Paris, 30 January 2025

Single Market Strategy for 2025
Paris Europlace's contribution to the European Commission's Have Your Say

Paris Europlace is the organization in charge of promoting and developing the Paris financial center. We are a privileged intermediary of European and French authorities, with which we maintain a continuous and constructive dialogue. Our aim is to promote financial markets to international investors, issuers and financial intermediaries to better finance the real economy and the energy transition. Paris Europlace gathers more than 600 members, including investors, sustainable finance entities, banks, financial market authorities, corporates, consulting firms.

1. Main messages

Paris Europlace thanks the European Commission for launching this call for contributions on the Single Market Strategy 2025. Our response focuses on the conditions for the financial sector to play its role as an engine for the development of the Single Market.

First, it is essential that **the financial sector is clearly identified as strategic**, as a source of job creation and fiscal and social added value, but also in terms of European competitivity and sovereignty. While EU productivity gap with the US is often understood as mainly driven by Tech, energy and industrials, the Draghi report [1]identifies the financial sector as one of the top 3 sectors explaining the overall labor productivity gap over the last 20 years. Reversing this trend is essentiel to accelerate productivity growth and maintain sustainable growth rates in the face of adverse demographics.

A competitive financial sector is key to finance the EU economy and channel abundant EU savings toward EU policy goals. For this reason, it is important that:

[1] Part A, Chapter 2, page 22, Figure 2.

- Financial regulation be more correctly aligned with the strategic objectives of European political authorities, ensuring that it can adapt swiftly to the demands of a rapidly evolving international environment.
- Deepening the single market requires free movement of capital and no frictions to market liquidity. Regulatory divergences, heterogeneous supervisory practices, ringfencing of capital and liquidity and fragmented financial market infrastructures are all obstacles to creating a deep single market capable of financing the investments the EU needs.

Similarly, it is imperative that the mandates of the European supervisory authorities (ESAs) and the SSM be reviewed in order to include support for the competitiveness of the financial sector and long-term economic growth as a secondary objective, as already in place in other non-EU countries. The ESAs internal governance would also be more effective if the European ambitions were more valued, with a better balance between risk avoidance and development. In addition, impact assessments prior to any new regulatory initiative should avoid any form of goldplating (including at level 2 or 3) and take into account any other competitive disadvantage compared to other regions of the world.

As regards **supervision in the asset management sector**, we believe that the conditions for evolving toward a single supervisory mechanism for financial markets are not yet in place. We must adopt a pragmatic approach of supervision, distinguishing between entities and products. Indeed, regarding entities, it is essential to swiftly recognize the concept of a group at the EU level. Large asset management groups could be supervised by a “lead” national competent authority, in order to allow synergies and economies of scale when developing cross-border business models. Regarding products, cross-border distribution exists and is successful. The more important difficulty today is the divergence of supervision of specific products which remain under the supervision of national authorities.

Finally, with regard to retail investors, it is important to move away from a logic of risk aversion in favor of a logic of encouraging well-managed and well-rewarded risk-taking: a renewed risk education would enable European citizens to better benefit from the advantages of more integrated financial markets, particularly in the face of the demographic challenges that concern them. In addition, investors should benefit from more streamlined and efficient information, when abundance of information could be counterproductive for investment decisions.

2. Detailed policy recommendations

Paris Europlace supports the following guidelines, intended to strengthen the prosperity and financial stability of the European continent.

1. The success of European strategic autonomy requires that finance can fully play its role, in all its diversity: banks, insurance companies, asset managers and financial market infrastructures must be able to rely on pragmatic and harmonised regulation, which facilitates the proper financing of productive investments instead of ultimately leading to distortions of competitiveness to the detriment of European players and ultimately a loss of competitiveness.
2. Obstacles to the free flow of capital and liquidity within the EU should be urgently lifted. Such obstacles have been well known for a long time. They include in particular the ring-fencing of capital and liquidity at entity level, the diverging transposition of directives or interpretation of regulations by national authorities, creating unlevel playing field and unnecessary regulatory burden. Such behaviors impede consolidation by disabling economies of scale, and prevent equal access to funding and investment opportunities for companies and households across the Single Market. Not only have these obstacles not been addressed in the last legislative terms, but the situation has continued to worsen. Examples of recent divergences include the decision to apply the output floor at the entity level, rather at the group level, and the fact that many Member States have yet to transpose the CSRD in their national law, while it was expected to enter into force on 1st January of 2024. In practice, while the European single market was established on 1st January 1993 and guarantees the free movement of goods, services, people and capital in the EU, 30 years later, there is no Single Market for financial services.
3. Reviving securitisation and encouraging long-term investments in the EU by promoting instruments for individuals wishing to allocate their savings in the EU are also key. In addition, the harmonisation of rules also remains an intra-European imperative: to enhance the business environment and create more jobs, promoting a European business code (or a 28th regime) would constitute a decisive step forward. In particular, harmonising EU prudential requirements with the provisions in force on other continents are among the most urgent priorities.
4. The importance of the financing needs identified over the coming years to successfully achieve the dual energy and digital transition requires an organized monitoring of the objectives and actions implemented at both European and national levels, with specific KPIs. The clarity, simplicity and flexibility of decision-making processes will again be crucial to best meet these colossal needs. All financial players, banks, insurance companies and asset managers contribute to such financing. Their role in financing businesses is essential and should not be subject to unjustified additional regulation when coherent rules are already in place. The monitoring of the financial sector and potential financial stability risks should be holistic, and the extensive reporting already provided by financial entities according to their respective regulations should be shared across ESAs and between national and European authorities.

5. Similarly, the adaptability of regulation to the new competitiveness requirements of the financial sector should encourage European authorities to engage more with high-level professionals, for example through hearings or panels of experts, particularly in the prior production of quality impact assessments. Equally, the recognition of the concept of “European groups” for cross-border market activities that would be supervised by a “lead” authority, as well as the development of ESMA’s responsibilities in the supervision of financial and ESG data providers, would be desirable. With regard to sustainable finance, the review of the coherence, relevance and effectiveness of its current European regulatory framework is also very necessary, while maintaining the level of ambition.
6. Furthermore, in order to avoid vertical regulation in silos, the coherence of regulatory approaches between the different professions in the financial sector argues for a more important role to be assigned to the Joint Committee of ESAs. Finally, consumer protection must not be conceived as depriving these investors of personalized financial advice that would allow them to benefit from more attractive financial returns.
7. Overall, achieving a good regulatory balance between financial stability and encouraging technological innovation must be sought to support the competitiveness efforts of the European financial sector, the proper dissemination of the productivity gains induced for businesses and households, as well as the preservation of the continent's strategic autonomy in relation to third-party players.
8. For example, with regard to AI, wholesale central bank digital currency or the use of DLT technologies for the benefit of the real economy, the European Union has a major role to play in order not to be left behind by its competitors. As in cybersecurity, a detailed study of the issues is imperative in order to respond to contemporary challenges without creating unnecessarily complex regulation that could quickly be counterproductive for innovative players.

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Paris Europlace is available to present in detail to the European authorities all the regulatory recommendations and proposals for action published in these areas, notably the following ones: 2024-2029 European priorities, Securitisation, Asset tokenization, Wholesale Digital Markets, AI, NBFI and Data in particular.