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| To: | COREPER/Council |
| Subject: | Presidency Steering Note on the Market Integration and Supervision Package<br>- Policy debate |

## I. INTRODUCTION

1. As a cornerstone of the Savings and Investments Union (SIU), the Market Integration and Supervision Package (MISP) represents a vital catalyst for deepening European capital markets and mobilising the private investment necessary to sustain long-term economic competitiveness.

2. As the Draghi and Letta Reports underline, deeper and better integrated European capital markets are essential to Europe's long-term prosperity. MISP should be seen as an opportunity to strengthen the Single Market in the collective European interest: enabling investors to access a broader range of well-regulated savings and investment products, while helping European businesses, entrepreneurs and start-ups access deeper and more diversified sources of funding. If well calibrated, the package can reduce fragmentation, improve market access and help European savings better serve European investment needs. In seeking to take the next step in the development of the Single Market, the MISP holds the potential to deepen our Single Market. MISP is a priority deliverable under the One Europe, One Market Roadmap, with agreement targeted by the end of 2026. Guided by that political commitment and by the European Council's call to advance work on the package, the Presidency aims to be in a position to negotiate with the co-legislator later this year. To meet that commitment, the Council's focus must now shift toward compromise-building, with the objective of reaching a robust General Approach as a matter of

urgency and by the latest, in October 2026. The Presidency believes that, if we are to deliver on the European Council's mandate, the momentum must now shift. We need clear political direction on the key issues. This will enable a move into more intensive and focussed negotiations with a mandate to find solutions.

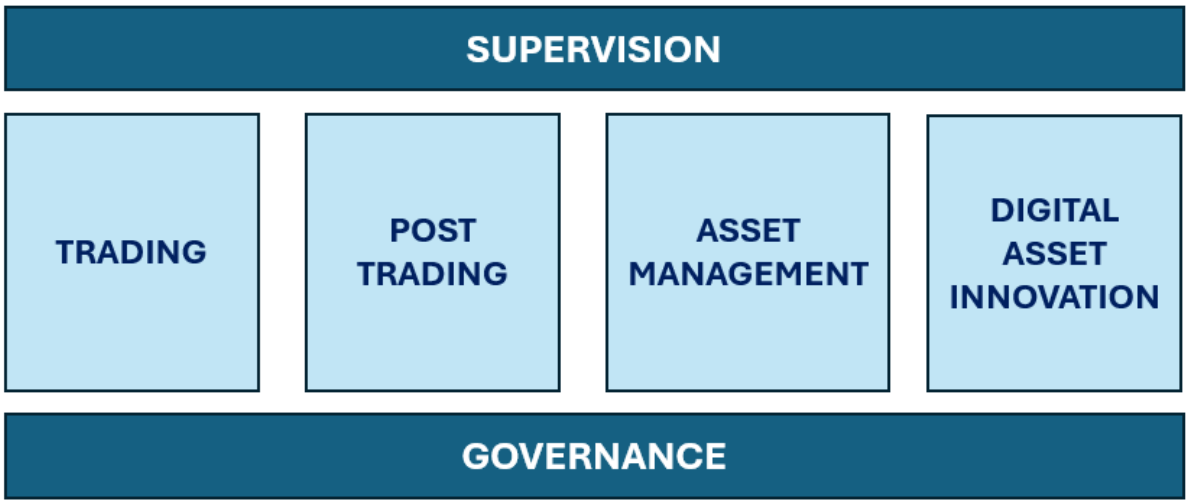
3. The Package contains a broad set of measures spanning trading, post-trading, asset management, and digital asset innovation, which will strengthen the Single Market. Taken together, these measures will reduce barriers to cross-border activity, improve transparency and market access, simplify regulatory processes and procedures, enhance access to capital, increase market efficiency, strengthen supervisory convergence and support innovation. The Presidency is of the view that by grounding our deliberations on the tangible benefits of the MISP for Europe, the Council can make progress across the structural pillars and facilitates the resolution of the institutional questions.

4. This note builds on the substantial progress made under the Cyprus Presidency on all aspects of the Package, providing a good basis at the technical level, for the political commitment and achieving agreement at Council.

5. Such progress has matured the file to a point where a comprehensive holistic assessment is now required. The Presidency believes that securing a Council mandate requires commitment to address key open issues.

6. This paper sets out a framework for discussion and details the key issues we have identified where decisive action will be needed if we are to reach agreement on an ambitious Market Integration and Supervision Package.

## II. THE PACKAGE




### A. TRADING

7. Further integration of the Union's trading infrastructure is a vital pre-requisite to provide European trading platforms with the efficiencies needed to compete with global financial centres. By transitioning core requirements of the EU's regulatory framework, for example from the

Markets in Financial Instruments Directive into the directly applicable Markets in Financial Instruments Regulation, the MISP aims address inherent systemic inefficiencies by facilitating greater use of shared resourcing, reduce market fragmentation, and enhance the EU's international appeal to global investors.

8. To achieve this structural transformation, the following open questions must be addressed:

    - The status of the **Pan-European Market Operator (PEMO)**. The Commission proposed a single license regime under direct ESMA supervision that allows cross-border infrastructure providers to operate multiple trading venues across the Union without requiring a local physical presence or separate licences in each of the Member States where a trading venue is located. Council must agree on the perimeter of the PEMO regime; and
    - The scope of the revamped **Equity Consolidated Tape** pre-trade framework aims to reduce information asymmetries and enhance transparency in the price formation process, by collating standardised market data from across Europe's myriad fragmented execution platforms. The Council must decide whether to proceed with enhancing this consolidated tape, increasing its value for EU investors, by including venue attribution and the appropriate level of depth of bids and offers; and the depth of information from over-the-counter execution platforms (systematic internalisers).

## B. POST-TRADING

9. Overcoming clearing and settlement fragmentation is essential to enhance the EU's competitiveness. Guaranteeing that investors can clear and settle securities seamlessly across borders through a reduced number of connection points will reduce operational costs and will represent a powerful economic dividend for the European Single Market.

10. Securing these long-term market integration gains will require action on the following open issues:

    - The design of the interconnectivity of Central Securities Depositaries through a **"Hub-and-Spoke" model**. The Commission proposes a connectivity framework requiring Central Securities Depositaries to establish bilateral interoperable links, ensuring that the full scope of financial instruments is available for cross-border settlement. The Council should settle questions surrounding the mandatory requirement for interoperable links between Central Securities Depositaries, their implementation timeframe, and the exact scope of covered financial instruments. This will be critical to determine the upfront technical and development costs for affected infrastructures; and
    - The establishment of a **European crisis management and resolution framework** for these market infrastructures. The Commission's proposals do not include the introduction of rules to that effect. The Council will need to decide if it wishes to examine existing rules on the recovery and resolution of Central Counterparties as well as to introduce EU rules for Central Securities Depositaries, mandating the Commission to assess the subject further and consider next steps.

## C. ASSET MANAGEMENT

11. The asset management elements of the Package seek to reduce barriers to cross-border activities centred on the management and distribution of investment funds increasing product choice by simplifying authorisation and passporting procedures, enhancing supervisory convergence and considering whether changes to the depositary and delegation frameworks are needed.

12. To unlock these benefits, a Council decision is required on:

- The **depositary passport**. The Commission proposes to eliminate the requirement that restricts a fund's choice of depositary to those established in the fund's home Member State. The Council will need to decide whether to proceed with the Commission's proposed full depositary passport, or to develop an alternative proposal based on the views expressed by Member States including expanding the threshold, while retaining the opt in approach established under AIFMD2 or updating the framework to provide for more detailed harmonised EU requirements for depositaries. In all cases, the precise design of any mechanism will need to be carefully defined so that it maintains the current regulatory safeguards while supporting greater cross-border capital flows and access to depositaries, particularly for Member States where there may be a lack of depositary services in their domestic markets.
- The rules governing **intra-group delegation.** The Commission proposal aims to provide for intra-group operating models by disapplying the current delegation requirements where a fund manager relies on another authorised EU entity within the same group for the performance of regulated tasks related to fund management. With these changes, groups would be allowed to optimise their resources by sharing internal work or back-office support within the EU group framework and the delegated tasks would be subject to lighter supervisory oversight. The Council will need to decide whether to retain this EU intra-group model or consider alternative approaches. These include amending the Commission proposal with additional safeguards or developing a broader risk-based approach that reflects the different operating models of asset managers across Europe, while preserving supervisory visibility, substance and accountability.

  The proposed framework for an **ESMA annual review** for large asset management groups. The Commission proposes an ESMA review mechanism intended to enhance supervisory convergence and consistency of outcomes for large asset managers that operate across a number of Member States. The Council will need to decide whether to retain, the current annual review or to consider alternatives such as adjusting its scope and frequency or the use of coordination colleges.

## D. DLT PILOT REGIME

13. Expanding the digital asset framework provides this developing market with the flexibility and legal certainty required to build, test, and commercialise large-scale digital architectures under controlled conditions. This specialised regulatory sandbox can allow cutting-edge technologies to mature and securely prove their economic viability.

14. To unlock these efficiencies, a steer will be needed on:

- The **duration** of the sandbox. The Commission proposes to remove the current statutory time limitations, extending the pilot regime indefinitely and replacing fixed dates with a deferred review report. The Council should decide whether to make it a permanent special complement to the general framework governing the operations of Trading Venues and Central Securities Depositaries, or keeping it bound to a fixed timeline that requires entities to transition to the general framework; and
- The regime's **scale and scope**. The Commission proposes to significantly expand the sandbox by increasing the total activity cap from EUR 6 billion to EUR 100 billion, removing product-specific restrictions and granting itself the power to adjust these thresholds via Delegated Acts.

## E. SUPERVISION

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. Single supervision by ESMA of financial market infrastructures and CASPs, and an enhanced ESMA role in ensuring convergence, could provide cross-border operators with a predictable, uniform regulatory approach that should lower costs, reduce fragmentation and enhance competitiveness and simplification.

16. Previous ECOFIN discussions showed broad support in principle for focusing direct ESMA supervision on genuinely significant cross-border entities with EU-systemic relevance. Discussions also focused on ensuring that any shift in supervisory responsibility should be guided by necessity and proportionality and must be operationally credible and accompanied by clear accountability and cost control. Ministers underlined the need for the scope of direct ESMA supervision to be rooted in appropriate significance criteria and close and permanent cooperation between ESMA and national authorities in relation to their respective functions. The Council will need to decide how the supervisory architecture should operate across financial market infrastructures, CASPs and other sectors covered by MISP.

17. The above requires Council to decide on the following outstanding issues:

- The **scope of ESMA's direct supervision**. This includes the criteria for determining "significance" across Crypto-Asset Service Providers, Trading Venues, Central Securities Depositaries, and Central Counterparties, with a particular focus on the sector-specific iterations of the group criteria;

## F. ESMA GOVERNANCE AND POWERS

18. The reform of ESMA's governance framework is a prominent issue in its own right and serves as the foundation of our efforts to secure an ambitious agreement on the Package. The proposed reforms to ESMA's governance structure and powers are equally central to ensure the package can deliver market integration in a legitimate, efficient and accountable manner.

19. The Council will need to determine which elements of the proposed reforms to ESMA's governance structure and powers require recalibration to ensure institutional balance, the role of national competent authorities and legal certainty.

20. This pillar requires guiding the Council through the following outstanding issues:

    a. **The governance framework**. This includes the balance of power between the Board of Supervisors and the independent Executive Board, the operational role, composition and appointment of the Executive Board, voting rights, and the role of the Board of Supervisors in providing meaningful oversight.

    b. **The operationalisation of day-to-day direct supervision**. The Council will need to decide what supervisory model or models to use to structure ESMA's direct supervisory tasks, including whether to distinguish by sector, the decisions that lie with the Executive Board, the allocation of supervisory responsibilities where ESMA direct supervision intersects with national responsibilities for market surveillance, financial stability, crisis management or enforcement, how NCA resources and expertise should be used, and how cost control and accountability should be ensured.

    c. **The new ESMA intervention and convergence tools**, including Articles 17aa and 17aaa, their triggers, thresholds, procedural safeguards, operational scope and interaction with existing breach of Union law and supervisory convergence tools; and

    d. **Budgetary resources oversight and cost control** associated with an expansion of ESMA's responsibilities. Council will need to decide on the arrangements for cost control, budgetary scrutiny, proportionality of fees and avoidance of duplication between ESMA and NCA costs.

## III. POLITICAL GUIDANCE

21. In view of the above, the Presidency invites Ministers to reflect on the following two questions:

    a) Do you commit to securing a Council mandate in October, and in so committing, mandate your officials to advance the necessary technical and policy solutions?
    b) Do you agree that the issues mentioned under the themes above are the full suite of issues to be addressed? Which of these issues are most critical for you in reaching a final agreement?