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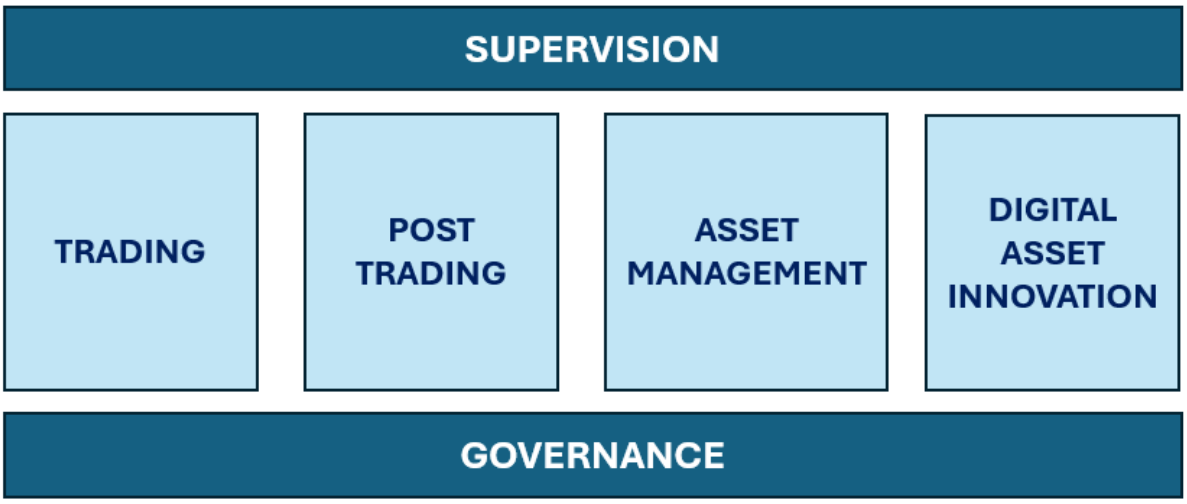
From:	Presidency
To:	Permanent Representatives Committee/Council
Subject:	Market Integration and Supervision Package (MISP) Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on settlement finality and repealing Directive 98/26/EC and amending Directive 2002/47/EC on financial collateral arrangements Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directives 2009/65/EC, 2011/61/EU and 2014/65/EU as regards the further development of capital market integration and supervision within the Union Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) No 1095/2010, No 648/2012, No 600/2014, No 909/2014, 2015/2365, 2019/1156, 2021/23, 2022/858, 2023/1114, No 1060/2009, 2016/1011, 2017/2402, 2023/2631 and 2024/3005 as regards the further development of capital market integration and supervision within the Union *- General Approach*

I. INTRODUCTION

1. The Market Integration and Supervision Package (MISP) is a key initiative within the EU's Savings and Investments Union (SIU) aimed at deepening and better integrating European capital markets. Its goal is to reduce market fragmentation, improve access to investment opportunities, and help channel European savings into European businesses, start-ups, and support economic growth.
2. The package reflects the Draghi and Letta Reports' call for deeper capital market integration to boost Europe's competitiveness and growth. MISP is a priority under the One Europe, One Market Roadmap, with an interinstitutional commitment to reach agreement by the end of 2026. EU finance ministers at ECOFIN in July subscribed to an accelerated timeline and officials have worked to develop a balanced compromise.
3. MISP amends more than 18 files covering: trading, post-trade activities, asset management, the DLT Pilot Regime, settlement finality, and ESMA supervision and governance.

II. THE COUNCIL COMPROMISE

4. The Presidency's compromise text maintains the bulk of the Commission's proposal and delivers on the core objectives while reflecting significant negotiations and trade-offs. The text should be viewed as a package and securing political agreement on the package is a significant step for EU financial markets. Reflecting Member States' views, a compromise text across the entire package is now presented for final agreement. The Annex sets out more detail on key elements of the package.



TRADING

5. The proposed reforms aim to further integrate the EU's trading infrastructure, creating a more efficient and globally competitive capital market. While largely preserving the Commission's proposal, the Presidency compromise addresses Member State concerns.

6. Key features of the package include the introduction of the concepts of "Pan-European Market Operators" and "Significant Trading Venues", both of which will be centrally supervised by ESMA. The proposal's transformative approach to the authorisation and supervision of trading venues will increase efficiencies for the operators of trading venues that are active across the Union and will reduce divergences in outcomes for market participants, as well as in the application of supervision of these operators and the trading venues that they run. The proposal also builds on the long-awaited consolidated tape of pricing information for shares and ETFs by expanding the scale and scope of the tape following the first five-year period of operation.

7. Overall, the Presidency compromise seeks to strengthen market integration, improve supervisory consistency, expand market transparency, and modernise trading infrastructure whilst balancing the differing priorities of Member States.

POST-TRADING

8. Overcoming clearing and settlement fragmentation is essential to enhance the EU's competitiveness, replacing a patchwork of national rules with an integrated European network that facilitates frictionless cross-border activity. The Presidency's compromise achieves an integrated and competitive European post trading landscape, removes barriers to cross border activity and strengthens the Single Market.

9. The compromise strengthens interoperability and cross-border service provision, modernises the framework for central securities depositories (CSDs) and transfers the most significant central clearing counterparties (CCPs) and significant CSDs to direct ESMA supervision.

ASSET MANAGEMENT

10. The asset management measures within MISP strengthen the EU investment fund market by reducing cross-border barriers, simplifying regulation, improving supervisory coordination, and maintaining investor protection.

11. Overall, the compromise seeks to create a more integrated, competitive, and efficient EU asset management market by facilitating cross-border fund activity, improving access to services, strengthening supervisory cooperation, simplifying authorisation and passporting processes, and reducing unnecessary regulatory burdens, while preserving accountability, national oversight, and investor protection.

12. In particular, the compromise facilitates the use of staff, systems and expertise within EU asset-management groups, introduces more consistent information requirements and authorisation procedures, mandates the establishment of coordination colleges for large asset management groups, improves the management passport and allows Member States to permit funds to appoint eligible depositaries in other Member States, subject to appropriate supervisory safeguards.

DLT PILOT REGIME

13. The DLT Pilot Regime reforms aim to encourage the development and adoption of distributed ledger technology (DLT) in EU financial markets by providing a more flexible, scalable, and predictable regulatory framework. The objective is to enable firms to build, test, and commercialise DLT-based market infrastructure while maintaining appropriate investor and market safeguards.

14. The Presidency compromise seeks to transform the DLT Pilot Regime into a more practical and commercially viable framework, enabling larger-scale deployment of DLT-based market infrastructure across the EU. By increasing thresholds, expanding eligibility, simplifying accessibility, reducing complexity, and enhancing legal certainty, the reforms aim to support innovation whilst maintaining robust market protections.

ESMA SUPERVISION AND GOVERNANCE

15. A single rulebook cannot deliver true capital market integration if supervision continues through 27 distinct national lenses, with a range of supervisory interpretations and approaches, and potential regulatory and administrative duplication and fragmentation. To realise the full potential of the Single Market, rules must not only be the same on paper, they must be interpreted, supervised and enforced in a consistent manner across the EU. A combination of a transfer of supervisory responsibility to the European level and enhanced supervisory convergence are critical for deeper market integration, market confidence and effective investor protection.

ESMA SUPERVISION

16. The Presidency compromise delivers a significant transfer of supervisory responsibility to the European level. ESMA would become the direct supervisor of significant Trading Venues, significant CCPs, significant CSDs and significant CASPs, as well as Pan-European Market Operators (an opt in regime) .

17. This provides cross-border operators with more consistent supervisory outcomes, reducing costs and fragmentation while enhancing competitiveness and simplifying the regulatory and supervisory landscape.

ESMA GOVERNANCE AND POWERS

18. The governance of ESMA is a key element of the file. Taking account of the many different views that Member States expressed during the negotiations, the proposed presidency text offers a delicate balance on governance. It is recognised that there are many varying views on governance. The reforms to ESMA's governance structure and powers are foundational and central to ensuring that the package can deliver market integration in a legitimate, efficient and accountable manner.

19. The Presidency compromise represents a significant institutional shift. It establishes a new, full-time and independent Executive Board. The Executive Board would be responsible for ESMA's operational management and for entity-specific decisions concerning under ESMA's direct supervision. This preserves a clear and autonomous decision-making structure for direct supervision.

20. The Board of Supervisors would remain ESMA's principal body for regulatory decisions, strategy, budget and supervisory convergence. The compromise therefore preserves the independence and operational capacity of the Executive Board while responding to the clear request from Council for meaningful Board of Supervisors oversight and continued NCA involvement.

III. POLITICAL ISSUES

21 ESMA funding and the definition of Significant Trading Venues require decision at political level before the overall package can be agreed.

ESMA Funding and National Contributions

22. The expansion of ESMA's responsibilities will require an increase in its budget. Currently, ESMA's annual budget is approximately €90 million, funded through a combination of industry fees, national competent authority (NCA) contributions, and the EU budget.

23. To finance ESMA's new supervisory convergence and cooperation tasks, NCA contributions are expected to increase. However, Member States remain divided on how these contributions should be allocated.

Two options are under consideration:

- **Option A:** Retain the current contribution key (based on historic EU voting arrangements) while simplifying financing arrangements by applying a 50:50 split between NCAs and the EU budget for all non-fee-funded ESMA activities. This would provide continuity and predictability, avoid immediate redistribution between Member States and reduce the collective NCA funding share for activities currently financed on a 60:40 basis.
- **Option B:** Mandate the Commission to review the allocation key, and if appropriate, to present a legislative proposal, within 18 months of agreement , for a new multi-factor contribution key. The methodology would reflect:

- the common Union-wide benefits of ESMA's work;
- relevant market and capital-market activity; and
- the national supervisory base.

24. The methodology would include safeguards to prevent excessive concentration, volatility or abrupt increases in individual NCA contributions.

Significant Trading Venues

25. Under the Presidency proposal, ESMA would directly supervise:

- Pan-European Market Operators (PEMOs), and
- Trading venues meeting specific significance criteria.

26. A venue would be considered significant if:

- It accounts for at least 5% of relevant Union trading activity and forms part of a group operating trading venues in at least two Member States; or
- It accounts for at least 15% of relevant Union trading activity and has a sustained cross-border share of at least 85% for shares, ETFs and bonds, or 90% for derivatives.

27. The Commission estimates that around eight trading venues groups would meet these criteria. The Presidency compromise removes the broader financial-market-infrastructure group criterion, under which a trading venue could have been brought within ESMA supervision because of links with a significant CCP or CSD in another Member State. The significance assessment is therefore focused on trading-venue group structures, market share and cross-border activity.

28. Where ESMA becomes the supervisor, national authorities would continue to be responsible for market abuse surveillance. National authorities will have relevant powers including sanctioning powers and will continue to receive relevant market data to inform their activities.

29. The framework also includes a review mechanism, requiring the Commission to review the criteria and thresholds two years after the date of application of the amending regulation and to assess whether those criteria continue to identify appropriately the trading venues and groups that should be subject to direct ESMA supervision. Where appropriate, the Commission may propose legislative amendments.

22 POLITICAL GUIDANCE

30. At this meeting we need to resolve these issues and this will be the final step needed to secure a political agreement on the MISP package. Do you agree?
31. On that basis do you agree with the compromise text, removing the square brackets in the text and therein give political support to the overall package?

Annex

Key elements of the Compromise Market Integration and Supervision Package

Trading

- **Pan-European Market Operators and significant trading venues:** ESMA will be responsible for supervision of significant trading venues, and PEMOs (an opt in regime). The compromise refines the Commission's concepts by broadening eligibility for the PEMO framework and providing greater clarity and harmonisation across Member States. This is intended to reduce regulatory divergence, improve efficiency for cross-border trading-venue operators and create a more consistent supervisory environment.
- **Enhanced ESMA role:** Authorisation and supervision of qualifying trading venues would become more streamlined and harmonised, with ESMA taking responsibility for significant venues while national regulators retain specified market-surveillance and enforcement responsibilities.
- **Expansion of the consolidated tape:** Building on the recent launch of the consolidated tape for shares and ETFs, the proposal expands the scope of market data available to investors. The proposed compromise include three levels of order-book data rather than the five originally proposed, alongside:
    - venue attribution, identifying where quoted prices are available;
    - data from systematic internalisers; and
    - a mechanism to publish alternative closing prices when the main trading venue is unavailable.
- **Targeted market-structure reforms:** The package includes focused measures such as:
    - a new regulatory framework for frequent batch auctions;
    - technical adjustments to tick sizes;
    - improvements to post-trade transparency; and
    - clarification of quoting obligations.
- **National safeguards:** The compromise includes proportionate treatment for sovereign-bond markets, trading venues with a public entity status, self-regulatory structures, security and national preparedness.

Post-trading

- **Direct ESMA supervision:** Significant CCPs and significant CSDs would transfer to direct ESMA supervision, supported by cooperation with NCAs, central banks and resolution authorities.

- **Cross-border integration:** The compromise reduces barriers to cross-border clearing and settlement and supports a more interoperable network of European market infrastructures.

- **CSD services:** Technology-neutral rules and improved freedom of issuance would facilitate the cross-border provision of central-securities-depository services.

- **Crisis management:** The Commission would review the adequacy of the Union's CCP crisis-management framework, including available financial resources, resolution tools, governance arrangements and potential fiscal consequences for Member States.

Settlement Finality Regulation

- **Directive to Regulation:** this move from directive to regulation is necessary in order to strengthen the single rule book, reduce fragmentation and costs for market participants and strengthen legal certainty and financial stability.

- **Registration & Designation:** of third-country and EU systems respectively. Greater clarity around the frameworks that apply to re-registration and re-designation of third country systems and EU systems under the new Regulation. Procedures are introduced to avoid the burden of full re-registration and re-designation of legacy systems when the authorities are confident that the legacy systems are in compliance with new requirements.

- **Protection for registered systems in case of insolvency:** clarity on the scope of protection in the case of an insolvency of an EU participant in a registered system (i.e. a third-country system) compared to the protection for a designated system (i.e. an EU system).

Asset Management

- **More efficient asset-management groups:** EU groups will be able to use staff, systems and specialist expertise across the group more effectively through targeted simplifications to delegation rules. Managers remain fully accountable and NCAs retain oversight of delegation arrangements.

- **Cross-border depositary services:** Member States may allow UCITS and AIFs to appoint an eligible depositary in another Member State, subject to safeguards on applicable law, supervisory cooperation, information-sharing and investor protection.

- **Coordinated supervision of large cross-border groups:** New coordination colleges will bring together relevant NCAs and ESMA to improve information-sharing, reduce duplication and promote consistent supervision of the largest cross-border asset-management groups.

- **Harmonised authorisation:** Common information requirements, templates and data standards will make authorisation more consistent and predictable, while allowing NCAs to request additional information where necessary.

- **Improved management and marketing passport:** Shorter timelines and clearer home-host cooperation will streamline passporting, while preventing host Member States from imposing additional requirements in areas already governed by EU law (while maintaining the possibility for host NCAs to check marketing material, albeit on an ex-post basis for their domestic retail investor base).

- **Greater supervisory convergence:** ESMA's role in addressing divergent or duplicative supervisory practices will be strengthened, while preserving NCA involvement and requiring action to remain necessary and proportionate.

- **Reduced regulatory burden:** More standardised procedures, proportionate information requirements and the removal of overlapping disclosures will reduce unnecessary costs while maintaining investor protection and supervisory visibility.

DLT Pilot Regime

- **Addressing limited uptake:** The existing DLT Pilot Regime has had little uptake to date due to restrictive thresholds, complex requirements and limited scalability. The reforms seek to make the regime more attractive to market participants while preserving regulatory protections.

- **Significantly higher activity thresholds:** The compromise substantially increases the scale at which DLT market infrastructure can operate:

    - the main regime threshold increases to €300 billion, with the possibility of a future increase to €500 billion through a Commission delegated act;

    - the simplified regime threshold is set at €10 billion;

    - the unbundled-services threshold is set at €50 billion; and

    - there is time-limited flexibility for firms to operate at up to 125% of the relevant threshold before transitioning to another regime.

- **Broader participation:** The regime is expanded to include additional instruments, and additional eligible entity types, such as CASP trading platforms, whilst ensuring that they meet equivalent regulatory standards and safeguards.

- **Wider scope of DLT activities:** The framework explicitly supports the use of DLT in trading and post-trading processes, including the handling of financial instruments and payments. It also introduces:

    - a simplified regime for smaller participants; and

    - the possibility of providing specific standalone ('unbundled') services for DLT notary and DLT account-keeping functions.

- **Reduced complexity and greater harmonisation:** The Presidency proposal removes the ability for Member States to set different thresholds at national, project or group levels, creating a more uniform EU-wide framework. It also clarifies:
    - authorisation procedures;
    - reporting obligations; and
    - rules for entering, operating within and transitioning out of the regime.

ESMA governance and supervision

- **Independent Executive Board:** A new full-time Executive Board to manage ESMA's operations and take entity-specific decisions concerning directly supervised entities.
- **Board of Supervisors:** The Board of Supervisors would remain responsible for regulatory decisions, strategy, budget and supervisory convergence.
- **Direct supervision:** PEMOs, significant trading venues, significant CCPs, significant CSDs and significant CASPs, transfer to direct ESMA supervision.
- **Transition:** ESMA-led Joint Transition Teams supporting the operational transfer of responsibilities, information, systems and expertise.
- **Steady state:** Flexible cooperation arrangements would preserve NCA expertise and involvement while ESMA remained fully responsible for final supervisory assessments and decisions.
- **Convergence:** strong convergence tools of ESMA and new tools to ensure consistent application of EU law across financial markets
- **Cost control:** A Fees Committee would scrutinise supervisory-fee methodology, expenditure trends and impacts on different supervised entities.