EU Market Integration and Supervision Package

Seven key recommendations from the Association of German Banks

Berlin, June 2026

bankenverband

How do banks and capital markets contribute to Europe's competitiveness?[1]

Competitiveness is the key to Europe's sovereignty.

If Europe is to expand its modern infrastructure, master the digital transformation, strengthen its defence capabilities and manage the transition to a sustainable economy, it must become more competitive. This will require investment on a massive scale, and a financial system that can finance it – for Europe and for Germany. The majority of this capital will have to come from the private sector. Strong banks and an efficient capital market are essential to delivering this. They bring together those seeking capital and those providing it.

Banks and capital markets are essential.

They finance investments, innovation and growth, and ensure that capital is allocated efficiently. However, at the same time, the European capital market is not fulfilling its potential: It is fragmented, has less liquidity than similar international markets and is burdened by complex regulations that are sometimes inconsistent. This makes cross-border investment more difficult and limits the mobilisation of private capital.

What must the EU Market Integration and Supervision Package achieve?

To avoid falling behind other economic regions, the legal framework must enable banks and the capital markets to achieve their key goals of driving growth, innovation and prosperity, and mobilising capital accordingly. The EU Market Integration and Supervision Package (MISP) must therefore create the following conditions:

- simple and proportionate regulation;
- high market liquidity and real progress on further integrating European markets;
- a clear division of roles between strong banks and efficient market infrastructures;
- an appropriate balance between stability, integrity and liquidity.

[1] Our member Clearstream Europe did not participate in this position paper.

Our seven key recommendations for MISP[2]

Recognise the difference between banks and market infrastructures	More cost-efficient and less complex market infrastructures in Europe require a regulatory framework that appropriately and proportionately reflects this clear division of roles.
Simplify and harmonise post-trade processes	Post-trade processes must be further simplified. To this end, the barriers identified in the ECB report (AMI-SeCo-SEG) should be removed, rather than introducing new reporting and transparency requirements.
Make European competitiveness a core element of ESMA's mandate	The international competitiveness of EU capital markets must also be a guiding principle for supervision, since regulatory complexity is a major competitive disadvantage for Europe. The new mandate should therefore be embedded in the ESMA Regulation, ensuring that competitive regulation is translated into competitive supervision.
Strengthen legal certainty	MISP also includes a proposal for a Settlement Finality Regulation. This would then be directly applicable and would enhance legal certainty and promote greater integration.
Promote innovation	The DLT Pilot Regime and the provisions under MiCAR must be consistently further developed to ensure a future-proof and competitive framework.
Advance harmonisation measures for a depositary passport	Cross-border fund activities should be simplified, thereby strengthening the integration and competitiveness of European capital markets. Targeted measures to harmonise national civil law frameworks are required to make the depositary passport a reality.
Refine the supervisory toolbox, for example by introducing a proper no-action letter	Gradual centralisation should also enable appropriate supervisory measures. A deep and liquid market is not created by centralised supervision alone – rather, a harmonised and integrated market requires consistent supervision. Harmonisation should therefore come first, followed by the centralisation of supervision.

[2] Our position paper on MISP is available at https://bankenverband.de/kapitalmarktunion/market-integration-and-supervision-package.

1 Recognise the difference between banks and market infrastructures

The fragmentation of capital markets can be reduced through MISP. Cost-efficient and less complex market infrastructures in Europe are essential in this regard. This requires recognising the fundamental difference between banks and market infrastructures. Market infrastructures are neutral, technical platforms that enable the efficient and anonymised trading, clearing and settlement of financial transactions, without assuming risk themselves. Banks, by contrast, are in direct contractual relationships with their clients, connect them to other market participants via these infrastructures, and typically assume their own risks – risks that infrastructure operators neither assume nor should assume. Banks thus facilitate access to trading venues, central counterparties, central securities depositories and payment systems.

As such, transparency and reporting obligations, in particular, must be applied in a more differentiated manner, both for trading (lit vs. dark) and settlement (central securities depositories vs. internalisation). Otherwise, cost-efficient and effective services will be impaired and market liquidity reduced.

Systematic internaliser and settlement internaliser are not the same!

A **systematic internaliser** is an investment firm which, on an organised, frequent, systematic and substantial basis, deals on own account when executing client orders.

Settlement internalisers are investment firms that settle securities transactions for clients or on their own account outside central securities depositories (CSDs).

Trading: The MISP proposals for more transparency for systematic internalisers should be reviewed.

Unlike multilateral trading facilities, systematic internalisers operate on a bilateral, client-driven basis. Accordingly, it is highly questionable whether the proposed inclusion in the Consolidated Tape (CT) of the five best bid and offer quotes from all participating systematic internalisers would deliver meaningful benefits or ensure comparability. In the absence of any demonstrable benefit, this proposal – which would entail significant costs – should not be pursued further. The proposed amendment to Article 2(1), point 36b(a)(ii)(a) of the MiFIR proposal should therefore be deleted. The same applies to the proposed amendment to Article 15(2) of the MiFIR proposal, under which systematic internalisers would be required to update their public quotes immediately when executing a retail client order at a better price than the one quoted.

Competitive disadvantages for systematic internalisers are incompatible with a level playing field.

Proposals that seek to apply a harmonised framework for transparency and market functioning to both multilateral trading venues and systematic internalisers must not form part of MISP. This fails to acknowledge the difference between multilateral trading venues, which, due to their anonymity, must meet high transparency requirements, and systematic internalisers, which operate on a bilateral and client-focused basis. The result would be undesirable competitive disadvantages for systematic internalisers. This would structurally disadvantage efficient, cost-effective and client-tailored solutions. This would run counter to the objective of MISP to create a competitive European capital market.

Post-trade: The price-transparency requirements for settlement internalisers proposed under Article 34(9) of the CSDR proposal are not appropriate and should therefore be deleted.

Settlement internalisers: Clients typically seek tailored services from banks through requests for proposal (RFPs). In response to such individual requests, banks respond with proposals tailored to the client's specific needs. These proposals set out both the services offered and the corresponding pricing. This level of disclosure to the client is sufficient. The general disclosure requirement for settlement internalisers proposed under Article 34(9) of the CSDR proposal would provide no additional benefit and is not justified from a systemic perspective. On the contrary, the disclosure of costs would impair competition.

Cost transparency for CSDs

Ensure cost comparability through uniform and transparent fee schedules for CSDs.

Greater competition would, however, be achieved by enhancing cost transparency for central securities depositories (CSDs). Central securities depositories must be required to publish uniform and transparent fee schedules. Moreover, comparability of costs between central securities depositories must be ensured to reduce overall costs and strengthen the competitiveness of the European market. However, the currently proposed amendments to the CSDR do not address this issue. This must be rectified.

The tightening of reporting requirements for settlement internalisers under Article 9(1) of the CSDR proposal should therefore be removed.

Similarly, the proposed tightening of reporting requirements for settlement internalisers in Article 9(1) of the CSDR proposal fails to recognise the role of banks. The internal settlement of trading transactions streamlines processes and reduces costs. In other words, the internalisation of settlement transactions contributes to market efficiency and should therefore generally be viewed as positive. As a result, there is no need to tighten reporting requirements. In addition, the new provisions appear to be based on incorrect assumptions regarding the volumes of settlement internalisers. Although the volume data derived from an ESMA report (TRV Risk Monitor; ESMA50-1949966494-3846) have since been corrected,[3] this did not affect the European Commission's proposals, which had already been presented in December 2025. Furthermore, doubts remain as to the accuracy of this data. ESMA has only recently conducted another survey of market participants on settlement internalisation and requested additional data. That report is still pending.

Aim: Increase liquidity, efficiency and simplify access to the capital market.

[3] The report now available explicitly states this in a footnote.

2 Simplify and harmonise post-trade processes

Remove barriers in line with ECB's AMI-SeCo SEG proposals

In order to develop deeper EU capital markets, removing existing barriers is more effective than introducing additional reporting and transparency requirements – in other words, more bureaucracy. A body established at the European Central Bank and composed of market experts has already carried out practical preparatory work in this area. The ECB's AMI-SeCo SEG has identified 43 barriers to creating a harmonised European capital market. Its report 'Remaining barriers to integration in securities post-trade services – issues and recommendations',[4] outlines practical ways to simplify and harmonise post-trade processes efficiently. Where European legislative acts are the source of these barriers, the report identifies them explicitly and proposes amendments to remove them. The CSDR is also identified repeatedly as a source of some of these barriers. Removing these barriers should therefore be a priority.

Our top five barriers that need removing:

1. **Barriers 1-3:** Lack of harmonisation across different legal frameworks, such as custody and company law.
2. **Barrier 4:** Insufficient free choice of CSDs (Article 49 CSDR).
3. **Barrier 8:** Absence of a "golden source" for information on securities-related data (SRD).
4. **Barrier 9:** Issuers provide poor quality data in non-standardised formats along the intermediary chain (SRD).
5. **Barrier 12:** The scope of the SRD is too narrow.

Aim: Reduce transaction costs and improve the functioning of capital markets.

[4] Available on the ECB's website.

3 European competitiveness must be a core element of ESMA's mandate

The competitiveness of EU capital markets depends heavily on the regulatory framework and how it is supervised in practice. Competitiveness must be a guiding principle for both the regulation and the actions of supervisory authorities. Following the example of the UK Financial Conduct Authority (FCA), ESMA should systematically consider how its actions affect the long-term growth, attractiveness and global position of the EU economy and its capital markets.

Making competitiveness part of ESMA's mandate, together with the early involvement of market participants, would help avoid additional hurdles and unnecessary bureaucracy.

How can this be achieved? In addition to the traditional cost–benefit analysis, a mandatory EU competitiveness test should be introduced for ESMA's work to assess how supervisory authorities' actions affect the competitiveness of firms and capital markets, both within the EU and internationally. Market participants should therefore be involved at an early stage (for example, as non-voting members of the board or in a manner similar to the ECB's advisory groups). This would help prevent the creation of additional hurdles and disproportionate bureaucracy through the actions of the supervisory authorities.

By contrast, prescriptive product requirements or forced consolidation are counterproductive. Genuine competition leads to an attractive range of products and market-driven consolidation.

Aim: Align regulatory and supervisory tools with the competitiveness objectives of the Savings and Investments Union.

4 Strengthening legal certainty and market integration

The proposal to replace the Settlement Finality Directive with a Settlement Finality Regulation (SFR) is appropriate. This will lead to further harmonisation across the EU. The inclusion of DLT technology also makes the framework future-proof. Both elements are therefore essential to achieving the deepening of EU capital markets envisaged under MISP. However, key details still need to be clarified.

A uniform EU-wide registration regime is needed for third-country systems.

A level playing field for third-country systems and EU systems is in Europe's interest in order to ensure consistent protection across the EU and to avoid legal uncertainty and gaps in protection. In addition, the level of protection afforded to third-country systems and their participants must be equivalent to that of EU systems. This would ensure continued access for European market participants to international markets.

Core provisions must be defined precisely and then standardised.

The key rules governing the protection of transactions processed through systems (such as the irrevocability of transfer orders entered into a system and insolvency protection) must be clearly and unambiguously specified. Further refinement is therefore required to ensure that the directly applicable regulation provides the necessary legal certainty.

Our top three terms requiring clarification:

1. 'System' – Article 2(1), point (1) of the SFR proposal. It must be clarified that the term 'system' covers not only systems for the settlement of payment and transfer orders, but also the clearing of transactions.
2. '**Transfer order**' – Article 2(2), point (a) of the SFR proposal: The possibility of including new types of assets within the scope of protection of the SFR by means of delegated acts must be limited to assets used within a regulated environment (e.g. under MiCAR or the DLT Pilot Regime).
3. '**Recording**' – Article 2(1), point (22) of the SFR proposal. It must be clarified that a 'recording' on a DLT does not require any additional duplication in a central register. In other words, the constitutive nature of the recording on the DLT must be ensured.

Designating third-country systems and the inclusion of indirect participants must be fully regulated in the SFD for the whole of the EU.

The option to designate third-country systems and include indirect participants must not, as currently provided for in the draft, be left to the member states. This would result in fragmentation and create legal uncertainty, particularly for European market participants.

Aim: Establish modernised, harmonised protection rules and an equivalent level of protection for third-country systems and participants.

5 Promote innovation

Under the DLT Pilot Regime, the threshold limits should be significantly increased or removed altogether. This would improve its practical applicability.

The **DLT Pilot Regime** has been and continues to be an important building block for testing new innovative technologies, such as distributed ledger technology (DLT). The issuance of financial instruments on DLT has now become established in practice. It is therefore logical to extend the scope to all MiFID financial instruments. Even more important is the proposed increase in the threshold for participation in the sandbox from EUR 6 billion to EUR 100 billion, in order to support broader practical adoption of the pilot regime. However, removing the thresholds altogether would be preferable.

Clear rules to ensure a level playing field for all market participants are essential.

However, for credit institutions, the DLT Pilot Regime will only become relevant in practice once the principle of a **level playing field** is fully implemented. There are currently no credit institutions registered under the DLT Pilot Regime. This is due to a lack of clarity in the applicable requirements. For example, it is not clearly specified that certain restrictions of the DLT Pilot Regime relating to lending activities do not apply to credit institutions. It should be clarified, inter alia, that credit institutions can act as DLT settlement systems (DLT-SS) or DLT trading and settlement systems (DLT-TSS), even where they provide pure lending services that are not linked to investment services.

MiCAR is another key building block for promoting these new developments and providing a reliable legal framework for digital innovation. We welcome the proposed amendments relating to crypto-assets. They strengthen market integrity, investor protection and the competitiveness of the European market.

Supervision and reporting should be aligned so that reporting is made to the competent supervisory authority.

Duplicate structures and unnecessary bureaucracy should be avoided.

Create equivalence frameworks for the cross-border issuance of multi-issuance stablecoins.

However, the proposals in MISP lack a consistent reporting framework: Crypto-asset service providers (CASPs) are supervised by ESMA and report to it. Credit institutions under MiCAR are supervised by national authorities but are expected to report to ESMA. This is inconsistent. It must be clearly specified that reporting should be made exclusively to the competent supervisory authority in each case. This is necessary to ensure more efficient supervision. Further amendments to MiCAR are the subject of a separate review.

There is still a significant need for clarification in relation to **multi-issuance stablecoins**. At present, there is no clear framework for cross-border issuance structures. An equivalence regime for issuances in third countries with equivalent regulatory frameworks would prevent regulatory arbitrage while safeguarding financial stability. This would not only eliminate existing legal uncertainties, but also contribute to a consistent and robust regulatory environment.

Aim: Strengthen the global competitiveness of EU capital markets and ensure a level playing field for all market participants in relation to new technologies.

6 Further refinement of the proposal for a depositary passport needed

The introduction of an EU depositary passport is another step in the right direction towards greater market integrity.

Targeted harmonisation is required in key areas, including national civil law provisions.

However, some details require further clarification: The depositary passport must be legally robust, coherent from a supervisory perspective and operationally sound. The current proposal must be revised. There needs to be a clear allocation of responsibilities and liability rules, reliable, coordinated and coherent supervision, as well as targeted measures to harmonise national civil law provisions. In addition, the proposal lacks the information and control processes required to allow the depositary passport to work in practice.

Aim: Strengthen market integration and improve investor protection.

7 Further develop a targeted and pragmatic supervisory toolbox

The success of MISP will depend to a large extent on how effectively the proposed amendments to the 14 key capital markets acts are implemented. Only by removing barriers and creating better competitive conditions can an integrated and globally competitive capital market emerge. Under no circumstances should any **(partial) centralisation of supervision** lead to increased bureaucracy or costs for supervised infrastructures and their users.

More European supervision must not lead to greater bureaucracy and higher costs.

European market supervision is not the core of MISP; it is merely one element of it. It must not be the starting point, but rather the outcome of comprehensive capital market reforms. The political debate surrounding the proposal for market supervision must not distract from or delay substantive discussions on the remaining capital market frameworks.

ESMA should be granted the power to issue 'no-action letters'.

An effective no-action letter mechanism would provide regulatory flexibility in exceptional situations, prevent market disruption caused by unclear regulatory requirements and safeguard the proper functioning of capital markets.

Aim: Avoid increased costs or bureaucracy.

Published by
Bundesverband deutscher Banken e.V. (Association of German Banks)

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Lobby Register No R001458
EU Transparency Register No 0764199368-97
USt-IdNr.: DE201591882

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