they persist partly because markets remain segmented across borders. This implies that significant gains may result either from regulatory harmonisation or from liberalising cross-border access to the best available regulatory conditions across the area.

Another feature of euro area retail investment patterns, compared with the US, is a sort of “bimodal shape” in terms of liquidity and risk: investors concentrate both on the low end of the liquidity spectrum (real estate) and on the high end (bank deposits), while shunning intermediate instruments. By contrast, US household portfolios are more evenly distributed. This also suggests potential improvements in asset allocation if regulatory or tax obstacles can be identified and removed.

These stylised facts, together with those relating to retirement savings discussed in the next section, are supported by academic research. International comparisons by Scharfstein (2018) suggest that countries with less developed capital-based retirement systems tend to have larger shares of household savings invested in liquid assets such as cash and bank deposits. These countries have more bank-centric financial sectors, with credit institutions playing a larger role in savings intermediation. Households in those countries combine liquid assets with relatively risky exposures, thus displaying a “bifurcation” in their portfolio structures (the bimodal shape just noted). In the EU, where pay-as-you-go retirement systems prevail, household savings are invested mainly in bank instruments (short-term and liquid) and real estate (long-term and illiquid). Scharfstein rationalises this pattern through a model but does not take a view on causality: whether retirement systems shape the financial structure, or vice versa.

The Reflection Group discussed these elements and reviewed recent EU experiences in which new saving accounts have been introduced, with varying degrees of success (see Box 3). It concluded that introducing new saving accounts with the right characteristics, and/or improving the design of existing ones, is an important step in the right direction, to be undertaken in combination with other measures. It also considered that, for this step to succeed and for improvements in savings patterns to become sustainable and self-propelling, four conditions must be met.

Box 4

Retail saving accounts: some recent examples

Several initiatives launched in recent years, in individual EU countries or groups of them, have shared the goal of reviving individual savings and channelling them towards longer maturities and higher risk-return combinations. Results have been mixed. Here we summarise the main ones, highlighting their key characteristics and possible reasons for their differing degrees of success.

PIANI INDIVIDUALI DI RISPARMIO

(PIR, Italy).

Tax-advantaged medium-to-long term investment accounts to channel household savings into domestic capital markets. Two types: 1) PIR ordinario (2017): no restriction on the household type; 2) PIR alternativo (2021): experienced and wealthy investors.

Target: Italian resident households.

Core incentives: Tax exemption on capital gains, dividends and inheritance on qualifying assets.

Limits: 1) PIR ordinario: minimum annual investment: €500; total annual cap: €40.000; lifetime cap: €200.000.

2) PIR alternativo: total annual cap: €300.000; lifetime cap: €1.500.000.

Investment type: ≥70% in securities of issuers with a public entity in Italy or EU. ≥25% of that amount in companies not included in the FTSE MIB and ≥5% in companies not included in either the FTSE MIB or FTSE Mid Cap. Max 10% of the total PIR in a single company.

Minimum investment period: ≥5 years

PLAN D'ÉPARGNE EN ACTIONS

(PEA, France 2025).

Tax-advantaged investment accounts to channel household savings into domestic and European capital markets. Three types: 1) PEA classique bancaire: banking intermediation on companies' securities; 2) PEA classique assurance: assurances intermediation via funds (no direct securities holding); 3) PEA-PME-ETI: direct investment in SMEs (min. €225.000).

Target: French resident households.

Core incentives: Tax exemption on capital gains (social charges 17.2% apply). Flat tax of 30% if investment duration is ≤5 years.

Limits: 1) PEA classique bancaire: min. plafond is €150.000; 2) PEA classique assurance: min. plafond is €150.000; 3) PEA-PME-ETI: min. plafond is €225.000.

Investment type: EU/EEA equities, ETFs, some non-listed up to limits (10% of total placements).

Minimum investment period: ≥5 years.

FINANCE EUROPE

(Initiative of 7 EU countries, 2025).

New cross-border label for savings products investing in Europe – initiative lead by France, Spain, France, Germany, the Netherlands, Portugal, Luxembourg, Estonia.

Target: EU savers via national banks, insurers, asset managers.

Core incentives: National tax incentives.

Investment type: ≥70% invested in EU on any product that meets label (funds, insurance, wrappers); no public guarantees.

Minimum investment period: ≥5 years.

EUROPEAN LONG-TERM INVESTMENT FUND

(ELTIF; EU, 2024)

EU fund regime for long-term assets. ELTIF: illiquidity, complexity, high fees; ELTIF 2.0 (launched in 2024): better idea, free location, more liquid, higher volumes but constrained to retail investors.

Target: Professional (v.1.0) and retail investors (v.2.0) in EU.

Core incentives: National tax incentives.

Investment type: Private credit, PE, funds, real assets, listed long-term projects, green bonds, STS. Companies: unlisted or listed with less than €1.5 billion market capitalisation, located in Europe or in a third country. In ELTIF 2.0, eligible assets must represent at least 55% of total net assets.

Minimum investment period: None + no minimum plafond investment. 30% concentration limit.

The first condition is that the tax treatment encourages the transformation of unconditional risk-averse savers into risk-aware investors, a recommendation also advanced by the IMF (Arnold et al., 2024). In addition, tax reporting must be simplified and its burden reduced.

Designing consistent EU-wide tax arrangements is difficult because taxation is a national prerogative. There are widely divergent national arrangements. For example, Spain and Italy apply a withholding tax on financial assets (19% and 26% respectively), whereas in France and Germany financial returns are not taxed at source but filed in the yearly tax declaration. Small countries usually have low or zero withholding taxes. Taxation at source tends to discourage investment because it does not adapt flexibly to individual tax filings, and reimbursement, even when due, may be subject to significant delays. In the US, income from financial instruments is not taxed at source.

Tax incentives must reflect the characteristics of the targeted investors. Low- to medium-wealth individuals, potential investors for amounts in the range of 5,000 to 10,000 euros and more likely to be liquidity constrained, are probably attracted by tax exemptions applied to periodic returns or at the time of reimbursement. By contrast, high-value investors, with investment sizes potentially of 100,000 to 200,000 euros and beyond, with complex and diversified tax filings and deduction capacity, should be more likely to value tax deductibility. To attract a diversified pool of investors, both types of incentives should be present, and sufficient flexibility should be allowed to match the needs of widely different classes of individuals. Other useful options could include preferential treatment for young investors and regressive taxation linked to maturity.

A second requirement of properly designed saving accounts is cross-border flexibility: they should not be subject to cross-border constraints within the EU. Cross-border access must be allowed, giving savers the choice of how and where to invest and allowing them to select the regulatory and tax environment. The experiences summarised in the Box suggest that saving accounts are more likely to succeed when they are less constrained in the destination of investment. A negative example is the PIR (*Piani Individuali di Risparmio*) in Italy, where funds must be invested domestically. Such constraints, besides conflicting with single-market rules, penalise diversification and the alignment of investments with individual beliefs and preferences. At the same time, considering the strategic goal of providing finance to European innovative sectors, incentives should encourage funds collected through new saving schemes to remain within EU borders (though not confined to national ones).

Incentives should also be provided in favour of distributors. In most EU countries, distribution relies largely on banks (and, to a lesser extent, insurance companies and asset managers). Most banks enjoy client trust based on long-term relationships involving multiple services such as deposits, payments, financial advice, and securities depositories. Once new instruments are introduced, banks and other distributors should be rewarded appropriately to ensure their success.

A third factor is **simplicity**. Successful saving instruments targeting less sophisticated investors must be easy to understand and accessible. Explanatory material should be comprehensive yet concise and expressed in plain language (both national language and English). The Reflection Group emphasises three requirements. First, digital distribution is necessary, especially to attract younger generations. Second, investor-protection compliance obligations for intermediaries must be simplified; since the inception of MiFID, these costs have risen sharply. Third, explanatory materials, largely shaped by MiFID-related requirements, are often complex and opaque, failing to make individuals aware of the instruments' characteristics and risks or to capture investors' risk tolerance. Significant simplification, without loss of content, is needed. This links with the need to enhance financial information and education discussed further in the report. Factsheets and other explanatory materials should be designed through cooperation between the authorities and the financial industry and form part of a broader effort to strengthen financial literacy.

A fourth condition concerns the **costs** charged to investors. There are two dimensions here: distribution and asset management. While distribution should be rewarded and properly incentivised, competition among distributors should, over time, bring these costs to equilibrium. The effective functioning of market forces should be monitored, starting during the transition as new account formats are introduced. On asset management, a recent ESMA report, while recognising that costs charged on UCITS products have "continued to decline in 2023" (ESMA, 2025a), finds that costs remain higher in the EU compared to the US. However, these findings are disputed by the industry. According to EFAMA (2025) US mutual funds are not necessarily cheaper, depending on the nature of those funds and the way averages are calculated. Comparing the UK with mainland Europe, Morningstar (2025) finds that fees are generally higher in the latter but decreasing in both markets, due to competition and a shift from active to passive asset management. Further analysis would help clarify these findings.

The recommendation that follows partly overlaps with the recent European Commission recommendation on savings and investment accounts, issued in September 2025 (European Commission, 2025d). The Commission's recommendation is helpful but more focused on providing member states with common guidelines on transparency, simplicity, and tax treatment for investor-protection purposes, rather than on incentivising the flow of savings to innovative firms.

The Reflection Group also considered ways in which new saving instruments should be introduced. One option is the national channel: instruments designed by national authorities, pursuant to national legislation, and aimed at domestic investors. Examples include the Swedish ISK, the French PEA, and the Italian PIR. A second option is a fully European format: a saving-account structure embedded in European legislation and harmonised across the EU. The ELTIF, launched in 2015 by Regulation 2015/760 and recently revised (ELTIF 2.0), belongs to this category. A third intermediate format relies on cooperation among a small group

of member states that agree on a common instrument available in each participating country, potentially open to extension. *Finance Europe*, launched in 2025 by seven countries, is an example of this format. Each scheme has benefits and drawbacks, with a trade-off between adaptation to local preferences and transparency and cross-border consistency. The Reflection Group expressed a preference for schemes initially proposed by coalitions of countries, open to wider participation once a critical mass has been reached.

Box 5**The Investeringssparkonto (ISK) in Sweden**

ISK is a very successful private retirement instrument available in Sweden. Introduced in 2012 with the purpose of incentivising retail investment in shares through transparent and favourable taxation, it has grown rapidly due to its attractiveness. It now has around four million members (nearly half of Sweden's adult population), with a median capitalisation of about 7,000 euros.

Opening an ISK account is generally free. Investors choose the amount deposited and may withdraw funds at any time. They can also choose the composition of their investments, including the split between shares and other instruments. There are generally no limits on the types of instruments that can be included in an ISK portfolio, whether domestic or foreign.

According to the Swedish National Audit Office (2018), "... The purpose of the ISK was to make it easier for natural persons to save and invest in shares and other financial instruments. The simplification consists of the individual not being taxed for actual income, gains and losses. Instead, a standard revenue is taxed, which is the estimated standard return. This means that the individual does not need to report a gain or loss upon sale, which was considered to be a major simplification.". Much of the ISK's attractiveness therefore lies in its simplicity and tax treatment, since standard taxation removes the need for investors to report capital gains.

This standard tax treatment, however, implies that the extent of the tax advantage depends on the level of the interest rate used as the standard. The increase in interest rates in recent years has reduced part of the benefit. Conversely, the positive stock market performance in the early years after the introduction of the ISK explains part of its success. For this reason, the conditions applied to ISKs may be adjusted in the future in order to retain their attractiveness under changing market conditions.

Recommendation 1

The Group recommends EU-labelled saving accounts (also as *wrapper*) with the characteristics specified below, and/or alternatively enhancing *Finance Europe* to include similar features with a long-term investment focus, as follows:

- a. Simple, investor-friendly, and inexpensive access, including online; the possibility of an EU-wide investor app should be explored.
- b. Incentives for distributors, mainly banks but also insurers and asset managers offering Insurance-Based Investment Products (IBIPs) that combine investment instruments and insurance contracts.
- c. Free choice between an “execution only” format and discretionary investment management with advice, where appropriate – “execution-only” being permitted for simple products, but not for complex ones.
- d. A simple and favourable tax scheme (for example, the ISK approach of taxing a small fraction each year); a free choice between tax exemption on returns and tax deductibility of capital investment; incentives for young investors and regressive taxation depending on maturity.
- e. Minimal operational burden (for example, the ISK approach of automatically taxing a small fraction of capital without reporting).
- f. State-of-the-art risk/return optimisation and diversification.
- g. A broad range of admissible assets, including AIFs, securitised products, and inflation-linked instruments; flexibility on location, with incentives including additional tax advantages for EU investment.
- h. Incentives to invest, in full or in part, in a menu of private or EIB-sponsored VC and PE funds targeting innovative enterprises.

The new scheme or schemes would encompass existing initiatives such as the French and Italian saving schemes, as well as the ELTIF.

4.C – MOBILISING RETIREMENT SAVINGS

International experience shows that retirement saving is a powerful engine for the development of financial markets and for providing financing for growth-enhancing investment. The benefits of a thriving asset-based retirement sector extend to the whole economy but are especially important for innovative and high-productivity sectors. While most evident in the US, the link between retirement savings and investment financing can also be found in other countries with comparable financial structures, such as Australia, Canada, and the UK. In the EU, Sweden, Denmark, and the Netherlands share some of these features.

Retirement accounts have elements in common with saving accounts but also important differences. Both are used to transfer financial resources from the present to the future, smoothing consumption in line with temporal preferences. In both cases, investors seek the best combination of return and safety. The distinguishing feature of retirement savings is that they follow the life cycle: resources are moved from the central periods of life, when earnings exceed consumption, to later periods in which the relation is reversed. Uncertainty about the availability of resources later in life, when the ability to generate income declines, is a particular concern. For these reasons, retirement instruments must have specific characteristics to be safe, effective, and attractive to investors.

Self-financed retirement schemes also have macroeconomic, social, and political impacts. By reducing the burden central cohorts of the labour force carry in supporting the elderly, retirement wealth is economically efficient and fosters fiscal stability. Its effect on political stability is mixed. Some research argues that asset-based retirement schemes are not politically sustainable without proper governance (Beetsma et al., 2021). By contrast, robust evidence shows that funded pension systems contribute to the development of financial markets and indirectly to economic growth (Stewart et al., 2017).

Partly for these reasons, asset-based retirement instruments are complex to regulate. Several aspects need to be taken into account when considering options to enhance capital-based retirement schemes. First, the time horizon of retirement instruments is much longer (the life-cycle span) than that of simple saving accounts. With an average employment age ranging from 25 to 67, and a life expectancy of 82 years (current European averages), the expected duration of a pension instrument ranges from about 40 years (average) to as much as 60 years. Being tied to the life cycle, retirement instruments are naturally age-calibrated: their parameters must vary according to the individual's age. As life horizon and risk tolerance decline with age, retirement plans should adjust accordingly. Since the factors influencing the choice of a private retirement scheme are complex, such choices require financial education or unbiased professional advice. For society as a whole, given that effective voluntary retirement systems reduce the need for social safety nets and other taxpayer support, the externalities involved call for regulation and careful incentive design.

As part of its CMU Action Plans, the European Commission has repeatedly sought strategies to convert, or at least complement, the unfunded pay-as-you-go

retirement systems prevalent in large member states with asset-backed pension schemes. In 2019, the Commission proposed and the co-legislators approved a Regulation establishing an EU private retirement instrument, the Pan-European Pension Plan (PEPP). Box 5 provides a short description of its main features and its (lack of) success.

Box 6

The Pan European Pension Plan (PEPP)

The PEPP is a pan-EU voluntary pension scheme proposed by the European Commission and approved by the European Parliament and the EU Council in 2019 (European Commission, 2019). It is governed by Regulation (EU) 2019/1238. Its purpose is to introduce a harmonised, flexible retirement instrument that is optionally available to citizens and employers as a complement to existing national mandatory and voluntary individual retirement schemes, both occupational and state-sponsored. According to EIOPA, the EU authority that coordinates national insurance and pension-system supervisors, PEPP products "are meant to be a mirror of how to design transparent, easy to understand, efficient and cheap products, supported by online distribution and algorithmic financial advice without conflicts of interest and human factor influence, properly and without political influences" (EIOPA, 2024).

Specific features of the scheme include portability (the instrument can be transferred across borders within the EU and across issuers without cost), liquidity (the holder can choose from a broad menu of redeemability and pay-out options, including annuities and lump sums), and personalised advice. Subscriptions are possible online, in which case automated financial advice is also provided online. A 1% cap is set on total fees and costs for the investor. Tax treatment and supervision are entrusted to member states.

Several formats are foreseen. The default option, the Basic PEPP, includes a full capital guarantee by the provider. Other formats do not offer such a guarantee.

So far, the outcome has fallen short of expectations. In 2024 there was only one provider offering the instrument, Finax, a robo-advice company located in Slovakia. In 2024, only two PEPP products were registered in four countries, one Basic PEPP and one alternative PEPP product, offered in Slovakia, Czechia, Poland, and Croatia, with around 7,500 clients located in these countries.

Despite its ambition and high expectations, the new instrument has so far been a failure. At present, only one provider is distributing it to a small number of investors in Eastern Europe. There has been no interest in the instrument from distributors or investors in large EU countries. According to EIOPA (2024), national regulatory environments are not favourable to the PEPP. Somewhat surprisingly, however, EIOPA's own analysis shows that regulatory obstacles to the PEPP are

more significant in Eastern European countries, where the few clients are located, while they appear negligible in the larger countries where the instrument has no traction. The failure of the PEPP needs to be better understood as a preliminary step before any new proposals to reform complementary retirement systems in Europe. EIOPA promised a review of the PEPP's features last year, and the European Commission is expected to include such a review in its proposals for the Savings and Investments Union.

The PEPP experience shows that considerable attention must be paid when proposing new private pension instruments. Advantages must be clear and significant if similar failures are to be avoided. For that purpose, it is useful to examine the voluntary asset-based retirement systems existing in the main EU countries and compare them with those outside the Union, matching their characteristics with their relative degree of success. A comparison covering five European countries (two of which have successful private retirement systems), plus the US and the UK, is shown in Table 6.

Table 6: Comparison of asset-backed pension systems across Europe and in the US.

ASSET-BACKED PENSION SYSTEMS: COVERAGE, INCENTIVES AND REGULATORY LIMITS								
(1) The mandatory component of the system can be considered a non-tax incentive. (2) No limit on asset classes generally applies within 100%.								
Countries								
	Germany	France	Italy	Netherlands	Sweden	UK	US	EU (PEPP)
Coverage								
AB pension funds assets, 2024 (in USD billion)	284	390	267	1,770	671	2,935	42,902	—
Nominal GDP, 2024 (in USD billion)	4,660	3,162	2,373	1,227	610	3,644	29,185	19,423
Assets/GDP %	6.0	12.3	11.2	144.3	110.8	80.5	147.1	—
System coverage (1)	Voluntary occupational and personal	Voluntary occupational and personal	Voluntary occupational and personal	Quasi-mandatory occupational and voluntary personal	Quasi-mandatory occupational and mandatory and voluntary personal	Mandatory occupational and voluntary personal	Voluntary occupational, mandatory and voluntary personal	Voluntary, occupational and personal
Tax treatment								
Contributions	Deductible (with limitations)	Deductible (with limitations)	Deductible (with limitations)	Deductible (with limitations)	Partially non-deductible by employers and individuals	Deductible (with limitations)	Deductible (with exceptions)	Up to national authorities
Returns	Exempt	Exempt	Taxed at a standard 20% rate	Exempt	Exempt	Exempt	Exempt	Up to national authorities
Pension income	Taxed with personal income	Taxed with personal income at rates decreasing with age	Taxed at a standard rate decreasing with age	Taxed with personal income	Taxed with personal income	Taxed with personal income with allowances	Exempt	Up to national authorities
Other incentives (1)	Employer contribution and state subsidies (limited)	None	Employer matching contributions	None	None	Partly mandatory contributions	None	Liquidity, portability, guarantee; 1% fee cap
Limitations								
Asset classes (2)	No limit on personal, selected limit on occupational	No limit on personal, selected limit on occupational	Limits on real estate investment	No limit	No limit	No limit	No limit	ESG and sustainable investment encouraged
Single issuers	Selected limits on both personal and occupational	No limit on personal, selected limit on occupational	Limits on selected categories	No limit	No limit except 5% for private securities and real estate	No limit	No limit	No limit
Foreign issuers	No limit	No limit on personal, selected limit on occupational	Limits on selected categories	No limit	No limit	No limit	No limit	No limit within EU

Source: Own elaboration on OECD (2023, 2025b, 2025c).

The table shows that there is a large gap in the size of retirement wealth held in asset-based pension funds between the three largest EU countries (Germany,

France, and Italy) and two other EU countries with sizeable asset-based retirement sectors (the Netherlands and Sweden), as well as the UK and the US (data from 2022). In the first three countries, pension-fund wealth stands at around 10% of GDP or below, whereas in the others it is close to 100% or above.

Regulatory arrangements vary across countries and consist of different mixes of voluntary and mandatory schemes, both occupational and personal. Notably, in the three large core EU countries, where asset-based schemes play a comparatively limited role, these schemes are predominantly voluntary, whereas in the comparator countries they tend to be at least partly mandatory.

The lower part of the table compares the extent of tax and non-tax incentives and the limits imposed on pension-fund investment by national regulation.

Although the picture is not entirely clear-cut, there is a tendency in the three largest countries to grant less favourable tax treatment and to impose stricter investment limits relative to the four comparator countries, where private pension schemes have been more successful. Regarding taxation, France is the exception, where the “EET model” (exempting contributions and returns while taxing pension income) prevails, though with limits on the tax deductibility of contributions. Investment limits may apply to the type of asset (such as real estate, equity, or unlisted securities), to asset location (typically with restrictions on foreign investments), and/or to concentration by issuer. In the Netherlands, Sweden, the UK, and the US there are virtually no limits along these three dimensions. By contrast, in the three large EU countries mentioned above, limits apply to selected types of investment. In France these limits apply only to occupational pension funds; personal instruments, such as the *Plan d'épargne retraite* (PER), are not subject to investment limits.

By comparison, the PEPP (last column of the table) suffers from a clear tax and regulatory disadvantage. The Regulation leaves tax treatment to the national authorities of the country where the plan is distributed, making the instrument vulnerable to differing and potentially less favourable treatment compared to national products. In addition, the EU encourages investment managers to prioritise sustainable and ESG investments, although no strict rules are imposed. Investment location is unrestricted but must remain within the EU.

A recent example of a successful retirement-saving plan is the PER (*Plan d'épargne retraite*) in France (info.gouv.fr, 2024). For individual investors, the PER replaced the pre-existing retail pension instrument, the PERP (*Plan d'épargne retraite populaire*), in 2020, and has since grown rapidly, especially among younger cohorts. Today, the plan, offered both directly to individuals and through employers, is subscribed by one quarter of the French population aged between 18 and 64. Its size has reached remarkable levels: annual contributions of €18.5 billion in 2022, assets of €292.7 billion at the end of 2023, and more than 16 million contracts (see Cour des Comptes, 2024). The main characteristics of the PER are summarised in Box 7.

Box 7**Plan D'Épargne Retraite (PER) in France**

PER, launched in 2020 to replace pre-existing instruments (PERP and PERCO, the latter reserved for employers), is an asset-based voluntary pension instrument available to individuals (individual PER) and employers (collective PER). A separate obligatory occupational pension instrument is also available (mandatory PER). Contributions are flexible in both amount and instalments. Subscription to an individual PER requires the advice of a professional consultant.

The amounts are invested in professionally managed funds according to the individual's age-risk profile ("piloted management"): the risk profile decreases with age. The overall risk is managed through a "piloted" investment strategy, meaning that the share of risky assets declines as the investor ages and according to the risk profile chosen.

Contributions are deductible from income and wealth tax, subject to limits. Taxation of returns and pension income follows a complex scheme depending on how contributions are treated. If contributions are deducted, pension income and capital withdrawals are normally taxed according to income or capital taxes (the latter at a flat 30% rate). If contributions were not deducted at the time of investment, income and capital are tax exempt, to an extent that increases with age.

The investment can be liquidated in advance under certain conditions, for example for the purchase of a residence or in situations of financial stress. Specific limits and penalties apply in these cases.

Portability is ensured; transfers among different PER categories and into or from other plans are possible.

In Italy, aggregate data on the use of asset-based pension instruments are similar to those of France: total subscribers exceed 11 million (latest data published by the national supervisor) with a total capitalisation of 243 billion euros. The difference is that the sector has recently developed less rapidly than the French PER. Participation in *Piani Individuali Pensionistici* (PIP), the main individual voluntary instrument, is more concentrated among older age cohorts; take-up among younger individuals has been limited in the past (Momigliano, 2014). Management strategies are not calibrated to age, as in the French case ("piloted management"). Subscribers choose their risk profile by selecting the desired portfolio composition, such as bonds, equities, or mixed.

In Germany, the second- and third-pillar retirement sector is represented by *Pensionkassen* and *Pensionfonds*, insurance companies offering various occupational and private retirement policies. *Pensionkassen*, which offer occupational products, are subject to strict prudential investment provisions. *Pensionfonds*, which also provide individual private retirement accounts, have

more flexibility. As Table 6 shows, the capitalisation of the complementary retirement sector in Germany is the smallest among the countries considered, reflecting the historically dominant role of the public pension system. The public (first pillar) mandatory, pay-as-you-go system still provides the bulk of retirement income for older Germans. Besides being inflexible, this system faces sustainability risks, with possible knock-on effects more broadly on German public finances.

Recommendation 2

The Reflection Group supports the introduction of new, flexible, and risk-return-attractive private pension instruments, ideally at EU level but otherwise among groups of countries, and by initiative of a group of financial institutions (“coalition of the willing”).

The following characteristics should apply:

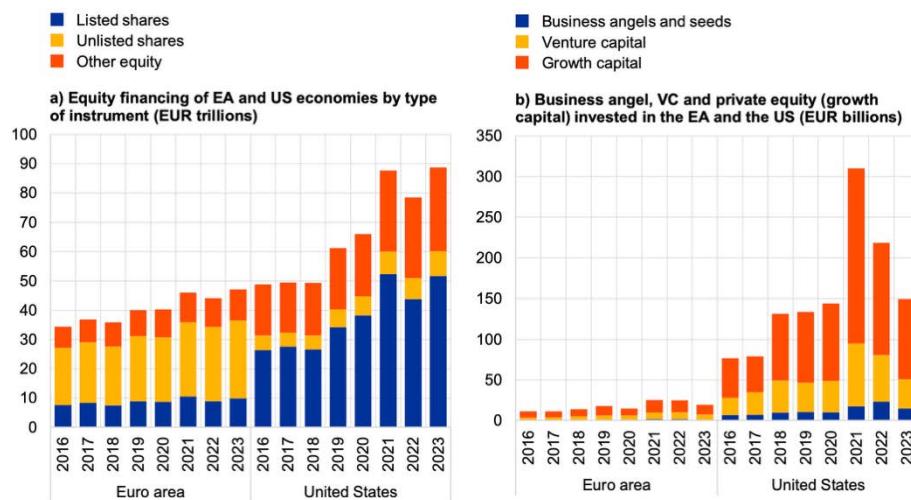
- a. Simple access and design, EU-labelled, investor-friendly formats and documentation (English and national language).
- b. Contributions: allowance for both lump-sum investment and regular contributions.
- c. Benefits: allowance for both lump-sum payout and annuity.
- d. Online access.
- e. Incentivised distribution, with no cap on fees.
- f. Transferability of existing national schemes.
- g. Tax treatment according to the EET model (exempt returns and reimbursement, taxed benefit).
- h. Optionality between partial deductibility of contributions and tax-exempt income.
- i. State-of-the-art risk/return optimisation and long-term diversification, with prudent and automatically adjusted investment policy calibrated according to age and risk profile.
- j. Flexible investment location with incentives for investment within the EU.
- k. Portability and transferability.
- l. Favourable IORP and Solvency II treatment.
- m. Preferably, supervision of the new instruments assigned to ESMA, or to relevant national supervisors in the case of groups of countries referenced above.

4.D – A WORLD-CLASS IPO INSTRUMENT FOR EU SCALE-UP FIRMS

A recent analysis by the ECB (2025b) examines the process of stock market listing of innovative firms in the EU, discussing obstacles to its efficiency and policy interventions that can remove such obstacles, complementing initiatives already undertaken or planned by the EU as part of the CMU and SIU processes.

While confirming that, in general, public listing is beneficial for companies' productivity and profitability, the ECB finds that the benefits are smaller for European firms than they are for US ones. It also documents the existence of a 'listing gap' between the US and Europe (Figure 26): fewer EU firms decide to go public, and they most often do so usually at a later stage in their life cycle compared with their US peers. When they do go public, they receive lower valuations from the market. These findings match those identified in our analysis in Section 3.

Figure 26: Equity financing in the euro area and the US by type of instrument.

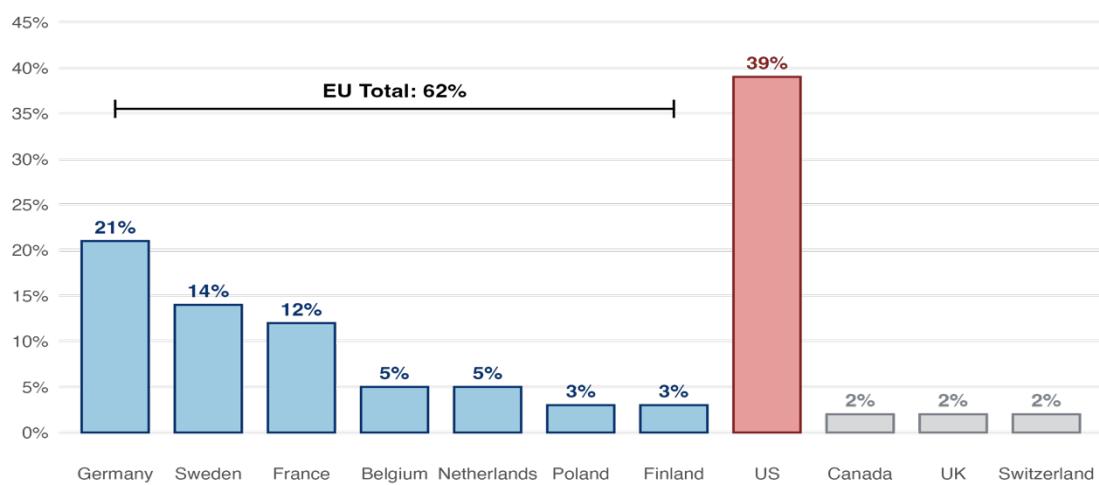


Source: ECB (2025b)¹⁴.

¹⁴ Notes: **Panel a:** the chart is based on financial accounts data. Other equity refers to equity claims that are not securities listed on an exchange and are not unlisted securities, such as equity in incorporated partnerships, equity in limited liability companies whose owners are partners, capital invested in cooperative societies or investment by the government in the capital of public corporations whose capital is not divided into shares. Data for the United States are based on the global System of National Accounts (SNA) 2008. The European System of Accounts 2010 underlying the EA data is broadly consistent with the SNA 2008, although in some cases it may be more detailed. **Panel b:** the data cover all EA countries except Cyprus, Malta, Slovakia and Slovenia. Venture capital is a subset of private equity and refers to equity investments made for launch (seed), early development (start-up) or expansion (later-stage venture). "Seed" is funding provided before the investee company has started mass production/distribution, with the aim of completing research or defining and designing the product, including market testing and creating prototypes. This funding is not used to start mass production/distribution. "Startup" is funding provided to companies once the product or service is fully developed, to start mass production/distribution and cover initial marketing. Companies may be in the process of being set up or may have been in business for a shorter time, but have not sold their product commercially yet. The use of the capital would mostly be to cover capital expenditure and initial working capital. "Later-stage venture" is financing provided for an operating company, which may or may not be profitable. This tends to be

Complementing this evidence, EIB (2024a) finds that EU firms at the scale-up level are more likely to be acquired or to merge than to go public and grow on a standalone basis. Firms that decide to go public often choose to list on a US exchange, where they obtain better valuations and higher liquidity for their issuance (Figure 27). After that step, they often move control centres and business focus outside Europe.

Figure 27: Stock exchange location for IPOs involving EU scale-ups.



Source: EIB (2024a) from Pitchbook Data, Inc. Note: The sample consists of EU companies with a deal between 2013 and 2023 with a market valuation between \$500 million and \$10 billion, as well as M&A companies.

As EU firms go public later in life and with a lower capitalisation than in the US (see also Section 4.g), hence are older and less capitalised after the transition to a public company, they tend to be more fragile and to grow less. Some causes are unrelated to the financial sector: unfavourable taxation, high energy costs, regulatory barriers across and within countries, and a lack of R&D investment (Draghi, 2024). On the financial side, obstacles arise from post-trading fragmentation and an insufficient supply of personal and retirement savings with proper risk-return characteristics.

A major problem of the status quo is fragmentation (multiple trading venues, regulations and directives implemented differently across member states, leading to a lack of liquidity and transparency, etc.). MiFID has substantially increased costs for financial intermediaries without achieving its main objective of deeper and more transparent capital markets. Efficiency, transparency and a level playing field would be improved with consolidated tapes for all asset classes, especially equities. Today, pan-EU IPOs (with listing in several EU stock exchanges) are extremely difficult due to burdensome compliance work (for example, investors

financing provided to companies already backed by VCs. For further details see Invest Europe. "Business angel" investments are (high-risk) investments made by early-stage private investors, typically in the form of seed financing for start-up businesses. Angel investments comprise both financial contributions and time, expertise and connections the investors provide in exchange for ownership equity.

approved in Germany need to be reapproved in another member state for the same IPO).

Based on this evidence, a central obstacle to company growth at and after the scale-up level is the lack in the EU of an easily accessible IPO instrument with three characteristics:

- EU-wide “country blind” regulation, applying to all firms regardless of location;
- Unfettered access to all EU savings pools on an equal basis, including tax-wise;
- Availability, within the same platform, of the full range of IPO and SPO services, including post-trading, in transparent and competitive conditions.

The EU Listing Act (European Commission, 2024) addresses some of these needs and aims to reduce costs and simplify listing procedures. However, this legislation, implemented only recently and partly through a directive, will take time to bear fruit and, even then, does not guarantee a level playing field.

The Reflection Group proposes attaining the above three goals at once by introducing a new EU-wide IPO instrument (“EURIPO”), either by separate European law or by an agreement among member states. A Regulation as a legal basis would advance a key component of the 28th regime for company and securities law discussed below in Section 5.

The purpose is to create a fully European IPO environment in which primary and secondary markets are fully integrated, pre- and post-IPO services are provided, and sufficient liquidity is ensured through unfettered access to national savings pools at favourable tax and regulatory conditions. The ambition would be to enhance and accelerate the positive effects of initiatives already undertaken as part of the Listing Act (European Commission, 2024). The new IPO environment would also benefit from access to state-of-the-art custodian services (see Section 4.e).

EURIPO would be offered by multiple venues, based on a single set of rules applied by all licensed exchanges. There would naturally be competition among exchanges for business, but treatment would be broadly aligned by the fact that common rules would be enforced. ESMA should be assigned the role of supervisor of the new instrument, thus frontloading an element of supervisory responsibility that can later be expanded into a more comprehensive central supervisory role (Section 5). EURIPO, as a kernel of a 28th regulatory regime for securities markets limited to the IPO process, would encompass all services preceding and following IPO and secondary capital raising.

The Reflection Group considered two possible modalities of implementation.

In the first, top-down approach, the establishment of EURIPO would be entrusted to the EU, acting either by revising existing legislation (e.g., the Prospectus Regulation) or by introducing a new Regulation. EU law would establish the requirements exchanges must meet in order to qualify for offering the new IPO instrument. This mode of implementation might ideally include all member states and exchanges, or could more easily be limited to a subset (“coalition of the

willing").

The alternative, bottom-up process, would proceed through the initiative of a group of member states which, in cooperation with their national exchanges, would enter into an agreement aimed at granting homogeneous regulatory and tax conditions to firms that successfully apply for initial listing and issuance on exchanges located in those countries. The exchanges participating in the accord would jointly draft an operational EURIPO manual including all steps preceding, implementing, and following capital raising. This bottom-up approach, usually involving partial participation of member states and exchanges, would offer the same services on the same conditions as the top-down approach and would remain open to the subsequent participation of additional member states and exchanges.

Whichever approach is chosen, requirements and incentives to participate in the EURIPO scheme should be kept as simple and flexible as possible, avoiding artificial bottlenecks that narrow company access to capital and IPO services. Such access should be the standard option, not subject to procedures based on complex predefined criteria beyond transparency, openness and competition for best-quality services.

Currently, listing is the core activity of exchanges. Initial and subsequent listing requirements are meant to guarantee high standards in terms of disclosure, governance, liability, and visibility. The proposal's objective is not to create a new IPO instrument duplicating existing ones, but to upgrade existing processes by giving them access to saving pools they do not currently reach and to the best services available. The recommended approach is to build on existing processes, opening them up and improving them rather than duplicating them with a new scheme.

Recommendation 3

The Reflection Group proposes that an EU-wide IPO model (“EURIPO”) be introduced, possibly through the initiative of a subset of member states and exchanges and by expanding existing IPO practices.

EURIPO should have the following characteristics:

- i. Be accessible to all firms established in the EU.
- ii. Grant issuers access to the savings pools of all member states.
- iii. Be open on equal conditions to non-EU companies and investors.
- iv. Be subject to a single set of rules, established by EU law or agreed upon by a subset of member states and exchanges.
- v. Alternatively, in the absence of agreed common rules, grant issuers the choice of EU legal jurisdiction and tax regime.
- vi. Offer a complete set of IPO services, covering both
 - a. The preliminary steps (advisory, prospectus, investor network, and all the other initial aspects of the deal – according to the characteristics of the issuer, and
 - b. Any secondary issuances.
- vii. Grant access to post-trading services of the best available quality and cost, including cross-border.

4.E – REMOVING CROSS-BORDER OBSTACLES TO CUSTODIAN SERVICES

Post-trading, the phase in which agreed securities trades are settled and securities are transferred, deposited, and custodied, is fragmented in the EU relative to the US. Clearstream, Euroclear, and Euronext settle over 90% of EU transaction value, compared with a single CSD in the US. More importantly, each of these groups includes multiple country-specific entities where conditions differ. Post-trading functions normally include Central Counterparties (CCPs), market-making institutions that act as buyers for every seller and sellers for every buyer, and securities custodians, which offer settlement, depository, and transfer services. According to information published by ESMA (2025c), there are currently 14 institutions authorised to provide CCP services in the EU, distributed across 12 countries (another four are located in the UK). Moreover, the European Central Securities Depository Association (ECSDA, 2025) counts 26 Central Securities Depositories (CSDs) as full EU members, located in 24 different countries.

Many of these institutions belong to cross-border groups. For example, the three most important market infrastructure groups active in the Union, Deutsche Börse, Euroclear, and Euronext, include three, six, and four CSDs respectively, each located in different countries. Belonging to a group does not imply that activities are harmonised or even coordinated. For practical purposes, members operate as separate institutions under different tax and legal regimes and maintain their own proprietary arrangements, IT infrastructures, and fee structures. This situation contrasts sharply with that in the US, where all settlements are handled by a single agency (Noyer, 2024).

In theory, the presence of multiple providers should foster competition, resulting in better services at lower cost for users. In practice, this does not occur because access is largely segmented by country and is therefore either difficult or prohibited. CSDs are largely “national” in the sense that they custody mainly securities issued and traded in the country. Cross-border activity is much more limited. As a result, the quality and cost of the post-trading services firms need at different stages of their development (clearing, settlement, and custody) are highly differentiated depending on location and the institution providing the service. Costs are also higher on average because mobility and competition are limited, and service quality is correspondingly lower than it would be if effective cross-border competition were possible.

To limit fragmentation, CSDs have established links among themselves to facilitate securities transfers and the cross-institution provision of services. These links, however, are largely bilateral, vary widely in scope and characteristics, and fall far short of providing an efficient and harmonised set of services or anything close to uniform costs across the EU (ECSDA, 2021).

A recent development which merits attention is the sharp rise in settlement activity by the so-called “internalisers” – intermediaries that settle transactions internally among their own clients. According to ESMA (2025b), “... *transactions by SetIns [settlement internalisers] for equities alone were over five times higher than those of CSDs during 2024, with a similar picture for total value settled in equities. We also note a high concentration at the level of a few SetIns*”. While internal settlement may be safer in certain circumstances, from a market perspective it tends to increase fragmentation in the post-trading ecosystem. ESMA’s conclusions are disputed by the industry; more analysis should help clarify the phenomenon and its impact on market fragmentation.

Target2-Securities (T2S) was created ten years ago by the ECB partly to address these issues. T2S is not a European CSD but an online platform available to national CSDs to facilitate cross-border securities settlement. Unfortunately, T2S has not fully succeeded, as shown by the persistently low share of cross-border settlement activity. Moreover, T2S does not help firms access cross-border opportunities, whether for tapping alternative savings pools or accessing cheaper or more efficient CSD services in other member states. Even though T2S transaction costs account for only a marginal portion of overall post-trade expenses and are not directly tied to CSD fees—which continue to constitute the principal cost burden—T2S has nonetheless failed to alleviate cross-country cost disparities. The current post-trading status quo is characterised by high custody fees, often increasing with transaction volume, meaning that high-volume exchanges are effectively penalised. While T2S offers settlement services on equal terms, national CSDs otherwise provide custody and other securities services in an uncoordinated and differentiated manner.

More than twenty years ago, the Giovannini Group identified 15 “barriers” to efficient cross-border and cross-institution clearing and settlement in the EU and suggested strategies for mitigating them (Giovannini Group, 2001 and 2003). Subsequent analyses have shown that, while a few of these barriers have been removed or mitigated, many remain and new ones have emerged or become more relevant (EPTF, 2017). More recently, ECB (2025c) reports that many of the barriers identified in the 2001, 2003 and 2017 EPTF remain only partially addressed. Despite progress in EU post-trade integration, key obstacles persist, including legal divergences in securities and corporate law, asset-servicing constraints, and tax-related complexities. Additionally, several other issues have persisted over time, largely due to legacy practices and a lack of awareness. This is especially evident in settlement, where many of these problems were expected to be resolved following the launch of the T2S platform in 2015 but have not, or not fully.

The most effective way to eliminate these obstacles would be to centralise post-trading functions in a single supranational institution serving issuers and investors in all EU countries on equal terms. Such a solution, however, appears no more realistic today than in the past. The array of private post-trading institutions in the EU reflects deeply entrenched national interests and practices, reinforced by local

traditions and protected by national politics. The objective of centralisation, namely making financial markets more efficient, does not attract equivalent political support.

More realistically, a gradual approach may consist of promoting harmonisation by enhancing cross-border access to post-trading services, thereby strengthening competition and reducing the post-trading fees charged by CSDs for custody services. As the Giovannini Group (2003) argued, *"The priority barriers- from the perspective of integration- are clearly those that restrict the location of settlement activities. If these are removed, investors can choose where to locate their post-trading activities and set in train a market-led integration of clearing and settlement arrangements across the EU."*

In light of the above, a promising approach may combine three lines of action.

First, update the analysis of the Giovannini Group. EPTF (2017) is seven years old, and changes are likely to have occurred following the entry into force in 2023 of the CSDR review (EU Council, 2023), which simplified passporting requirements, as well as other factors. New evidence on barriers can help identify where policy should focus and what should be prioritised.

Second, define CSD best practices that ensure their post-trading environments are fully accessible to other CSDs, both domestic and cross-border, with the same services and the same costs. These practices should include links that guarantee full interoperability. CSDs meeting these standards would form a cluster of "EU cross-border compatible" institutions. Securities issued through EURIPO would be settled and deposited only at these compatible CSDs.

Third, ESMA should be tasked with preparing the above set of best practices and supervising convergence toward them, including monitoring compliance of EU cross-border compatible CSDs with those standards. ESMA would cooperate with the EIB Group regarding securities issued through EURIPO.

Recommendation 4

By initiative of either the European Commission on behalf of the Union, or a subset of member states with assistance from the Commission, the following initiatives should be undertaken under the coordination and supervision of ESMA:

1. A new analysis, along the lines of the 2001–2003 Giovannini Group, to collect updated evidence on the barriers preventing an efficient cross-border and cross-institution clearing and settlement process in the EU.
2. Set-up of a single online platform containing information on the location of securities and the characteristics of services offered by the relevant CSDs (with the boundary to be defined: either limited to securities issued through EURIPO, or broader).
3. Verification of the extent to which the DLT Pilot Regime developed under the aegis of ESMA could achieve some of the same goals as the proposed interoperability reform at lower cost.
4. More generally, exploration of the use of asset tokenisation to facilitate cross-border access to listing, capital raising, trading, and depository services, through permissioned distributed ledgers organised by groups of national CCPs and CSDs.
5. Definition of a set of best practices ensuring that post-trading environments are fully accessible to issuers and investors, including across borders.
6. Centralisation of all settlement in T2S, possibly with targeted fee rebates based on volume contributions to incentivise participation.
7. Strengthening cross-border links, driven by business needs, to allow issuers to opt for any CSD located in the relevant area (the whole EU or a subset of countries).
8. Entrusting ESMA with responsibility vis-à-vis the participating CSDs to:
 - a. oversee the provision of services under the EURIPO umbrella;
 - b. foster progress toward competitive services and pricing;
 - c. foster progress toward technical harmonisation;
 - d. set standards for legal assessments of risks involved in cross-border links.

4.F – INNOVATION-FRIENDLY SECURITISATION

Securitisation is the process whereby credit exposures, normally of banks, are either converted into tradeable securities and sold on the market (“true sale” securitisation) or transformed into lower-risk instruments by means of CDS or guarantees (“synthetic” securitisation) and kept on balance sheet. Either way, the balance sheets of banks gain liquidity and/or shed part of their risk, allowing additional credit to be granted without eroding prudential buffers.

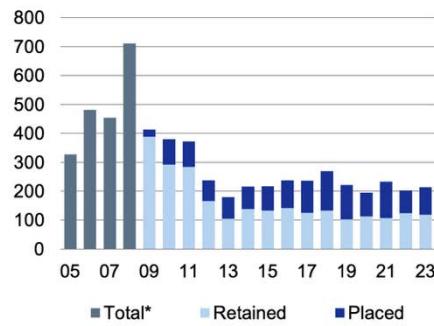
Securitisation was a major driver of market-based finance, especially in the US after the 1970s, alongside the development of pension funds and the mutual fund industry. Securitisation of mortgage exposures expanded rapidly in the US in the early 2000s, contributing to the Great Financial Crisis due to the extreme riskiness, complexity, and opacity of certain products. It contracted massively afterwards (Figure 28), suffering from reputational loss and from tighter prudential requirements imposed by global regulators after the crisis. European securitisation programmes behaved broadly in line with their ratings, even during the financial crisis, but they also suffered from post-crisis regulatory restrictions.

More recently, securitisation has recovered in the US, but still lags behind in Europe. There is a widespread perception that the retrenchment of securitisation on this side of the Atlantic has gone beyond the optimal balance between safety and efficiency, and that a recovery, supported by regulatory improvements, is warranted. The goal of building broader and more efficient capital markets in Europe should make a revival of securitisation one of its components.

Securitisation plays a critical role in recycling financial institutions’ balance sheet capacity, thereby increasing the velocity of capital. By freeing up regulatory capital, banks can expand lending across a range of instruments – working capital facilities, investment loans, equipment leasing, and more. This mechanism is essential for enabling credit to flow to innovative companies, which often require tailored financing solutions beyond traditional bank lending. Securitisation generates additional lending potential and creates new opportunities for investors, giving them access to assets they would not otherwise be able to hold. At the end of 2024, the EU market represented only 11% of its US equivalent in terms of outstanding amount (AFME, 2025) and stands at roughly one third of its 2008 issuance volume. The revival of the EU securitisation market is important from an SIU perspective also because it can produce beneficial effects relatively quickly, whereas other market segments can take many years to become effective (encouraging the build-up of pension funds, further market integration, moving towards more unified supervision, etc.).

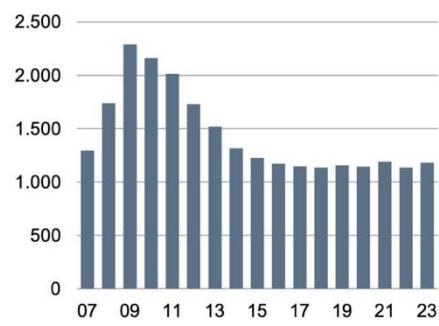
Figure 28: Key statistics on European securitisation.

Panel (a): European securitisation issuance.



*No data on placed and retained before 2009

Panel (b): European securitisation outstanding – flat at € 1.2 trillion.



Note: Includes own estimates for CDO/CLO in 2020 and 2021

Source: Deutsche Bank (2024). Note: Data reflect true-sale securitisation in EUR billion from AFME, Deutsche Bank Research.

Securitisation overwhelmingly applies to real estate exposures, because that is where added liquidity and de-risking are most valuable. In the US, over half of securitised products apply to real estate, most of which relate to mortgages issued by GSEs. In Europe, the corresponding fraction is 47%, while 10% of securitised products' underlying exposures are SME loans (Deutsche Bank, 2024). Credit to innovative enterprises has involved securitisation processes only to a very limited extent so far, but this may change as innovative securitisation models emerge; for example, a potential scheme targeting innovative enterprises involves IP-backed (intellectual property) securitisation of certain intermediaries' exposures, supported by EIB guarantees. Developing such schemes would require expanding the EIB Group's guarantee programme.

From our perspective, the question is: could a revival of securitisation help improve the financing conditions of young and dynamic innovative firms? The answer is mixed, but on balance positive. On the one hand, companies in innovative sectors (IT, deep-tech, energy, health, biotech) have risk characteristics and life cycles that do not match well with incurring debt; equity is more appropriate for financing this class of producers, because balance-sheet rigidity induced by debt increases risk and stifles innovation. If debt finance is unsuitable for innovators, so is securitised debt.

This objection, however, is offset by three considerations. First, securitisation increases banks' balance-sheet rotation, making them more agile in their lending to fast-growing companies once these have proved their viability. Second, even predominantly equity-financed firms must manage their liquidity, and credit lines are one instrument that allows efficient liquidity management. Banks may not be particularly tech-savvy, but they have, particularly in Europe, a long-established tradition of supporting SMEs through stable client relationships. Granting credit lines lies at the core of those relationships. Moreover, innovative start-ups, if successful, eventually develop into larger firms that become candidates for

sizeable mergers or IPOs. At that stage, strong banking relationships become even more important. The more firmly established they are, the more effectively they can support long-term trust.

International experience also suggests that securitisation is one of the channels through which the financial structure becomes more “mature”, favouring a transition from a predominantly bank-based system, such as that of the euro area today, to one in which financial markets play a greater role.

Tranching, bundling, and distributing exposures would make intermediaries less hesitant to lend to the innovative sector, counting on the possibility of subsequently offloading related risks. Regulatory improvements can support this process; for example, regulators could grant lighter regulatory risk-weighting on EIB-guaranteed securitised products, potentially within the DLT Pilot Regime (EU, 2022a) or a Scale-Up Fund sandbox.

Direct securitisation of loans to innovative companies – particularly start-ups – may not scale immediately or meaningfully due to their inherent credit risk and limited track record. A complementary avenue is to securitise standard, high-quality assets (such as SME loans, auto loans, leases), thereby unlocking balance-sheet capacity that can be redirected to support innovation. This indirect channel is both scalable and risk-aligned. Expanding credit to innovative enterprises requires a new business culture, as banks and asset managers currently have limited expertise in screening innovative enterprises, particularly start-ups. The EIB Group has already demonstrated the effectiveness of a use-of-proceeds approach in securitisation. In 2024 alone, according to EIB data, approximately €500 million was channelled to support innovation through securitisation-backed transactions (the securitised portfolios consisted of standard SME loans, but the proceeds were deployed in innovation). This model can be scaled further, embedding innovation-linked proceeds into securitisation structures to ensure that capital reaches the sectors most critical to Europe’s future competitiveness.

Developing a healthy relationship with the banking system therefore seems an essential step in improving financing conditions for the innovative sector, though not the only one. Other savings pools, notably insurance companies and pension funds, must also be involved.

Taking up suggestions from the financial industry, and as part of its SIU strategy, the European Commission has recently proposed a legislative package aimed at reviving securitisation (European Commission, 2025b). Proposals cover four areas. The first is a revision of the Securitisation Regulation (EU, 2017; henceforth SECREG) aimed at simplifying due diligence, reporting, and transparency requirements, thereby reducing administrative burdens and costs. The second, aimed at banks and enacted through the CRR, would reduce solvency requirements on the retained portion of banks’ securitisation tranches. The third foresees lighter criteria for including securitised products among instruments eligible for meeting liquidity requirements such as the LCR. Finally, the fourth is a consultation on a draft delegated act reviewing Solvency II (European

Commission, 2025c), proposing provisions to “remove barriers to investments in securitisation by insurers, by reducing risk factors on both simple, transparent and standardised (STS) and non-STS securitisation”.

The Reflection Group considers these steps to be in the right direction but judges them insufficient to attain the stated purpose. In the reviews of Solvency II, CRR, and SECREG, the central issue remains capital treatment. EU insurers currently face capital charges for asset-backed securities (ABS) that are 10 to 15 times higher than those applied to US insurers. This disparity significantly discourages allocation to securitised instruments. To attract insurers into the securitisation market, capital calibration must be revised, aligning prudential frameworks with actual risk and promoting a level playing field across jurisdictions.

Prudential requirements should be eased more decisively to deliver meaningful change. Treatment should be more consistent across types of securitisation, bank positions, and risk-weighting approaches. The Commission’s proposal regarding the CRR promotes only certain securitisations, whereas coherent action across the entire market spectrum is needed. Consistency with CRR III, which is already reducing capital requirements for securitisation, is also recommended. Further amendments should be made to risk-weight floors for positions retained by banks, the “p” factor used to increase risk weights for securitised products relative to the underlying instruments, and the provisions applying to resilient positions and STS securitisation. Criteria should be lightened and significantly simplified.

The Reflection Group welcomes the simplification of due-diligence and transparency requirements proposed under SECREG, but considers that the creation of a new category of “resilient” securitisations and the definition of new administrative sanctions add complexity and administrative burden and should be removed. More generally, the simplification of the EU regulatory framework for securitisation should be pushed further to make the market more attractive to issuers and investors.

Investment options for insurers and other asset managers in securitised products should be broadened. As noted, the Commission has consulted on a revision of the Solvency II Delegated Regulation (European Commission, 2025c). Relative to the Commission proposal, the recalibration of Solvency II should be further extended to enable insurers to scale up their involvement in securitisation. While the proposed amendments for STS senior tranches are welcome, the treatment of non-senior tranches and non-STS securitisations remains overly conservative. Similarly, the proposal to increase the capital charge for insurers providing credit insurance on SRT (Significant Risk Transfer) transactions is inconsistent with the aim of reviving the EU market and should be reviewed. Equivalences should also be revisited to enable EU insurance companies to access securitisation markets abroad.

A third aspect omitted by the EU proposal is the need for a market-making function in the securitised-product market. A well-developed market-making function for notes issued through securitisation would help standardise products

and enhance liquidity and transparency. The natural solution is for such a function to be performed by one or more market participants, whether banks or other intermediaries. These entities would maintain a warehouse of products, for which specific prudential criteria would need to be set, preferably by ESMA.

To support the process, the EIB Group could position itself as a strategic anchor investor with a significantly expanded presence in securitisation. The current annual allocation of approximately €5–6 billion could be increased to shift market dynamics more meaningfully and unlock substantial financing for innovative companies. By scaling up its investments in securitisation, the EIB can catalyse broader investor participation, especially in senior tranches where risk appetite is limited; shape transaction structures to embed innovation-linked use-of-proceeds mechanisms; and unlock balance-sheet capacity across financial institutions, enabling increased lending to start-ups and high-growth firms. This enhanced role would allow the EIB Group to act as a policy-driven capital allocator, steering securitisation flows towards sectors aligned with EU strategic priorities. Its role would not be to intermediate markets, but to amplify impact through targeted, scaled investment.

Universal banks can act not only as financiers but also as innovation intermediaries through accelerators and co-investment platforms. Unlocking the role of finance in the innovative sector is not solely about instruments, but also about ecosystem partnerships that bridge venture, corporate, and institutional investors.

Recommendation 5

The Reflection Group proposes four steps to revive securitisation for specific use by the innovative company sector:

1. Creating an EU-wide market-making platform for securitised products, preferably located in one (or more) financial institution(s), with a warehouse of products. This function would be supported by the EIB Group, acting as a strategic anchor investor with a significantly expanded footprint in securitisation. ESMA should be entrusted with designing the regulation of the platform and given authority to supervise its activities.
2. Revisiting SECREG to amend the definition of public securitisations and the reporting of private securitisations to repositories. The creation of a new category of “resilient” securitisations and the introduction of new administrative sanctions would add complexity and administrative burden, defeating the purpose of the approach. More generally, the simplification of the EU regulatory framework for securitisation should be pushed further to make the market more attractive to issuers and investors alike.
3. Lightening CRR for issuance of, and investment in, securitised products by banks, ensuring that the treatment is consistent across types of securitisations, bank positions, and risk-weighting approaches. A specific treatment to facilitate the development of market-making activity by banks on securitisation notes would also be needed, as liquidity in this asset class is critical.
4. Recalibrating Solvency II to enable insurers to scale up their involvement in securitisation. While the proposed amendments for STS senior tranches are welcome, the treatment of non-senior tranches and non-STS securitisations remains overly conservative. The proposal to increase the capital charge for insurers providing credit insurance on SRT (Significant Risk Transfer) transactions is inconsistent with the aim of reviving the EU market. Access for EU insurance companies to securitisation markets abroad should also be allowed.

4.G – ENHANCING THE EIB GROUP ROLE IN VC AND SECURITISATION

The European Investment Bank Group (“EIBG” or “EIB Group”), made up of the EIB and the EIF, is the largest provider of VC financing in Europe. The EIF is the subsidiary of the EIB dedicated to financing SMEs. Both entities play a key role in financing venture capital-backed companies, either by financing companies directly (EIB) or via intermediaries (EIF).

In the innovation arena, the EIB provides growth capital in the form of venture/scale-up debt funding (supported by public guarantees, for example from the European Commission) to fill the financing gap between traditional venture capital and project/corporate finance, with a focus on cleantech, life sciences, deep-tech, and digital. Since introducing the EIB Venture Debt financial product almost ten years ago, the EIB has financed close to 300 companies with around €6.8 billion. The EIB also acts as an advisor to the European Innovation Council, introduced by the European Commission under Horizon Europe with a budget of €10 billion. The EIC supports game-changing innovations with grants and equity participations throughout the company life cycle, from early-stage research to the financing and scale-up of start-ups and SMEs.

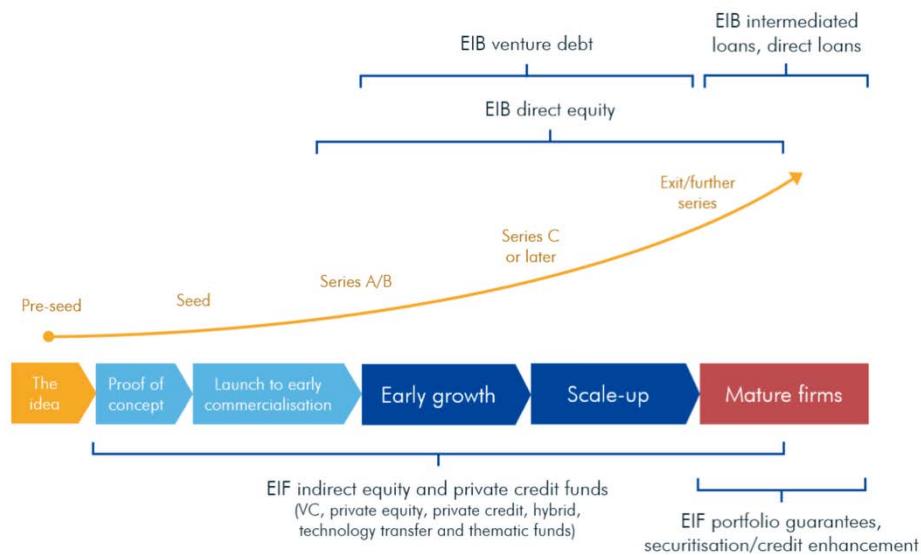
The EIF plays a major role in the venture capital market, acting as lead investor and mobilising private investment. It prioritises cross-border venture capital firms, helping to unify Europe’s fragmented venture capital markets and fostering a cohesive pan-European venture capital environment. According to EIB (2024a), *“Over the past ten years, EIF commitments have averaged 10–15% of total venture capital fundraising, and about half of public venture capital funding in Europe (including the United Kingdom). The EIF supports 40–50% of venture capital-backed start-ups in Europe in a typical year”*.

The EIB Group and several EU member states launched in 2023 the European Tech Champions Initiative (ETCI) to finance growth equity funds which in turn invest in European technology companies in the “scale-up” phase. With €500 million from the EIB Group and contributions from Germany, France, Spain, Italy, Belgium, and the Netherlands, the initiative has total capital of €3.85 billion. In 2025, a new programme, TechEU, was launched to finance technology firms, expected to provide €70 billions of finance (mobilising €250 billion) over a three-year horizon. Under TechEU, the EIBG intends to considerably increase investment focused on the innovative and technological sector. As a result of these programmes, the EIB Group’s mission of supporting investment in the European Union has been considerably strengthened in the direction of supporting innovative firms.

The EIB Group supports companies throughout their life cycle, with different instruments and modalities depending on the firm’s stage of development. As shown in the Figure 29, the EIF tends to concentrate on the early stages of a firm’s life, supporting indirectly, as a fund of funds, from birth to early growth. At a later stage, the EIB may intervene directly, with both quasi-equity and debt instruments, when the firm may be considering or actively preparing to raise

capital on the market. Moreover, EIB assistance extends beyond financing, for example through technical assistance and financial advice. It does not replace advice or other support that may be provided by professional advisers or national promotional institutions.

Figure 29: EIB Group support throughout a company's lifecycle.



Source: EIB (2024a).

In spite of these significant actions and other support from national public and private sources, evidence suggests that financial constraints still hamper the development of EU innovative SMEs. It is therefore worth exploring whether the EIB Group could contribute further to supporting EU innovative firms from the financial side. Two points need to be kept in mind. First, as we have seen, EU firms tend to face financing constraints at the scale-up stage more than at the start-up stage. At that point, the efforts of the EIB Group to establish pan-European large-scale equity vehicles like the ETCI, managed by the EIF, are extremely relevant but probably not sufficient. If European companies are to receive financing at a sufficient scale, efforts should focus on creating favourable financing conditions at that stage of the company's life cycle. On the other hand, the EIBG does much more than finance; its role also involves channelling private investment ("catalytic role").

Historically, a main avenue through which the role of the EIBG has been expanded has been *capital increases*. The last capital increase approved by the EIB Governors, amounting to €10 billion, dates back to 2013. The EU economy and the structure of its financial sectors have changed considerably since then. Investment requirements have increased even more, driven by the multiple transformations the continent is undergoing: digital transformation (including AI), decarbonisation, defence, pressures on the health sector, and others. All these

areas have a significant innovation component. Although there may be a theoretical case for a new capital increase, consultations with the relevant parties indicate that this is not presently required, since capital availability does not appear to constrain EIB operations.

A second option is *leverage increase*. The EIB's gearing ratio was recently raised to 290% from 250%, allowing the institution to undertake the new initiatives in the innovation space referred to above. A number of observers have recently called for the EIB to take more risk onto its balance sheet (Demertzis et al., 2024; Paduano, 2025). The factor constraining the EIB's balance sheet is its relatively high level of equity exposure. While the latest adjustments to the statutory gearing ratio created room for the EIB Group to expand its activities, the need to preserve its AAA rating suggests caution in further leveraging the Bank's capital. As an alternative, especially for equity activities, the EIB Group could explore pursuing more off-balance-sheet structures like ETCI, including through private-sector fundraising. In this context, the EIB Group could also act as a federator of national initiatives, as domestic measures alone would not be sufficient to address issues at a European scale in a global context.

Another promising avenue for expanding the role of the EIBG would be to develop areas where the Group already has established expertise, without requiring a major change in the capital structure. The EIB Group could further benefit from mandates based on the EU budget, especially under the European Competitiveness Fund in the next MFF (Multiannual Financial Framework), which should provide substantial risk sharing to the Group and enable continued engagement in riskier projects. This would include the support the EIB Group would provide to securitisation by acting as anchor investor in support of the private securitisation market-maker (Section 4.f).

Recommendation 6

1. EIBG should have preferential access to the new saving and retirement accounts discussed in Sections 4.b and 4.c. The preferential access should come with incentives to invest in pan-European products and investment schemes, such as the ones deployed by the EIBG itself. Prudential and tax regulations would reserve favourable treatment for individuals and institutional investors subscribing to EIBG products. Incentives would help ensure that resources do not remain predominantly locked in bank balance sheets or in traditional investments such as government bonds, but are channelled to the innovative sector through EIBG-sponsored funds.
2. EIBG should support the creation and the operations of the securitisation platform discussed in Section 4.f, acting as a strategic anchor investor with a significantly expanded footprint in securitisation – see Recommendation 5.1. The platform, set up by a private intermediary, would act as central counterparty for transactions in a range of securitised products with banks and other intermediaries, helping guarantee reliable pricing for standardised products with moderate and stable bid-ask spreads.
3. As mentioned in subsection 4.e, EIBG could use its experience to support ESMA in its effort to harmonise and improve custodian services relating to securities issued through EURIPO. In that role, the institutions would maintain a register guaranteeing the location of securities, help ensure efficient and secure transfers of securities, and establish “pricing standards” which CSDs would be encouraged to follow.

5. THE UNFINISHED AGENDA

5.A – DIAGNOSIS AND STRATEGY

The six proposals outlined in the previous section cannot, by themselves, constitute an endpoint of a comprehensive reform of EU financial markets, for several reasons.

First, innovative firms are an important but limited part of the economy. Precise measures depend on sectoral definitions and metrics; rough estimates for the UK (Darley, 2025) suggest that the innovation ecosystem has reached a value of 1.2 trillion US\$, around one third of stock market capitalisation. This is surely greater than in the EU. Moreover, the six proposals do not address the fragmentation of the EU financial structure from a regulatory and supervisory perspective. Even if implemented in full, they would not fundamentally alter the status quo in this respect. A third reason is that, without completing the reform, even the gains achieved in facilitating the financing of innovation would be at risk of erosion. These gains ultimately depend on the establishment of a market-oriented, area-wide financial environment and culture. If progress remains confined to a specific sector, a niche of the broader economy, it is unlikely to be sustainable.

This report does not go as far as proposing a detailed reform of the financial sector. However, the Reflection Group devoted part of its discussions to that reform and concluded that it should cover three areas.

One is the *regulatory* side, meaning that EU enterprises should be able to operate efficiently across the area in all dimensions (including but not limited to financing) under a single, country-blind, streamlined, and transparent set of rules. The rulebook should be directly applicable throughout the Union without duplicating national rules or creating additional administrative burden. It should also cover judicial and enforcement dimensions, so that once fragmentation is removed from the norms, it does not reappear in their implementation.

Among the possible approaches for designing the rulebook, the Reflection Group supports the choice already made by the European Commission of drafting a newly designed set of rules (the “28th regime”) that companies can opt into as an alternative to national ones. As an alternative to harmonising national legal systems, introducing a separate opt-in regime has several advantages. It bypasses the complexity and compromise inherent in merging multiple legal systems; it avoids the need to supersede national legislation, instead allowing it to be gradually overtaken through free choice; and its inherent flexibility allows it to be designed more freely, better approximating the ideal, though compromises are likely to arise here too.

The second dimension is *supervisory*. Financial supervision includes not only oversight of the application of norms, but also an element of “soft” normative power (secondary ruling) bridging the gap between higher-level norms and concrete cases. A single rulebook cannot function as such without a single authority supervising it. A collection of national authorities, even with an effective

central coordinator, cannot perform equally well. It is therefore imperative that, eventually, perhaps gradually, the EU has a single market authority. Some elements of the six proposals move in this direction: for example, the recommendation that ESMA take responsibility for supervising the new IPO instrument and related post-trading services, or certain aspects of the securitisation platform. These are initial steps; more will need to follow. It is important to have clarity from the outset on how that authority should be designed. The mandate of a prospective European market supervisor must properly balance prudential and competition elements, with a view to facilitating access to capital by EU companies. Particular attention should be given to the experience and practices of countries with well-developed financial markets (see, for example, FCA, 2024).

The third area is *informational*. A market is an informational structure as much as it is an operational one; an opaque market is not fully a market. Initiatives providing EU companies with business information already exist, as mentioned below, but significant informational gaps remain. A specific element under the same heading is financial education: making individuals aware of the consequences they face when they invest. Financial-education structures lend themselves well to partnership between the public and private sectors and require some institution building.

The rest of this section sets out some ideas in these three areas.

5.B – A COMPREHENSIVE 28TH REGIME FOR COMPANY AND SECURITIES LAW

In January 2025, the European Commission stated in its Competitiveness Compass documentation its preference for "... a 28th legal regime to make it possible for innovative companies to benefit from a single, harmonised set of EU-wide rules wherever they invest and operate in the single market, including any relevant aspects of corporate law, insolvency, labour and tax law" (European Commission, 2025a). Following that, the Commission launched a consultation with industry and other stakeholders. As we write, the Commission services are reviewing the responses. Here we are guided by the views expressed by the Reflection Group members, some of whom contributed to that consultation.

A key choice concerns the boundaries of the 28th regime: whether it should cover all dimensions of companies' activities or just the financial side; whether it should apply to all sectors of the economy or only to the innovative ones; whether it should embed graduality of implementation and in what form; and how ambitious it should be.

The predominant view from legal experts is that the 28th regime legislation should be *comprehensive*, avoiding sectoral boundaries that are difficult to define in principle and even harder to maintain in practice, but *modular*. It should encompass all sectors and all dimensions of company law, while being designed with the additional needs of the most dynamic and high-productivity sectors in mind (Sanders, 2025; CEPS, 2025). The modular format also implies that staggered implementation is possible.

The Reflection Group adopts the modular approach by suggesting that a few "feasible steps" be undertaken up front, creating the nucleus of the future comprehensive financial market structure. The rest of the construction would then build on and complete these initial steps. The 28th regime should include provisions in the following areas:

- Business practice (contracts, governance).
- Securities and markets.
- Insolvency.
- Taxation.
- Human resources.
- Jurisdiction and enforcement.

More specifically, the 28th regime should build on the following guiding principles:

1. *Types of companies*: all main company types existing in national legislation should be included, in particular private limited liability companies, public companies and partnerships.
2. *Transition to the new company types*: conversion of existing companies into the new European types should be facilitated, as well as the use of European types for newly created companies; all economic sectors and nationalities should be admitted on an equal basis.

3. *Efficient corporate governance*: rules regarding governance should satisfy efficiency and transparency criteria designed for multinational companies, including systematic online proceedings.
4. *General recognition*: companies registered in one member state would automatically be registered in all member states; authorisations granted in one member state should apply EU-wide.
5. *Country-blind*: no provision or act should depend on country-specific characteristics such as the nationality of establishment, the location of business, or the citizenship of the individuals involved.
6. *Prudential framework*: the 28th regime should include prudential provisions on minimum capital, reserves, dividend policies, and the fitness of managers and administrators, leaving secondary norms to the supervisor or other authority competent for second-level legislation.
7. *Continuity*: provisions and institutions created earlier to promote the financing of innovative enterprises should be encompassed and extended as appropriate; continuity with national norms should be favoured where possible.
8. *Cross-border mobility*: intra-EU mobility should be facilitated in all dimensions: establishment, conduct of business, human resource management, exchange of information, financing; extra-EU mobility should be granted where consistent with EU objectives.
9. *Insolvency*: a dedicated, expeditious, and simplified insolvency framework should be included.
10. *Taxation*: a dedicated system of taxation should be included, from which member states would benefit pro-quota.
11. *Simplification*: speedy authorisation (including silent consent after a maximum lapse) should be granted; all administrative requirements should use standard templates in English.
12. *Securities and financial markets*: seamless access to multi-country savings pools, issuance platforms, and custodian and post-trading services should be granted to all investors.
13. *Digitalisation*: the 28th regime should operate through digital access points for registration, authorisations, legal structure, identity and signatures, governance checks, controls, debt and share issuance, reporting, accounting, wind-up, and bankruptcy.
14. *Employment policies*: the 28th regime would include a single human-resource framework regulating mobility, remuneration, and retirement provisions and benefits, including tax-friendly ESO provisions.
15. *Jurisdiction and enforcement*: controversies would be settled through a single competent jurisdiction, based on directly applicable EU legislation and pre-identified national courts; enforcement would rely on national structures.

5.C – TOWARDS A EUROPEAN SECURITIES AND MARKET SUPERVISION

Of all proposals to reform EU capital markets put forth in recent years, none has attracted more opposition than the idea of centralising supervision at European level. Organised resistance reached a peak in April 2024, as the first von der Leyen Commission was nearing its end, when thirteen member states (Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta, Romania, and Slovenia) coalesced to block a proposal by France and a few others to, among other things, concentrate supervisory powers in ESMA (see, for example, *Financial Times*, 2024). Little has changed since then; Germany, previously sitting on the fence, appears to have warmed to the idea, but firm opposition remains, especially among smaller countries.

That opposition is not unfounded. One valid argument is that, since supervisory authorities already exist in each member state, a new authority risks increasing bureaucracy and introducing additional layers of control on top of those already in place. Complaints about duplication and bureaucracy have occasionally been raised also in relation to the SSM, the banking supervisor created in 2013–14. Defenders of the status quo argue that the current system, based on voluntary coordination within supervisory colleges with light oversight by ESMA, works well and does not need fixing. However, experience in the banking sector clearly shows that voluntary coordination may seem adequate in tranquil times, but in a crisis only a strong central supervisor acts with sufficient consistency and speed. The success of the SSM in repairing euro area banks after the crisis and creating the conditions for their current resilience is now almost universally recognised. Another concern often, though not always openly, raised against single market supervision is that a European authority might be dominated by larger member states and overlook the interests of smaller ones.

Any new proposal must take these arguments seriously. The proposals put forth in this report, however, are less vulnerable to the above concerns than earlier ones. First, centralised supervision is not one of the proposed “feasible steps”; ESMA would only upgrade its role in certain areas where simplification and area-wide consistency are specifically needed. The process would be gradual, not one-off; the new authority would assume its role progressively, with timing and scope aligned to the need to rationalise the overall supervisory structure. Second, the 28th regime offers a natural way to keep the roles of the centralised market supervisor distinct and limit the risk of overlap; the European supervisor’s jurisdiction would primarily focus on subjects and instruments belonging to that regime. National authorities could retain responsibility mostly vis-à-vis domestic intermediaries and asset categories. Third, the supervisory role of the European authority would not extend to other areas covered by the 28th regime (taxation, human resources, insolvency, etc.).

In sum, the Reflection Group supports a gradual and pragmatic transition of supervisory responsibilities to an EU-wide market supervisor, as part of the reform process. For it to possess the necessary characteristics, the following guidelines should be adhered to:

1. *Supervisory model*: the model should be a mix of “twin peaks” and functional, with the authority responsible for both the stability and efficiency of financial instruments, institutions, and markets (excluding prudential supervision of credit institutions).
2. *International cooperation*: the EU supervisor would have sole responsibility for relations with global (non-EU) market regulators, coordinating with them to promote stability and efficiency in global financial markets in normal and crisis times.
3. *EU-level exclusive competence*: the supervisor would hold exclusive competence for monitoring compliance with the EU 28th regime for capital markets, institutions, and instruments.
4. *Governance*: the supervisor would be managed by an independent Board composed of individuals of recognised competence and standing in financial and relevant institutional matters; a separate structure would ensure liaison with national market authorities.
5. *Independence*: the supervisor should be independent from external influence, including politics and the financial industry; it would be accountable to the European Parliament and also report to the Council.
6. *Relations with national supervisors*: the supervisor would liaise with national authorities, which remain competent for domestic markets, institutions, and instruments, avoiding overlaps and ensuring cooperation in respective roles.
7. *Institutional mandate and focus*: the supervision authority should properly balance the prudential and competition elements, with a view to facilitating access to capital for EU firms in line with international best practices. It would be attentive to promote the competitiveness and medium-to-long-term growth of the EU economy and financial sector.
8. *Implementing standards*: unless a separate regulator is established, the supervisor would issue implementing standards guiding financial institutions and other market participants in applying relevant EU legislation.
9. *Level playing field*: supervisory decisions would be merit-based and country-blind, ensuring equal treatment of all instruments, markets, and institutions, regardless of EU country of registration or operation.
10. *Simplicity and proportionality*: supervisory acts would be guided by simplicity, clarity, and proportionality, constantly striving to limit the compliance burden on supervised entities to the minimum necessary.
11. *Communication*: the supervisor would follow high standards of communication efficiency and clarity, developing appropriate publications, analyses, public events, and press contacts.

12. Funding: Supervisory activity of the EU authority should be conducted in a cost-effective and prudent manner; contributions accruing to national supervisors should be scaled down accordingly, with a view to reducing the overall supervisory burden.

5.D – ENHANCING FINANCIAL INFORMATION AND EDUCATION

A reformed financial market structure such as the one sketched in this report would need to be supported by initiatives aimed at developing financial information and education to levels beyond those existing today. A detailed design of such initiatives goes beyond the remit of the Reflection Group; recommendations in this area can therefore only be tentative.

It is important that two areas are covered: financial *information* and financial *education*. The first refers to ensuring that businesses and individuals engaging in financial market activities in all functions – as investors, intermediaries, market makers, custodians, advisers, and so on – have at their disposal efficient (hence largely online) sources where the information they need is readily available and accessible. Financial information is especially, though not exclusively, required by professionals. Financial education, by contrast, consists of providing non-professional individuals and households, especially less sophisticated ones, with the knowledge they need to make correct financial decisions, aware of the options, advantages, and risks available to them. While the two areas of knowledge differ, the channels through which they are disseminated may partly overlap.

The EU has already undertaken several initiatives to enhance online information – including financial information – for citizens and businesses. SOLVIT, an online platform, supports individuals and businesses with problems encountered when dealing with public authorities within the EU internal market. Your Europe Advice is another platform, set up by the European Citizen Action Service (a non-profit) on contract with the European Commission, through which citizens and businesses can obtain legal advice on their rights in the EU internal market (European Commission, 2025f). The 'Your Europe' portal, the entry point to the EU Single Digital Gateway, provides information to businesses on issues they may encounter when operating cross-border within the EU (European Commission, 2025g). The Digital Services Programme offers co-funding to projects in areas including supercomputing, AI, and cyber (European Commission, 2025e). The digital services sector has recently been codified in the EU Digital Services Act (2023), whose focus, however, is more on safeguarding the integrity of online information across fields than on strengthening business-specific information, with a view to promoting a "*safe, predictable and trusted online environment*" (EU, 2022b).

As is clear from this list, the menu of available sources is rich but unfocused and not directly targeted at capital markets. A recent CEPS paper, a Europe-based thinktank, on the 28th regime and its informational requirements concluded that

"... SOLVIT does not appear to be fully effective in addressing the needs of merchants for cross-border physical and vertical commerce among the Member States. An ex-post evaluation is urgently needed..." and "... it is not possible to judge today whether [the Single Digital Gateway] is fully effective in addressing the underlying problems. Real surveys and tools need to be put in place" (CEPS, 2025). The Reflection Group holds the view that, as a complement to financial market reform, a survey of the effectiveness of available informational tools and how to reorganise them is needed, focused on the needs of the financial industry and supported by it.

Financial education is equally critical. It matters for several reasons (for example, its role in improving the functioning of monetary policy has recently been emphasised by Schnabel, 2025), but is particularly important when considering ways to strengthen access to risk capital by offering individual investors new savings and retirement instruments more exposed to it. According to Eurobarometer (2023), only 18% of EU citizens have a satisfactory degree of financial knowledge; in the US the score is higher, at 54%, though the measures are not directly comparable (Pew Research Center, 2024). In recent years, attention to the need for enhanced financial education in the EU has increased, and several initiatives have been undertaken.

Financial education is an area that can greatly benefit from cooperation between the private sector, governments, policy institutions, and academia, including schools. The Reflection Group encourages such cooperation; its members are ready to participate in joint efforts, if well designed and with a clear European imprint. Bocconi University has developed its own financial education platform, the Financial Education Lab (FEL) (see Bocconi University, 2025), presently aimed mainly at the Italian public. Bocconi is available to participate in European initiatives aimed at developing similar platforms at EU level.

6. CONCLUSIONS

6. CONCLUSIONS

This report is structured around two principal pillars. The first comprises six ready-to-implement proposals designed to mobilise capital toward innovative European enterprises and to establish the financial ecosystem necessary for their development and scale-up within Europe. Some proposals focus directly on channelling investment into firms' growth and competitiveness, while others aim to reduce financial fragmentation and the cost of capital across European jurisdictions.

The second pillar addresses issues intrinsically linked to the formation of an integrated capital market, including centralised supervision, the proposed 28th regime, and enhanced financial information and education. The Reflection Group recognises the complexity of this undertaking and considers that a coherent set of concrete, coordinated, and feasible steps constitutes the most effective means of strengthening European sovereignty and revitalising competitiveness in the region.

The Reflection Group further believes that progress is more likely to be achieved through a bottom-up approach rather than a top-down strategy, the latter being prone to dispersion and political obstacles that risk resulting in stalemate. The proposals advanced in this report can open the way to subsequent long-term developments aimed at realising a fully-fledged capital markets union.

This report is grounded in pragmatism: it is based on the belief that imperfect advance is preferable to stagnation. Progress, if found to be flawed, can be improved. Perfection is rarely achieved, and never in one step.

In the same spirit, while the six proposals are complementary and synergistic, even partial implementation would be helpful. A few EU members can move ahead; a group of financial institutions with a shared vision and sufficiently large reach can coalesce to make some proposals a reality. This is especially true for initiatives that do not require regulatory changes but rely on market initiative.

As Reflection Group members, we understand our suggestions are not perfect either. This work was carried out under time constraints. It is partly the result of compromise, though the degree of consensus around our virtual table was remarkable. There is considerable room for improvement, refinement, clarification, and adjustment.

Beyond this report, we remain available to provide more information and to continue the discussion.

7. REFERENCES

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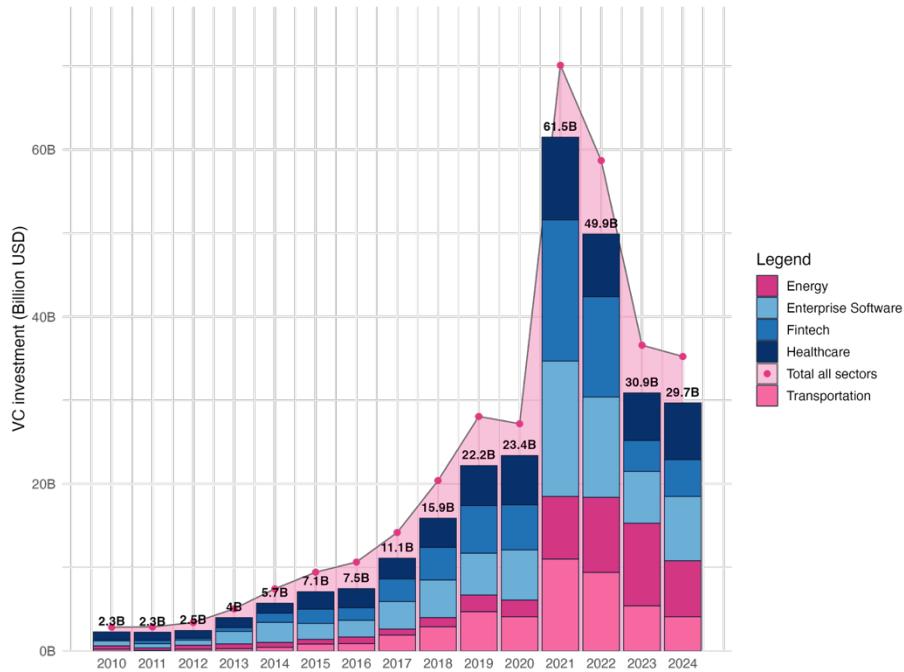
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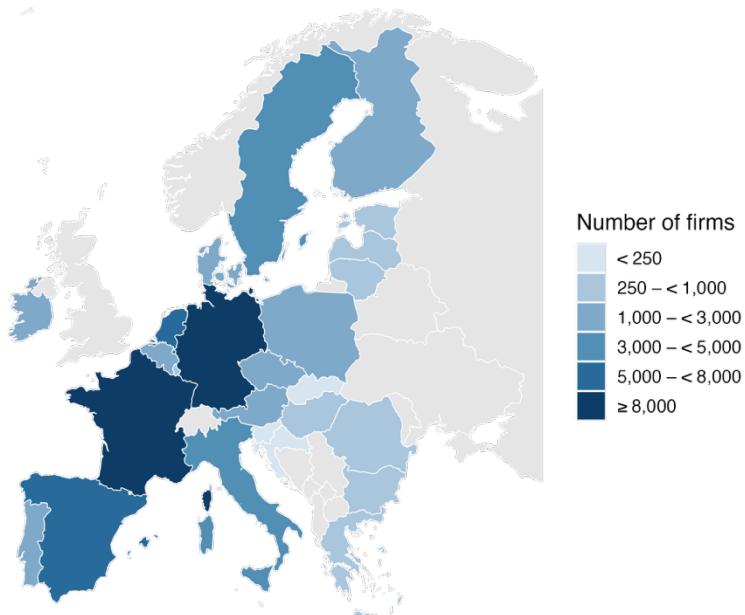
ANNEX 1. BACKGROUND FIGURES AND TABLES FOR SECTION 3

Figure 1: Decomposition of Total VC Investment Flows in the EU by Sector.



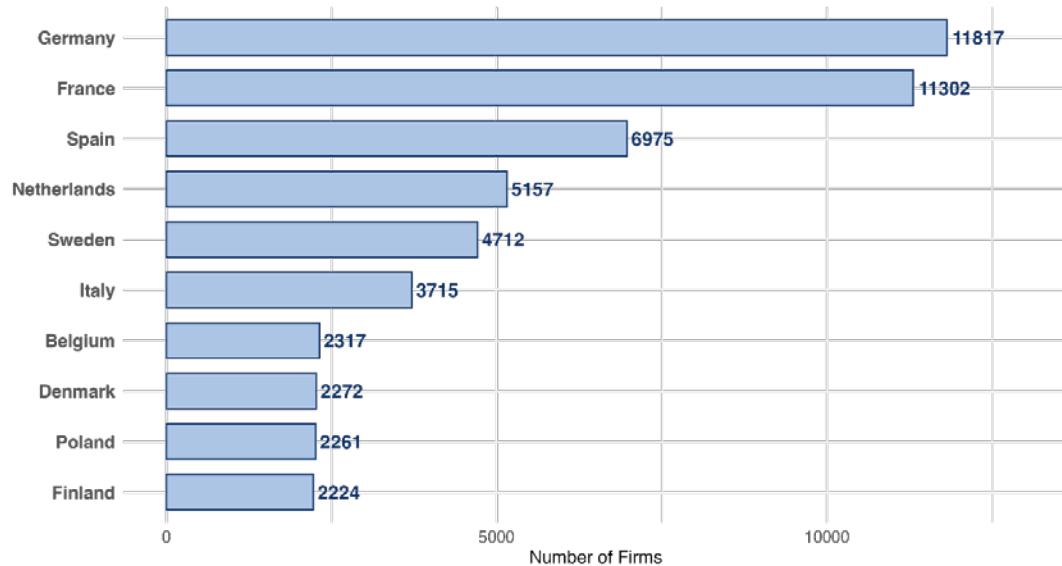
Source: Own elaboration on Dealroom.co data, 2025. Note: Sectors are classified according to Dealroom.co's taxonomy.

Figure 2: Total Number of Innovative Firms in the European Union by Country (1999-2025).



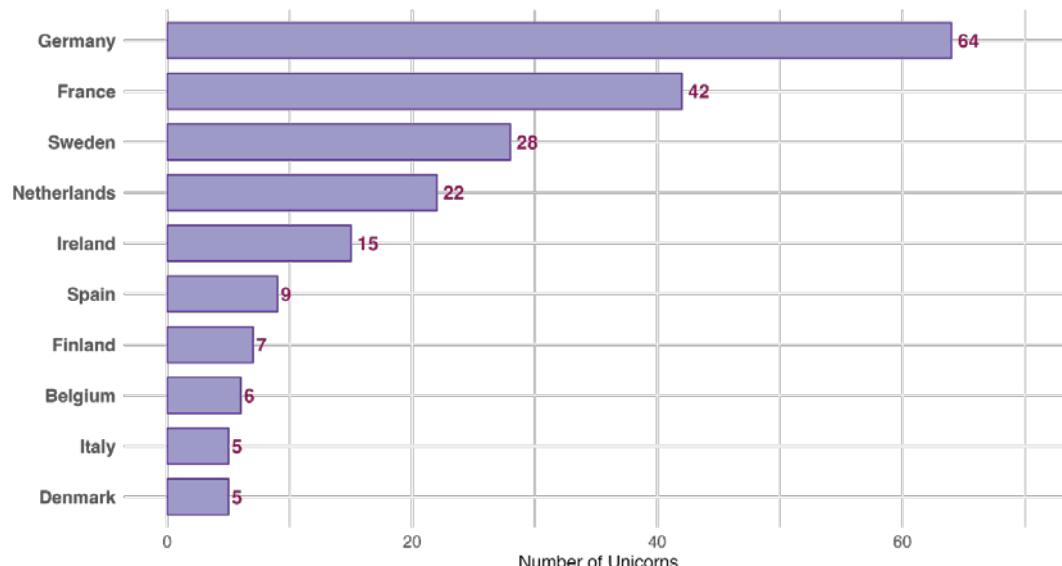
Source: Own elaboration on Dealroom.co data, 2025. Note: HQ based in the European Union.

Figure 3: Top 10 EU Countries by Number of Innovative Firms (1999-2025).



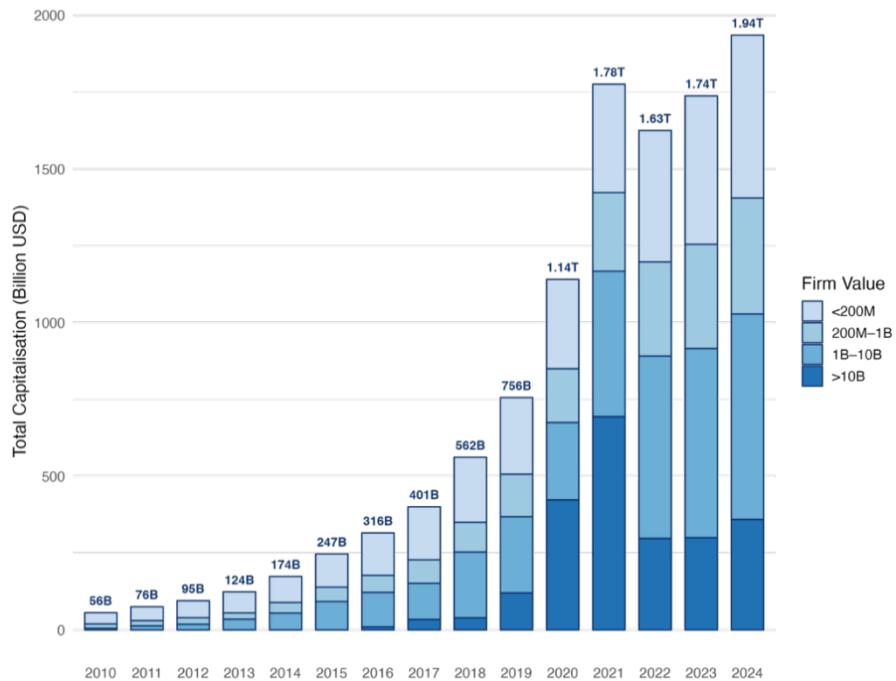
Source: Own elaboration on Dealroom.co data, 2025. Note: The number represents the total amount of firms headquartered in each country.

Figure 4: Top 10 EU Countries by Number of Unicorns (1999-2025).



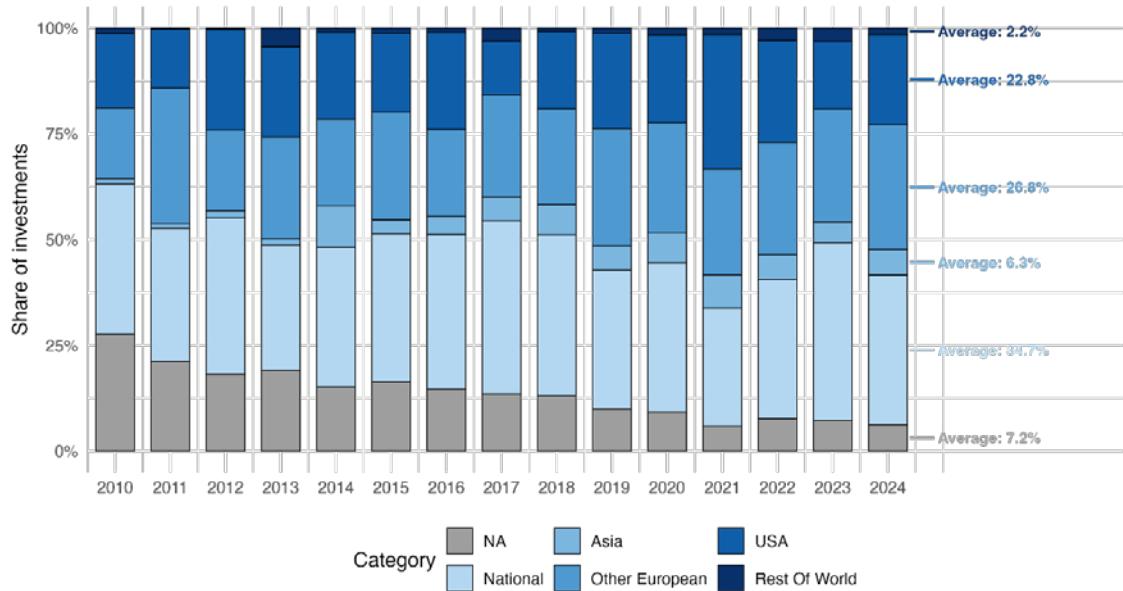
Source: Own elaboration on Dealroom.co data, 2025. Note: Firms whose HQ is based in the European Union and with a market value higher than €1 billion.

Figure 5: Firms Total Capitalisation in the EU by Firm Segment Value, USD (1999-2024).



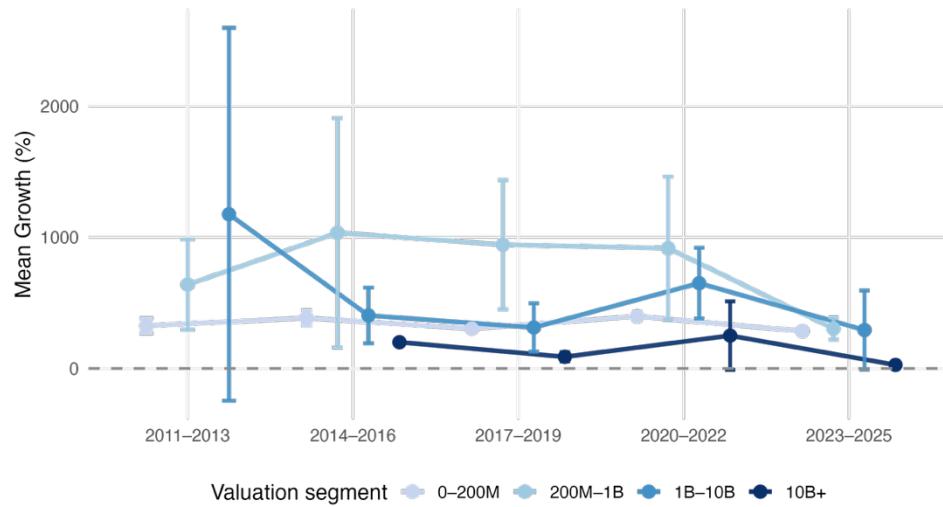
Source: Own elaboration on Dealroom.co data, 2025. Note: Market capitalisation refers to July 2025.

Figure 6: Venture Capital Investment Breakdown by Investor Location (2010-2024).



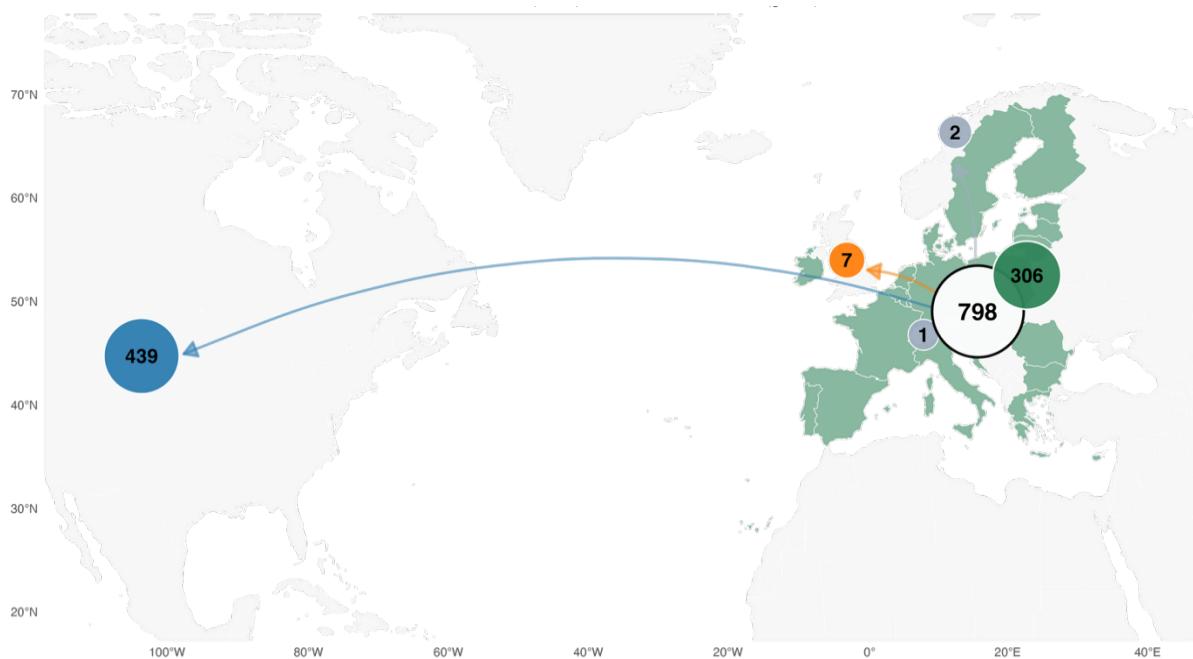
Source: Own elaboration on Dealroom.co data, 2025.

Figure 7: Average EU Firm's Growth (%) by Firm Segment Value (2011-2024).



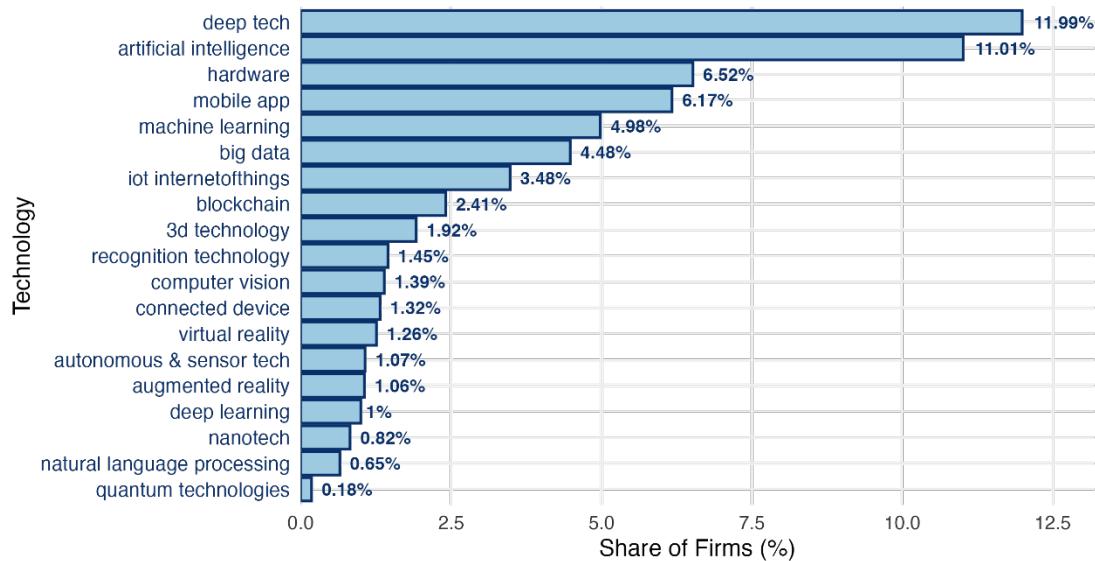
Source: Own elaboration on Dealroom.co data, 2025. Note: The mean value is computed across 3 periods. Vertical bars represent 90% confidence intervals.

Figure 8: Firm Exit Flows by Currency Destination, IPOs/SPAC IPOs (1999–2024).



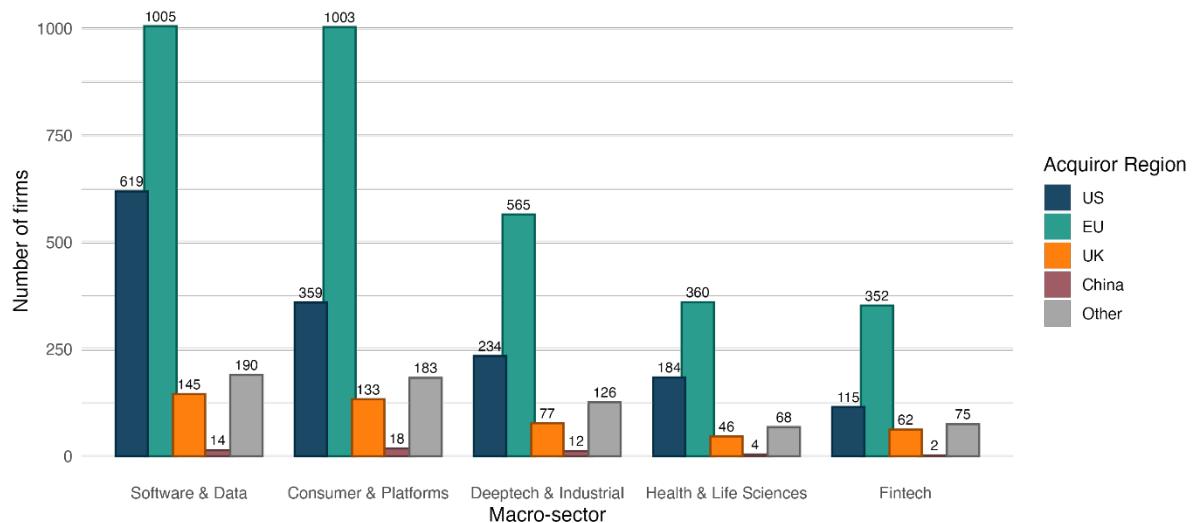
Source: Own elaboration on Dealroom.co data, 2025. Note: IPO flows from the EU to the currency denominated destinations. The white dot represents the total IPO exists; the green one the total EUR-denominated IPOs.

Figure 9: Share of total innovative firms using a specific technology in their operational activity.



Source: Own elaboration on Dealroom.co data, 2025. Note: Firms that report using multiple technologies in their operational process are counted as many times as the number of technologies they report. The share is computed over the total number of those observations in the whole sample of 64,536 firms.

Figure 10: Sectorial Breakdown of Firms Exists in the EU by Destination Country (1999–2024).



Source: Own elaboration on Dealroom.co data, 2025. Note: Industries are agglomerated to five major categories. All types of exits are accounted.

Table 1: Breakdown of EU total innovative firms by sector.

Industries	N. Firms	Share Total (%)
Health	8166	12.65
-	7413	11.49
Enterprise software	7192	11.14
Fintech	5295	8.2
Energy	4684	7.26
Food	3305	5.12
Transportation	2703	4.19
Marketing	2701	4.19
Media	2680	4.15
Security	1804	2.8
Real estate	1736	2.69
Travel	1609	2.49
Gaming	1566	2.43
Fashion	1500	2.32
Education	1486	2.3
Telecom	1236	1.92
Home living	1179	1.83
Robotics	1170	1.81
Jobs recruitment	1147	1.78
Sports	1127	1.75
Wellness beauty	950	1.47
Semiconductors	882	1.37
Legal	634	0.98
Music	607	0.94
Event tech	550	0.85
Kids	306	0.47
Hosting	289	0.45
Engineering and manufacturing equipment	218	0.34
Space	169	0.26
Dating	119	0.18
Consumer electronics	72	0.11
Chemicals	41	0.06
Total	64536	100

Note: Sectors are defined according to Dealroom.co classification. For further information on the sector clustering, visit the Dealroom.co website “Glossary & definitions > Industries and sub-industries”. In the table, “-” denotes firms for which sectoral classification was not possible due to missing values in the industry category.

Table 2: Breakdown of EU total innovative firms by the most granular sub-sector available.

Sub-industry	N. Firms	Share Total (%)
-	36298	56.24
Biotechnology	2125	3.29
Health platform	1733	2.69
Medical devices	1691	2.62
Content production	1118	1.73
Agritech	1067	1.65
Clean energy	907	1.41
Innovative food	727	1.13
Financial management solutions	718	1.11
Crm & sales	648	1
Logistics & delivery	633	0.98
Energy efficiency	612	0.95
Pharmaceutical	603	0.93
Wealth management	600	0.93
Food logistics & delivery	596	0.92
Mobility	593	0.92
Payments	574	0.89
Adtech	528	0.82
Waste solution	511	0.79
Ecommerce solutions	499	0.77
Social media	488	0.76
Search, buy & rent	459	0.71
Publishing	437	0.68
Apparel	436	0.68
Crypto and defi	433	0.67
Learning tools and resources	406	0.63
Insurance	369	0.57
Console & pc gaming	361	0.56
In-store retail & restaurant tech	351	0.54
Public safety	345	0.53
Marketing analytics	340	0.53
Construction	327	0.51
Vehicle production	313	0.49
Real estate software	305	0.47
Mortgages & lending	296	0.46
Sport platform & application	292	0.45
Cloud & infrastructure	285	0.44
Mobile gaming	278	0.43
Navigation & mapping	270	0.42
Energy storage	269	0.42
Streaming	261	0.4

ANNEX 1

Sub-industry	N. Firms	Share Total (%)
Education providers	260	0.4
Water	241	0.37
Data protection	218	0.34
Online travel agency	210	0.33
Real estate services	204	0.32
Banking	202	0.31
Accommodation	196	0.3
Accessories	187	0.29
Maintenance	185	0.29
Booking & search	167	0.26
Sporting equipment	162	0.25
Travel analytics & software	162	0.25
Identity & access	155	0.24
Autonomous & sensor tech	148	0.23
Education management	147	0.23
Energy providers	144	0.22
Workspaces	122	0.19
Legal documents management	118	0.18
Fitness	107	0.17
Footwear	106	0.16
Oil & gas	103	0.16
Kitchen & cooking tech	101	0.16
Device security & antivirus	95	0.15
Regtech & compliance	95	0.15
Esports	91	0.14
Regtech	85	0.13
Luxury	77	0.12
Self-service and lawyer marketplace	64	0.1
Sport media	51	0.08
Betting & gambling	49	0.08
Legal matter management	37	0.06
Sport league & club	32	0.05
Business travel	31	0.05
Legal information	28	0.04
Sport supplements	21	0.03
Intellectual property	19	0.03
Board games	14	0.02
Total	64536	100

Note: Sectors are defined according to Dealroom.co classification. In the table, “-” denotes firms for which sectoral classification was not possible due to missing values in the sub-industry category.

ANNEX 2. QUESTIONNAIRE RESULTS

The members of the Reflection Group were invited to complete a questionnaire to share their views on the current state of the financing structure within the European innovation ecosystem. The questionnaire served as an initial step to capture the Group's perspectives on the European Capital Markets Union project and to identify the main gaps requiring actionable solutions. It also provided the primary reference point for the subsequent work presented in this Report. Responses to the questionnaire were collected on 6 June 2025. The survey was conducted anonymously. A total of 19 responses were received out of the 21 institutions initially invited to participate. For the sake of simplicity, results from the second part of each question have been omitted from this section when response rates were below 10%.

1. STATUS QUO.

On a 1-10 scale, how would you rate the effectiveness/efficiency of the supply of risk capital to innovative SMEs (iSMEs) in the euro area today?

1.1 If your choice above is below 7, to which of the following options do you attribute the problem? (Can be more than one):

- Lack of well-designed savings instruments (17%)
- Market fragmentation (17%)
- Faulty prudential regulation (insurance, pensions funds) (15%)
- Excessive risk aversion by savers (14%)
- Faulty prudential regulation (banks) (14%)

1.2 Explain your choices (if desired) in this space.

- 1 European pension funds allocating very little to VC, and of that little sometimes is US. On top of that very nationally fragmented pension systems and mandates. Not a single real listing venue in Europe but small and competing Euronext, London, German etc
- 2 Only a few countries have prepaid pension systems and even in these SME tickets are too small
- 3 Generally speaking, the supply of capital to innovative SMEs is insufficient in the eurozone, both for start-ups in their initial stage of development and for scale-ups at a later stage (which is reflected in particular in a low number of IPOs of growth companies). The causes of this inadequacy differ from one country to another, but some are shared between most European countries, notably the risk aversion by savers and the absence in most countries of funded pension solutions, which is the most effective way to channel savings towards long-term investment in risk. One additional point deserves to be noted: while the study focuses on the supply of capital to innovative SMEs, which is based on the intervention of specific market participants (Venture capital, etc.), it is important to keep in mind that such supply of capital cannot be effective in isolation and will only exist within a vibrant and diversified financial and capital markets ecosystem.
- 4 Let's underline the importance of appropriate tax incentives. We support the establishment, at the European level, of mechanisms (label) promoting long-term investment
- 5 Lack of liquidity in the market
- 6 Excessive Risk Aversion by Savers: European savers typically favour conservative investment options like bank deposits and government bonds. This cultural inclination towards risk aversion diverts potential capital away from venture investments that could support innovative SMEs, creating a significant funding gap compared to markets like the US. Baltic savers, particularly in Estonia, tend to be somewhat less risk-averse than the Euro area average, thanks to higher digital financial literacy and a thriving startup culture. However, traditional conservative saving habits still persist, especially among older generations. Lack of Well-Designed Savings Instruments: the Baltic region faces similar challenges to the broader Euro area in terms of limited retail investment products for innovation funding. Nonetheless, there has been some progress with crowdfunding platforms and digital investment solutions. Faulty Prudential Regulation The pension systems in the Baltics, particularly with their second-pillar reforms, have the potential to generate more risk capital. However, regulatory restrictions still limit meaningful allocation to local innovative companies. Market Fragmentation: Despite improvements, the market remains fragmented across national lines, with a significant gap compared to the US market. Regulatory fragmentation continues to hinder cross-border investment despite EU harmonization efforts. The regulatory environment must allow all actors offering the same services to operate and innovate on equal terms. Currently, the EU regulatory framework does not provide a consistent or efficient environment across trade and post-trade sectors, which is necessary for competitive capital markets. E.g. retail investor participation is crucial. The diversity of market participants is a key factor for success. A heterogeneous mix of investors, including domestic institutional, international, private equity, and retail investors, is essential for the healthy development of liquidity and capital formation. This diversity applies to various activities such as research, brokerage, and advisory services. It is important that regulations avoid creating unnecessary barriers for smaller-scale business cases, but this does not necessarily mean 'proportionality'. It is better to ensure that rules are both necessary and beneficial for smaller actors from the outset. Principle-based regulation should drive consistent outcomes across capital market infrastructures. MIFID, EMIR, and CSDR have all been developed sequentially. However, the combined framework does not provide a consistent, efficient regulatory environment for well-functioning capital markets. MIFIR does not sufficiently promote open or fair competition for price formation and liquidity, leading to fragmentation in EU markets. EMIR and CSDR, in particular, do not promote consistent competition principles and do not allow for competitive services and innovation Poor Risk-Management Culture by Banks: the banking sector in the Baltics is generally conservative in risk assessment for innovative businesses, with limited specialized knowledge in evaluating deep tech or novel business models.

2. ALLOCATION OF RETAIL SAVINGS.

In the euro area, about 50% of household financial assets (net of pensions) is invested in highly liquid and low-risk bank products, mainly currency and deposits. The corresponding figure in the US is 15%. On a 1-10 scale, to what extent do you think this hampers the supply of long-term capital to iSMEs?

2.1 If your choice above is above 3, what of the following do you consider to be the reasons for the low propensity of European individual savers to engaging in long-term, higher-risk and higher return investment? (Can be more than one):

- Insufficient financial education (19%)
- Insufficient competition – tight links between banks and individual savers (12%)
- Different preferences (e.g. higher degree of risk aversion) (12%)
- Low trust in equity markets (poor individual investor protection) (11%)
- Taxation and other government policies penalizing equity investment (10%)
- Excessive bureaucracy and lack of transparency of alternative products (10%)

2.2 Explain your choices (if desired) in this space.

- 1 Mostly stemming from cultural/education in my view, with bank savings and bonds misleadingly seen as safer and reliable. Fragmentation of the national markets and regulations doesn't help
- 2 As explained in my answer to question1, having an effective supply of long-term capital to iSMEs requires having a diversified and vibrant market financing ecosystem, which means operating a transition from the current bank-based financing model to a more markets-based one. Such transition is not unprecedented, as it is a movement operated by the US from the mid-1970s to the early 2000s. To achieve such a transition, it is critical to ensure that a significant part of savings move away from banks balance sheets and get invested in financial instruments with a diversified level of risk (from bonds to unlisted equities). As of today, this transition is made difficult by (i) risk aversion, (ii) lack of auto-enrolment schemes, (iii) insufficient financial education, (iv) inadequate tax incentives and (v) complex and burdensome process for clients willing to invest in risky assets, under MiFID rules.
- 3 Different Preferences: European households exhibit a fundamentally higher risk aversion compared to their US counterparts, driven by deep-seated cultural attitudes favouring wealth preservation over wealth creation. This risk aversion results in a significant amount of capital being locked in low-yield instruments that could otherwise be used to support growth companies. In contrast, Baltic households, particularly among younger generations, show somewhat lower risk aversion than the Euro area average. Insufficient Financial Education: Financial literacy levels across the Euro area are substantially lower than in the US, especially concerning equity markets and alternative investments. Many households lack an understanding of risk-return relationships, diversification benefits, and the role of equity in long-term wealth building. Despite high overall educational attainment, financial literacy specific to investment markets remains underdeveloped in the Baltics. The relatively young market economy provides limited generational experience with long-term investing. Insufficient Competition – Tight Links Between Banks and Individual Savers The banking sector in the EU and the Baltics is highly concentrated among a few Nordic banking groups, which limits competitive pressure to innovate in investment products for retail customers. Low Trust in Equity Markets (Poor Individual Investor Protection) Historical experiences with market volatility, corporate bankruptcies, and limited domestic market depth continue to affect trust in equity markets. Excessive bureaucracy and lack of transparency of alternative products: There is still room to modernize issuance processes to ensure that the asset class becomes more easily accessible for more investors. Many segments of the bond markets are still reliant on chats, voice brokers and manual administrative processes. These legacy processes create barriers for broader participation, particularly amongst retail investors Remove existing incentives to issue "wholesale debt" in large denominations and create a level playing field between public offerings and private placements. Specifically, this could be done by removing the regulatory burdens in the prospectus regulation that is enforced when bonds are issued in denominations below 100k EUR as proposed by the FCA in January of 2025: <https://www.fca.org.uk/news/press-releases/fca-sets-out-further-proposals-support-growing-business-and-investment-opportunities>. By doing so, issuers can more freely offer bonds to a wider investment community which will require the market to modernize its legacy processes. The participation of a more dynamic investor community has been one of the key drivers in the digitalization of the equity markets, which benefits issuer's ability to raise capital and facilitates more efficient allocation of the EU's household's savings

3. DESIGN OF SAVINGS INSTRUMENTS.

Expanding on the previous question, on a 1-10 scale, to what extent do you think that a proper design of retail saving instruments could induce individual savers to engage in more long-term, higher-risk and higher return investment?

3.1 If your choice above is above 3, what of the following would you consider as promising reform initiatives? (Can be more than one):

- Tax incentives (23%)
- Financial incentives (e.g. portability, liquidity, etc) (14%)
- More transparency/better information/financial education (14%)
- New harmonised EU-level savings instruments (13%)

3.2 Explain your choices (if desired) in this space.

- 1 We believe that, in order to favour investment in long-term and higher-risk instruments, tax incentives will be key. Because member States remain in charge of fiscal policies, this leads to the conclusion that harmonised saving instruments will probably not be an easy option. By contrast, approaches based on the cooperation between willing member States, like the Label for European Long-Term Savings that is being defined in the frame of the EU Competitiveness Lab, are more likely to succeed.
- 2 New Harmonized EU-Level Savings Instruments Harmonized EU-wide investment products aim to address market fragmentation, a significant barrier identified in previous analyses. Pan-European products could create sufficient scale to lower costs, enable cross-border diversification while maintaining local investment allocations, establish recognizable and trusted brands that transcend national markets, and implement standardized consumer protections to build confidence. Employer-Level Investment Funds: These funds represent a particularly promising vehicle because they enable automatic enrolment, allow for gradual risk exposure, provide economies of scale in investment management, and create long-term investment horizons aligned with employment duration. Financial Incentives: Smart investment products for Europeans should include four key features to increase adoption: emergency withdrawal options for quick access to money, easy transfer of investments when changing jobs or moving between countries, protection of the original investment amount while still allowing for profits, and better rewards for people who commit their money for longer periods. These features are especially important in Baltic countries, where people worry more about financial security due to past economic problems. With these improvements, more Europeans might feel comfortable investing in stocks for the long term. Simplification and Digitalization: Digital transformation in investment processes is a crucial opportunity, especially since complex paperwork and processes are major barriers to retail investment. Mobile-first approaches can engage younger demographics early, algorithm-based allocation can simplify decision-making while maintaining personalization, and digitalization can reduce costs, benefiting investors through lower fees. There is a need to balance investor protection with avoiding information overload in investment product disclosures. Current Key Information Documents (KIDs) often overwhelm average investors with complex technical details. A streamlined KID focusing on essential decision-making information, using simpler language and clearer formatting, would help retail investors better understand financial products, leading to more informed decisions. Modernizing disclosure practices to align with digitalization would also make it easier for investors to compare different products. Retail investors' access to corporate bonds is limited by the PRIIPs Regulation, which requires issuers to produce a KID for most corporate bonds. Many issuers avoid this extra red tape, resulting in limited access for retail investors. Tax Incentives: Strategic tax policies could significantly shift behavior by creating preferential treatment for long-term equity investments, establishing specialized accounts (similar to ISK in Sweden) with tax benefits, implementing graduated tax benefits that increase with holding period, and providing enhanced deductions for investments in innovative SME funds. Current taxation systems in many Euro area countries fail to incentivize risk capital adequately. More Transparency: Addressing knowledge gaps requires comprehensive approaches, including standardized and simplified disclosure of fees, risks, and historical performance, school-based financial education that emphasizes long-term investment principles, digital tools that visualize the impact of compound returns over decades, and clear risk classification systems that help consumers understand trade-offs.

4. ROLE OF INSTITUTIONAL INVESTORS.

Euro area institutional investors (asset managers, pension funds, insurance companies) channel a lower volume of savings to investment relative to those in the US, both in absolute terms and as ratio to GDP. Within that volume, the share of debt instruments is higher than that of equity. On a 1-10 scale, to what extent do you think the lower volume of invested savings contributes to the lack of adequate long-term capital to iSMEs?

4.1 If your choice above is above 3, what of the following would you consider to be the main reason for this phenomenon? (Can be more than one):

- Tax treatment (22%)
- Burdensome prudential treatment, such as Solvency II (17%)
- Other (17%)
- Lower trust in non-bank intermediation and equity investment (15%)
- EU-level fragmentation of market infrastructures (CCPs, CSDs) (15%)
- Different preferences on the part of final investors (12%)

4.2 Explain your choices (if desired) in this space.

1 Defined benefit is important

2 Lack of equity investment culture and positive bias vs government bonds

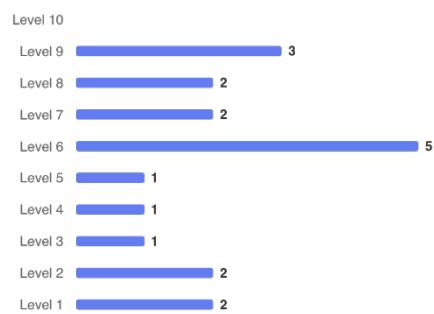
3 As detailed above, the provision of long-term capital to iSMEs should not be envisaged in isolation as it will be effective only in a well-developed financing ecosystem.

4 Risk aversion from instit investors

5 Different Preferences on the Part of Final Investors: European savers generally favour lower-risk products, which institutional investors must consider in their allocation strategies. The Baltic states' historical experiences with financial instability, particularly during the 2008-2009 crisis, have reinforced conservative investment preferences among local savers. This creates a structural limitation throughout the investment chain, with institutional investors mirroring these preferences in their asset allocations. Lower Trust in Non-Bank Intermediation: European financial culture remains bank-centric, with lower confidence in capital markets and equity investments. This pattern is reinforced by historical market volatility and limited domestic success stories compared to the US. EU-Level Fragmentation: Market infrastructure fragmentation poses particular challenges for Baltic markets due to their small scale and greater dependence on cross-border capital flows. However, this factor is less decisive than investor preferences and prudential treatment

5. FRAGMENTED CAPITAL MARKETS.

There is significant variation in the development of capital markets across Europe. Relatively developed markets are concentrated in a few financial centres (e.g., LUX and IRL), while Southern, Central, and Eastern European countries remain bank dominated. In the Northern ones (DK, NL, SE), household investments in bonds, shares, or pension funds exceed 80%, but elsewhere it's less than 40% (ECB Report, 2025). On a scale from 1 to 10, to what extent do you think the introduction of harmonised savings and investment instruments could contribute to cross-country convergence?



5.1 If your choice above is above 3, which of the following options would you consider as possible solutions to overcome or reduce such disparities? (Can be more than one):

- Tax incentives for specific financial products (22%)
- Harmonisation of regulatory frameworks (18%)
- Support household participation in capital markets (16%)
- Cross-border mobility, regulatory competition among countries (14%)
- Introduction of EU-level harmonised equity instruments (14%)

5.2 Explain your choices (if desired) in this space.

1 Linked to labor markets and therefore difficult to pursue through harmonisation.

2 The most rapid and effective way to modify the allocation of savings is through tax incentives. Because taxation remains in the remit of member States, savings and investment instruments that would be harmonised at the level of the Union would face serious obstacles. We believe that approaches based on the cooperation between willing member States, like the one deployed to define the Label for Long-Term Savings, are more likely to succeed.

3 The objective is to initiate concrete action without reinventing the product offering, many countries already have quality products (PER, PEA, PIR in Italy, ...) and do not have the time to wait 4/5 years. This is why we support a European label.

4 Harmonization of Regulatory Frameworks: Creating a unified regulatory framework is essential for meaningful convergence, as it removes barriers to cross-border investment flows and establishes consistent investor protections across markets. This approach would be particularly beneficial if it takes into account the needs of smaller markets. The current regulatory framework for regulated markets is unsatisfactory and does not support cross-border infrastructures. Most barriers to cross-border operations stem from national implementations of EU directives, leading to operational hurdles and administrative burdens due to varying enforcement and supervision by NCAs. Several areas lack harmonization, limiting cross-border trading and creating an uneven playing field. Exchanges operating both regulated markets and MTFs face similar supervisory and compliance expectations. Passporting opportunities for exchanges are less flexible than for investment firms. Regulatory requirements create an uneven playing field for new services and products between regulated exchanges, MTFs, and investment firms offering SI and bilateral trading. Unequal treatment of SIs and investment firms offering bilateral trading imposes a higher burden on exchanges and MTFs. Exchanges and MTFs have higher standards for resiliency and infrastructure, creating systemic risk when trading occurs in fragmented bilateral liquidity pools. Action is needed in these areas, and further harmonization could benefit. The rule books of exchanges are relatively aligned due to competition, but differences arise from national regulations or market practices. Approval of trading venue rules and their implementation vary across jurisdictions, making cross-border operations time-consuming and burdensome. Governance requirements for market operators could benefit from being transferred from MiFID II to regulation. Open and fair access provisions are harmonized between trading venues but not between trading venues and investment firms offering financial instruments. Introduction of EU-Level Harmonized: Equity Instruments Standardizing equity instruments at the EU level could generate the critical mass needed for liquidity in smaller markets. This would be especially valuable for smaller markets, which individually lack scale and liquidity (e.g., ETFs). Support Household Participation: It is essential to address fundamental demand-side limitations, particularly given the historically lower trust in financial markets. Special attention should be given to emergency access provisions and principal guarantees, reflecting regional sensitivity to financial security concerns. Tax Incentives for Specific Financial Products While powerful, tax incentives are politically sensitive due to concerns about national sovereignty. However, they have proven to be highly effective in Baltic countries, where tax policy has been a key competitive tool. Liquidity Provision: Although controversial, intervention by EU institutions to provide liquidity or engage in market making could address fundamental market failures. This would be particularly valuable for Baltic markets that struggle with liquidity challenges, helping to create functioning secondary markets for growth companies that currently face significant liquidity premiums. Improvement of trading and post-trading infrastructures: The EU post-trade landscape faces challenges due to inefficient cross-border access and differences among EU states, hindering corporates' ability to raise capital through equity and debt financing. The lack of support in CSDR for linkages between CSDs inhibits competition and innovation in CSD services, affecting both existing market infrastructure players and new disruptive firms.

6. SECURITISATION.

In the euro area, securitisation has collapsed after the financial crisis and has not recovered since, arguably because of stigma and excessively restrictive prudential requirements. On a 1-10 scale, how important do you think it would be to revive securitisation in order to strengthen the supply of finance to iSMEs?

6.1 If your choice above is above 3, what of the following initiatives would you consider important/urgent? (Can be more than one):

- Mitigating prudential requirements on bank securitisation (33%)
- An EU-wide securitisation platform (21%)
- A 28th country securitisation regime with fully harmonised treatment (18%)

6.2 Explain your choices (if desired) in this space.

1 However, securitisation reform important for capital markets and larger corporates.

2 Securitisation helps the supply of finance to the real economy but not necessarily support innovative SMEs

3 The development of securitisation is indispensable to operate the transition from a bank-based to a more market-based financing model. This transition can be modelled as a double modification in the balance sheet of an hypothetical EU corporate company, with (i) a reduced part of the balance sheet relying on banks and (ii) a move of liabilities to the top of the balance sheet (more financing in capital). Moving savings away from the balance sheet of banks will only be effective if the size of the assets borne by banks decreases in parallel, which requires reviving the securitisation market in the EU. Priorities in that domain should be on (i) providing banks with a less punitive prudential treatment on securitisation (CRD/CRR), (ii) providing insurers with a less punitive prudential treatment on securitisation (Solvency) and (iii) reviewing the regulatory framework to make it less burdensome for both issuers and investors (due diligence obligations, etc.) A EU-wide platform would be a nice-to-have notably to provide a level of harmonisation, that would be helpful for markets where banks do not have a sufficient size to generate a recurring flow of securitisation operations.

4 By simply returning to the level of securitization pre-crisis in Europe, we would generate €300 billion per year out of the €800 billion identified by Draghi. This is an absolute priority.

5 Mitigating Prudential Requirements on Bank Securitization: From the EU perspective, recalibrating prudential requirements is necessary but politically sensitive. It aims to restore appropriate risk-weighting without reverting to the regulatory laxity seen before 2008. This would require a careful balance between financial stability concerns and capital efficiency goals. For the Baltic region, this recalibration is particularly impactful as their banking systems dominate financing channels with limited alternatives. Current requirements disproportionately affect smaller Baltic banks, and adjusting them could potentially unlock significant lending capacity for innovative SMEs (iSMEs). Subsidisation and/or Guarantees: Public subsidies and guarantees can effectively revive stalled financial markets by providing confidence signals and mitigating risks.

7. CAPITAL REGULATION.

European legislation (Capital Requirements Regulation, CRR) applies strict risk-weights to equity holdings, whether they are direct or made via Collective Investment Units (CIUs). Such requirements have been tightened further in later versions of CRR, reaching a peak in the CRR currently in force. On a 1-10 scale, to what extent do you think this hampers the supply of long-term capital to iSMEs?

7.1 If your choice is above 3, what of the following do you consider promising avenues to help banks engage more in long-term, comparatively safe equity investment, especially in the venture capital and private equity compartments? (Can be more than one):

- More favourable treatment to banks' diversified equity investment (26%)
- More favourable treatment to banks' long-term equity investment (26%)
- More favourable treatment to banks' indirect equity investment (via CIU) (23%)
- Restrict the definition of speculative investment (excluding venture capital) (13%)
- Guarantees and/or favourable tax treatment (10%).

7.2 Explain your choices (if desired) in this space.

1 Investing in equity, with view for long-term holding, be it directly or through CIUs, is not the job of a bank.

2 The US has not implemented Basel 3. To fully leverage the financing potential of institutional investors, we need a global level playing field in terms of prudential rules, notably by alleviating prudential requirements such as CRR and Solvency II

3 The stringent CRR risk-weights on equity holdings significantly hinder the supply of long-term capital to innovative SMEs. This high rating is due to the fact that banks are the primary financial intermediaries in most European markets, particularly in the Baltics and Southern/Eastern Europe. Current risk-weights effectively penalize patient capital, precisely where it is most needed for innovation. More Favourable Treatment for Banks' Diversified Equity Investments: Aligning prudential requirements with actual risk through portfolio diversification principles can be achieved without compromising systemic stability. This approach is particularly valuable in smaller Baltic markets, where banks hold a significant market position and could efficiently deploy capital across diversified regional SMEs. Guarantees and/or favourable tax treatment Carefully designed guarantees can significantly de-risk bank equity investments in iSMEs by providing downside protection while preserving upside potential. These mechanisms efficiently leverage limited public resources to mobilize substantial private capital, particularly valuable in emerging innovation ecosystems. When structured with appropriate risk-sharing and sunset provisions, guarantees can accelerate market development without creating permanent dependencies or excessive moral hazard.

8. TAX INCENTIVES.

In the EU, taxation remains a national prerogative. Past attempts at tax harmonisation have failed. However, barring major changes, specific, targeted improvements aimed at facilitating the flow of capital to iSMEs should not be ruled out and are discussed in other parts of this questionnaire. On a 1-10 scale, to what extent do you believe limited, targeted tax changes can be attempted at this stage?

8.1 If your choice above is above 3, in which areas should such proposals concentrate? (Can be more than one):

- More favourable tax treatment to long-term, indirect and diversified investment (31%)
- Specific treatment (e.g. preferential withholding tax) on certain assets (23%)
- More favourable tax treatment to asset management companies (10%)
- More favourable tax treatment to insurance sector (10%)
- More favourable tax treatment to private pension funds (10%)

8.2 Explain your choices (if desired) in this space.

1 Remember dividend scandal

2 What we see missing is a proposal for a harmonisation of withholding taxes across the EU which would simplify and speed up withholding tax procedures.

3 As said before, tax incentives for end-investors is the most effective way to change the allocation of savings. This makes harmonised approaches at the level of the EU difficult, and make us favour cooperative approaches between member States, like for the Label for Long Term Savings.

4 A more integrated EU supervisory framework could produce negative side-effects if not carefully designed. However, these potential drawbacks are outweighed by the benefits of centralised supervision for market infrastructures and can be effectively mitigated through thoughtful implementation. While national authorities have developed expertise regarding specific market structures and legal frameworks, this knowledge can and should be incorporated into a centralised supervisory structure rather than maintaining fragmented oversight. The differences in company and tax laws across Member States that impact securities settlement systems can be more efficiently addressed through a single supervisor with consistent interpretation and application of rules. When designing an integrated supervisory system, ensuring equitable treatment for all market participants regardless of size or jurisdiction remains important to maintain a genuine level playing field. Our proposed model (see answer to question 6.2.4) underscores that market infrastructures, due to their cross-border implications and pivotal role in systemic stability, fundamentally benefit from centralised oversight at the EU level through ESMA. While we recognize the value of national approaches in certain areas, the core infrastructures' needs for regulatory consistency and systemic resilience necessitate a centralised oversight framework. These considerations represent implementation details rather than fundamental flaws in the concept of more integrated supervision. The benefits of regulatory consistency, operational efficiency, and enhanced market integrity that would come from centralised supervision of market infrastructures, justify moving toward a more integrated EU supervisory framework.

9. ROLE OF EIB-EIF.

Over recent decades, the EIB has played a key role in providing capital to SMEs, including notably iSMEs, through its dedicated arm, the EIF, out of its balance sheet with capital provided largely by EU member states. On a 1-10 scale, how important would you consider a strengthening of the role of EIB-EIF, through existing instruments or in new forms?

9.1 If your choice above is above 3, what of the following initiatives would you consider most promising to enhance the role of EIB-EIF? (Can be more than one):

- More borrowing/leveraging capacity (21%)
- Greater involvement in co-investment by EIF (19%)
- As provider of subsidies/guarantees (17%)
- A capital increase by member states (14%)
- Greater involvement in the securitisation market (12%)

9.2 Explain your choices (if desired) in this space.

1 The answer to this question depends on the scale of the increase in funds of the EIB/EIF. Currently, the capacity is small and impact therefore limited.

10. CAPITAL FOR FIRM'S GROWTH.

Recent reports have identified two stages in the life of iSMEs at which the (un)availability of capital may prove crucial in hampering innovation and growth: the "start-up phase" (at or near the birth of the iSME) and the "scale-up" phase (at mid-life, when the iSME has already become profitable and needs capital to move to the small-medium to the large scale). On a 1-10 scale, for each of the two, how critical do you consider the lack of appropriate finance in hampering their growth?

10.1 Start-up phase

10.2 Scale-up phase

10.3 Explain your choices (if desired) in this space

- 1** Early Stage is sufficiently available, growth is dependent on US/Asia
- 2** Both phases suffer but for different reasons.
- 3** We assume that the second "start-up" phase refers to the scale-up phase, where growth capital is more severely constrained.
- 4** The notion of the "double valley of death" (pre-commercialisation gap for start-ups, pre-IPO gap for scale-ups) is well documented. See for instance the recently leaked "EU Startup and Scaleup strategy".
- 5** In Europe, we have an issue especially for scaling up innovative SMEs, but more globally capital innovation (or venture) is much smaller than in the US. We support the listing of SMEs to get access to capital markets and accelerate their growth, it is also a way for PE funds to exit (liquidity), as non listed investment is typically 5-8 years
- 6** Scale up phase is the more critical
- 7** Start-up Phase There is a critical funding gap across Europe, which varies by country. Nordic and Western Europe have stronger ecosystems, while Southern and Eastern Europe face weaker ones. The Baltic states experience more severe constraints due to limited domestic angel and seed investors, a smaller venture capital community, and higher risk aversion among local investors following historical financial instability. Scale-up Phase This phase represents Europe's most significant capital market failure, creating the notorious "valley of death" where promising EU companies either stagnate or seek US funding or listing. Domestic markets lack sufficient growth capital, and regional champions must access international funding to scale. Local exchanges have limited liquidity for larger IPOs, and Baltic success stories often face pressure to relocate headquarters to access growth funding. This scale-up gap is particularly damaging in the Baltic context, as it threatens to extract the economic dividends of successful innovation to larger markets just as companies reach profitability and growth potential

11. SUPPORTING START-UPS.

According to the Draghi Report, key obstacle to innovation-driven productivity growth in the EU is not the scarcity of research, but in the obstacles preventing research results from being transformed into commercially viable propositions. On a 1-10 scale, to what extent is the lack of proper financing constraining the development of iSMEs at the start-up stage?

11.1 If your choice above is above 3, what of the following causes or initiatives would you consider more relevant? (Can be more than one):

- Insufficient risk-oriented culture by non-banks (insurance, pension, AMs) (**28%**)
- Tax incentives to VCs funds (**19%**)
- Insufficient risk-oriented culture by banks (**14%**)
- Strengthening the role of EIB-EIF as direct provider of financing (**14%**)
- Regulatory changes (**14%**)

11.2 Explain your choices (if desired) in this space.

Regulatory Changes Addressing structural barriers in capital allocation is essential, particularly concerning restrictions on institutional investors. Insufficient Risk-Oriented Culture by Non-Banks The conservative asset allocation of

1 institutional investors significantly limits the flow of capital to innovative ventures, which is especially problematic given their dominant position in European savings pools. Tax Incentives for VC Funds Tax incentives are a powerful tool to correct risk/reward imbalances and attract private capital into innovation financing.

12. SUPPORTING SCALE-UPS.

Another key factor blocking productivity growth is the difficulty in transforming successful start-ups, individually-owned and private, into large, listed companies. This is a general problem of European SMEs but is particularly taxing for the economy as a whole when it relates to innovative iSMEs in key sectors such as energy, technology, health. Companies that reach that stage often decide to raise capital elsewhere (typically the US) and move their focus outside of Europe. On a 1-10 scale, do you agree with this judgement?

12.1 If your choice above is above 3, what measures of the following would you consider more relevant? (Can be more than one):

- Encourage EU IPOs at national level via tax and regulatory incentives (24%)
- Removing cross-border obstacles to capital flows (24%)
- Instituting a 28th regime for IPOs (17%)
- Increase the supply of risk capital by banks, including by regulation (15%)
- Amending the prudential requirements in Solvency II (11%)

12.2 Explain your choices (if desired) in this space.

1 For "other" please refer to answers in section 11" i.e. strengthening the ecosystem by supporting larger scale up funds able to fund the growth of iSmes

2 IPOs must be encouraged both by EU-level measures and local action (typically the subsidies in Italy). Regulated markets are probably best placed to act as catalysts in that domain, like for instance Euronext with its "Manifeste" for a better financing of companies by financial markets (<https://info.euronext.com/manifeste/>). We note the proposal to use 28th regime for IPOs. We must say we are not sure to understand how such a regime would work.

3 We would support an initiative similar to a 'European Tibi,' aimed at directing long-term savings more towards small and mid-cap funds that finance innovation

4 Eliminating Cross-Border Barriers to Capital Flows This approach tackles the core fragmentation that hinders European markets from achieving the necessary scale and liquidity. It is especially crucial for Baltic states, whose domestic markets lack sufficient scale, enabling regional champions to access pan-European capital while maintaining a local presence. Increased Involvement of EU Institutions EU institutions can address market failures through anchor investments and ecosystem support. This is particularly valuable for smaller markets and companies that face credibility challenges when attempting to access international growth capital

13. TRADING AND POST-TRADING PLATFORMS.

Issuance, trading and post-trading platforms in the euro area are fragmented and not connected by efficient informational and arbitrage channels. However, whereas trading fragmentation is a feature characterising the US market as well, the fragmentation of post-trading is a feature that sets the EU apart compared to the US (see details in the Noyer Report). On a 1-10 scale, to what extent do you consider the fragmentation of clearing and settlement platforms to be an obstacle to the efficient flow or risk capital to iSMEs?

13.1 If your choice above is above 3, and assuming full centralisation of post-trading is not feasible in the near future (though it remains a long-term goal), what measures would you consider important to mitigate the adverse effects of post-trading fragmentation? (Can be more than one):

- Fostering cross-border access among post-trading platforms (**30%**)
- Convergence of technical standards among national CSDs and CCPs (**27%**)
- Convergence or even centralisation of supervision of post-trading (**27%**)
- Convergence of fees among national CSDs and CCPs (**10%**)

13.2 Explain your choices (if desired) in this space.

1 The fragmentation of the post-trade environment is a source of cost and inefficiency, but does not specifically harm the financing of SMEs. Cross-border investment in SMEs is rather hampered by the insufficient knowledge of small companies outside of the domestic market, and by the lack of access to research. The implementation of the European Single Access Point (ESAP), together with the changes brought to the research ecosystem by the Listing Act (authorisation of sponsored research) may help waiving these obstacles.

2 Fostering Cross-Border Access Among Post-Trading Platforms: The most immediate solution to improve capital flow efficiency while respecting existing infrastructures is to enhance cross-border access among post-trading platforms. This is crucial for integrating smaller capital markets with broader European liquidity pools, allowing Baltic iSMEs to access a wider investor base without prohibitive intermediation costs. Regulatory fragmentation: Despite harmonization efforts like CSDR, national differences in securities law, corporate law, and tax regimes add complexity. Entering different markets requires substantial costs and resources to comply with local laws and regulations and ensure that CSD services fit the local environment. While passporting of CSD services helps reduce barriers, localization of services remains necessary. Cross border securities transactions are subject to multiple jurisdictions, each with distinct legal frameworks governing ownership rights, settlement finality, and insolvency proceedings. Commercial barriers: Established CSDs often maintain dominant positions in their domestic markets, creating high entry barriers for foreign counterparts. Large CSDs may choose not to support cross-border CSD links as they aim to concentrate issuance, including by foreign companies, with them. Technology and operational barriers: Historical market infrastructures were primarily built for domestic operations, presenting hurdles for efficient cross-border transactions. The use of differing technical platforms, settlement systems, and messaging standards among CSDs complicates interconnection and integration efforts. Significant Role of European Institutions in Promoting Convergence European institutions play a vital role in overcoming coordination challenges and national interests that have historically impeded progress. It is essential to ensure that the interests of smaller markets are represented in convergence efforts, preventing solutions optimized solely for larger markets that could marginalize the participation of smaller ones.

14. MACROECONOMIC ENVIRONMENT.

The benign macroeconomic environment that prevailed globally for most of 2024 (steady growth, albeit somewhat low in Europe, and return to price stability) was a broadly favourable context from the viewpoint of reform of EU capital markets. The imposition of harsh import tariffs by the US changes this scenario drastically. As we write, heightened risk aversion seems likely to exert particularly adverse effects on iSMEs. On a 1-10 scale, how strong do you expect the negative effect of the current macro environment on iSMEs and their capital raising going to be?

14.1 If your choice above is above 3, what among the below circumstances or policy actions would you consider useful to mitigate the aforementioned adverse effects? (Can be more than one):

- Stepping up fiscal support by member states, including revision of the SGP (26%)
- Flexibility by the Commission in negotiating with the US (26%)
- A firm stance by the EU, including retaliation (21%)
- A more expansionary monetary policy by the ECB (16%)

14.2 Explain your choices (if desired) in this space.

1 Flexibility by the Commission in Negotiating with the US: Adopting a strategic engagement approach rather than immediate escalation would help maintain global trade continuity, which is crucial for innovative exporters, while working towards targeted exemptions

15. ADDITIONAL QUESTIONS.

Please elaborate here, if desired, on issues which you deem important but are not addressed, or not properly addressed, by this questionnaire. If considered useful, please add here any additional question, and complete it with your own answers.

- 1** If there is a big conversation on infrastructure fragmentation / consolidation (exchanges, CCPs, CSDs) -- 1) why does no one address the DG COMP problems (i.e. a framework that prevents European champions from emerging - good that EU COM starts looking at this); 2) the picture on trading is much broader and should include the non-exchange market (which is about 70% total volume in cash equities) 3) we need a stronger banking focused agenda that pushes competitiveness 4) we need a more profound approach on "simplification" (current scope not enough) 5) EU needs an industrial policy strategy and vision - underlings on capital markets always only as strong as the backbone of the economy 6) we lack talent in the EU and are not appealing to talents from the global capital markets community
- 2** the questionnaire could also have put more emphasis on the needs to further advance the single market for goods and services which remains imperfect in its key prerequisites for a stronger capital market union
- 3** Just one recommendation as there are some initiatives that worked very well in some EU countries (ie. France). Let's take advantage of the lessons learned.
- 4** A balanced competitive landscape with a level playing field between providers of the same services is essential. The regulatory environment, both in theory and in practice, needs to allow all actors offering the same services to operate and innovate on the same terms. The current EU regulatory environment does not provide a consistent or efficient regulatory framework across trade and post-trade sectors that allows for competitive capital markets. Several areas should be reviewed for simplification in EU law, national law, and supervisory practices. The FDI regulation aims to enhance the EU's ability to manage security risks, but national implementations can create competitive imbalances. Harmonizing these procedures across member states is essential. Similarly, bond issuance processes vary greatly, leading to complexity for issuers. Harmonizing supervisory procedures and national legislation can reduce these differences and support digital development and EU integration goals. Variations in withholding tax practices create complexity for investors. Implementing the FASTER directive is crucial for harmonizing securities tax matters. Member States should also support a directive to harmonize insolvency laws, addressing asset recovery, procedural efficiency, and equitable distribution among creditors. Common corporate action processing standards and harmonized local laws are needed. Differences in proxy voting practices and interpretations create administrative burdens and technical challenges. Harmonizing these practices and enforcing compliance with corporate action data exchange standards can improve asset servicing efficiency. The definition of a shareholder under the Shareholder Rights Directive is inconsistent and needs harmonization. Increased EU harmonization of key corporate action dates is also necessary.

ANNEX 3. COMPOSITION OF THE IEP-BOCCONI REFLECTION GROUP

Ignazio ANGELONI **Chair**
Andrea CAVALLINI **Rapporteur**

Allianz	Massimo ROCCIA	Head of Regulatory and Public Affairs
Amundi	Simon JANIN	Head of Governance & Public Affairs
Bocconi University	Andrea BELTRATTI	Full Professor, Department of Finance
	Stefano CASELLI	Dean of SDA Bocconi School of Management
BNP-Paribas	Lorenzo LANGELLA	CEO & General Manager
	Elena LODOLA	Managing Director, Head of Leveraged Finance Italy
	Daniele PERSIANI	M&A Director
Center for European Policy Studies	Karel LANNOO	CEO
	Apostolos THOMADAKIS	Research Fellow and Head of the Financial Markets and Institutions Unit
Dealroom	Lorenzo CHIAVARINI	Head of Research
	Yoram WIJNGAARDE	Founder and CEO
Deutsche Bank	Olivier AMBLARD	Managing Director
	Koen HOLDTGREFE	Global Head Government & Regulatory Advocacy
	Malte KILIAN	Head of EU Government & Public Affairs
	Julia KOLBE	Head of Capital Markets Policy & UK
	Shamil SHAH	Managing Director at Deutsche Bank
Deutsche Boerse	Niels BRAB	Chief of Staff/Head of Group Corporate and Regulatory Strategy
Eurazeo	Matthieu BARET	Managing Partner
European Commission (observer***)	Alessandra ATRIPALDI	Deputy Head of Unit - Savings and Investments Coordination
	Andrea BELTRAMELLO	Head of Unit Savings and Investments Union at European Commission, DG FISMA
European Central Bank (observer***)	Elena BANU	Economist, EU institutions Fora
	Johanne EVRARD	Senior Financial Stability Expert, Financial Regulation and Policy
	Daniel KAPP	Deputy Head of Division, EU Institutions & Fora
	Gergely KOCZAN	Team Lead
	Laura PARISI	Team Lead, EU Institutions & Fora
	Michael WEDOW	Deputy Head of Division, Financial Regulation and Policy

European Investment Bank (observer***)	Philipp-Bastian BRUTSCHER	Director at EIF
	Sara GERMANO	Head of Cash and Collateral Network Services Division
	Valentina MORGANTE	Advisor to the Vice President
	Alessandro TAPPI	Former Chief Investment Officer at EIF
	Gelsomina VIGLIOTTI	Vice President
Generali	Salvatore BRUNO	Head of Investments - Generali Investments Partners
	Antonio CAVARERO	Head of Investments at Generali Asset Management
	Anne DE LANVERSIN	CEO Generali Global Pension
	Gaetano FERRARA	Portfolio Implementation
	Fabio MARCHETTI	Group Head of International Public Affairs and Regulatory Advocacy
Nasdaq Baltic - Vilnius	Francesco MARTORANA	Group Chief Investment Officer
	Gediminas VARNAS	President/ Chairman of the Management Board
	Anne MACEY	Global Head of Public Affairs
	Philippe SETBON	Chief Executive Officer
	Diana SARACENI	Founder and Managing Partners
Rud Pedersen Public Affairs	Jesper BERG	Senior Advisor
Santander Group	Jose Antonio ALVAREZ	Vice Chair, Non-executive Director
	Alicia SANCHIS ARELLANO	Head of EU Government Relations
	Borja DE PEDRO	Manager, Global Public Policy Team
	Gloria HERVAS	Global Head of Public Policy
	Tosin IDUH	EU Government Relations Manager
Société Générale	Barbara NAVARRO	Global Head of Research, Public Policy and Institutional Relations
	Stephane GIORDANO	Government Affairs
	Marco CERASINO	Head of Alternative Investments
Unicredit	Fabio PETTI	Head of Capital Management & Strategic ALM

Note by the Chair: Analysis and recommendations in this report were built by consensus. Specific remarks do not commit individual members or their employers.

*** Observers provided suggestions and technical input throughout the drafting process. Their participation in an observer capacity shall not be considered as an endorsement of the analyses, conclusions, or recommendations set forth in this report.

