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From Banks to Businesses

Examples of Financial Regulation Impacting the Real Economy

July 2026

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The Paper is based on a series of interviews with client-facing professionals active in specific businesses within individual AFME member firms.
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Table of Contents

Introduction

The EU regulatory framework for financial services has expanded significantly in scope and complexity over the past ten to fifteen years. While these reforms have undoubtedly strengthened financial resilience and enhanced investor protection, they have also introduced cumulative layers of requirements with tangible effects on how capital is allocated to the real economy.

This has fuelled a growing debate on how best to simplify the framework to ensure that banks and the EU's capital markets remain competitive on the global stage. This matters because the EU needs banks and capital markets which can grow and f unction smoothly a cross economic cycles in order to finance the EU's inceeasing strategic investment needs.

The idea of reducing regulatory complexity is not controversial per se, although achieving it in the EU's complex regulatory and decision-making systems can be challenging in practice. Where views do differ is on how to get the balance right between simplification to support competitiveness and investment and preserving financial stability.

To bring a practical perspective to this debate, the Association for Financial Markets in Europe (AFME) has conducted a series of interviews with client facing bankers from across its membership to understand, in concrete terms, how financial regulation is affecting, or is expected to impact, their clients on the ground.

The interviews presented in this report span a range of corporate and investment banking and market businesses, including shipping finance, infrastructure lending, trade finance, corporate banking, structured finance, equity primary and secondary markets, and custody and collateral management businesses.

By providing Insights from practitioners whose businesses p lay a critical role in financing the growth of EU corporates o f all sizes, supporting trade and infrastructure investment, enabling efficient market access EU markets and helping i nvestors optimise the management of their assets across Europe, we hope to share valuable information into how financial regulation can shape the future of the EU economy.

A clear message emerges from these discussions: while the need for regulation is not disputed, the interviewees point to cumulative, and at times uncoordinated nature of regulatory requirements, the frequent pace of change in rules, combined with persisting differences between Member States as factors that impede their ability to serve clients as efficiently as possible. They also highlight instances where regulatory frameworks lack sufficient proportionality or risk sensitivity leading to unnecessarily costly implementation and influencing capital allocation decisions. Taken together, these factors can make investing and doing business across Europe more challenging than operating within a single jurisdiction, not for the banks themselves, but for the clients they support.

Four types of impacts for clients emerged from the interviews:

- Higher costs and constrained financing - rising capital and compliance requirements are increasing the cost of financing and, in some cases, are expected to constrain its availability. This is evident in the interviewees' expectations that increasingly non-risk sensitive prudential requirements and compliance costs will affect product pricing, product viability and, in certain cases, project feasibility - including in areas aligned with EU strategic priorities such as financing energy transition, infrastructure investment needs or supporting critical supply chains. As a result, clients may be forced to seek alternative financing solutions that are either less reliable through the cycle, or forego investments, trade or expansion plans altogether.

- Reduced flexibility and product design constraints - increasingly prescriptive regulatory requirements can reduce flexibility and limit the ability of banks to tailor products to client needs. Where definitions and prudential treatments do not fully reflect underlying levels of risk or the reality of economic activity, they can influence product design and financing structures, shaping how credit is ultimately delivered to the real economy. In some cases, this may lead to activity migrating towards providers of finance that are subject to less stringent regulatory requirements.

- Persistent fragmentation across Member States. Divergent national approaches to taxation, listing frameworks or corporate actions increase operational complexity and the costs for investors wanting to manage portfolios across the EU. This fragmentation undermines the efficiency, scale and attractiveness of European capital markets and remains a significant obstacle to deeper capital market integration.

- Uncertainty and cumulative regulatory burden - Frequent reforms, ensuing rounds of regulatory implementation and increasing documentation requests add to corporates' regulatory burdens. Smaller corporates are particularly exposed to these burdens. In some cases, interviewees believe this uncertainty is influencing investment decisions and reducing the attractiveness of the EU as a destination for global capital.

Taken together, these interviews illustrate a point the industry has repeatedly emphasised: financial regulation does have real economy consequences. It translates not only into businesses' cost of financing but can also fundamentally constrain the availability and reliability of this funding, placing a break on their ability to grow and compete. It also clearly impacts the way global investors perceive the attractiveness of the EU.

For these reasons, the design and calibration of banking regulation cannot be overlooked when policymakers consider how to strengthen the competitiveness of the EU. A more streamlined, consistent and risk-sensitive regulatory framework will enable Europe's financial system to better support European investment, innovation and economic growth in an increasingly competitive global environment.

Executive summary

Case study	Bank's business	Clients	Sources of EU regulatory complexity	Transmission to clients
1	Shipping finance	Major shipping fleet owners, leasing companies	CRR3 (limits on LGD modelling); EU Taxonomy	Higher capital requirements, in particular via CRR3 limitations on LGD modelling, and rigid sustainability criteria increase financing costs and may reduce banks' willingness to finance shipping. Over time, this could limit investment in fleet renewal, reduce access to specialised, long-term financing and ultimately affect a sector that underpins global trade and European supply chains.
2	Project finance	Infrastructure developers, construction companies, utilities, infrastructure funds	CRR3 (limits on LGD modelling, Output Floor)	Requirements introduced under CRR3 (which limit the extent to which banks can make use of internal modelling) may increase the cost of financing long-term infrastructure projects, potentially delaying or discouraging investments which support EU strategic priorities, such as those in energy, transport or digital infrastructure. This could slow the delivery of projects that are essential to the EU's competitiveness and economic growth.
3	Trade finance	Companies of all sizes & across a wide range of economic sectors, engaged in cross-border trade	Disproportionate due diligence & monitoring requirements under the AML Regulation, and excessive burdens in ensuring sanctions compliance; CRR3 (definition of commitments and Output Floor - see interview 4 below)	Extensive compliance requirements increase documentation, processing times and operational costs for clients. This can slow cross-border trade, reduce the availability of certain products and disproportionately affect SMEs. Changes to capital requirements, introduced via the CRR3 and being progressively phased-in are also expected to lead to an increase in banks' pricing in order for them to continue to meet their internal hurdles for trade finance.
4	Corporate banking	Large corporates, SMEs, all sectors	CRR3 (Output Floor – treatment of unrated corporates; definition of	Higher capital requirements for lending to corporates and increased administrative obligations for clients are likely to increase financing costs and reduce client flexibility. SMEs

			trade finance, Credit Conversion Factors)	may face particular burdens in accessing finance and meeting new requirements, such as obtaining an external credit rating.
5	Structured finance	Specialised lending platforms, private credit funds, lending to corporates and consumers across sectors	Broad definition of non-performing exposures under prudential rules	Capital requirements and other constraints on banks' balance sheets make it disproportionately more costly for banks to lend and provide services directly to end clients, including corporates, SMEs and consumers, in comparison to the risks they face. Restrictive definitions may discourage banks from maintaining long-term relationships with certain clients, reducing access to consistent, predictable and cheaper financing conditions for these client segments.
6	Equity Capital Markets & Corporate Advisory	Large cap, multinational corporates, across sectors	Overly prescriptive ESG reporting, uncertainty around the evolution of the SFDR; fragmented listing venues and rules	Excessive reporting burdens create cost and require resource deployment away from core business activities towards compliance functions. Geographically fragmented listing venues, combined with multiple national rules and reduced specialised research coverage impacts the attractiveness of EU markets for public capital raising. Potential knock-on implications for EU investment, innovation and the overall competitiveness of the EU.
7	Equity Markets	Asset managers, pension funds, hedge funds, broker-dealers, principal trading firms, etc.	Successive rounds of regulatory change (e.g. research unbundling), slow implementation of policy objectives (e.g. simplifying the post-trade landscape)	Frequent regulatory changes on the one hand, and persisting geographical fragmentation on the other, keep operational costs and complexity high, reducing the attractiveness of EU markets for global investors. Impacts are likely to be more accurately felt by smaller market participants.
8	Custody & Collateral Management	Institutional investors and asset-owners: asset managers, insurers, banks, broker-dealers, sovereign wealth funds	National tax rules and procedures, varying approaches to corporate actions, regulation mandating where collateral must be held	Divergent national rules create structural inefficiencies in how custody services are designed and delivered, increasing costs and operational complexity for cross-border investors. This reduces the efficiency of capital allocation across borders with the EU and raises costs for the asset owners and retail investors at the end of a post-trade value chain, impacting on the performance of their investments. Where legal requirements restrict which entities can hold securities collateral, tri-party collateral management solutions are rendered less efficient.

Shipping Finance – When Regulation Constrains a Strategic Sector

Regulatory complexity is reshaping financing conditions in a sector critical to global trade.

Interviewee Profile

Role

Shipping banker based in Singapore, covering Asia-Pacific clients.

Business Scope and Focus

Shipping finance sits within the transport and logistics business of the bank's wholesale banking division, covering automotive, aviation, containers and logistics, and land transport. Core focus: Asset-based financing for the acquisition of aircraft,vessels, rolling stock, containers and automotive assets.

Across shipping, aviation and rail, the bank primarily undertakes secured lending, typically holding mortgage-like security over the underlying asset, alongside recourse to the borrower's balance sheet.

Client Base

Two broad types of clients were identified:

1. Large, established operators with strong balance sheets and sector expertise, for example:
   - Shipping: Major global shipping fleet owners operating tankers, bulk carriers, gas carriers and specialised vessels.
   - Container shipping: Global carriers (e.g. Maersk, MSC) and leasing platforms
   - Aviation: Aircraft leasing companies and national airlines.
   - Land transport: State-owned or national transport operators (e.g. rail companies, green bus operators, as well as leasing platforms.

2. Leasing platforms, playing a significant role as intermediarias, and falling into two categories:
   - Financial platforms focused on structuring lease arrangements.
   - Operational platforms with expertise in managing assets, including redeployment at end of lease.

Many financial platforms are backed by institutional investors and private equity, reflecting growing investor interest in asset-based finance.

Products and Services

Asset-based lending solutions, such as senior secured debt, are particularly used for shipping, where lending is secured against both the vessel and the borrower's sheet, offering the borrower greater flexibility in asset deployment.

This is often complemented by:

- Risk Management Solutions: interest rate, FX and commodity hedging.
- Transaction Banking: Payments, collections and cash management.
- Investment Banking (selectively): M&A advisory, bond issuance and capital markets support.

Shipping Transport

Shipping is a critical enabler of global trade, carrying a substantial portion of world goods and underpinning global supply chains. The sector is highly capital-intensive and depends heavily on long-term bank financing, with European banks historically playing a leading role.

It also offers a level of cost efficiency in the transport of goods that other modes cannot match. For historical reasons, the European shipping industry and its financiers have consistently punched above their global weight. Today, European shipowners control around 35% of the global fleet, although this share is gradually declining as Asian competitors expand.

Unlike other transport sectors, such as aviation, shipping continues to rely primarily on bank lending, whereas airlines are generally better positioned to access capital markets directly.

Facts and Figures

According to the European Community Shipowners' Associations, 76% of the EU's external trade is seaborne.

Shipping supports the movement of goods worth € 2.5 trillion each year in the EU.

In 2023, European shipping supported approximately 1.68 million jobs.

SMEs are the backbone of EU shipping: 90% of EU shipping companies operate fewer than 10 vessels.

Do European regulatory frameworks impact your ability to serve your clients?

Yes, I would say there are a number of areas where the current regulatory framework is having a tangible impact on our ability to support clients effectively.

EU sustainability regulation is adding complexity for us when operating in a globally competitive market. The EU Taxonomy, while well-intentioned, sets a very high threshold for what qualifies as sustainable financing in asset-based sectors such as shipping. The current framework can be too rigid for the sector, as it does not adequately recognise intermediate or transition solutions such as retrofitting existing vessels; where financing such investment is likely to contribute to a significant improvement of the environmental performance of existing fleets in the shorter term. It also excludes all fossil fuel carriers, which is a very black and white approach as it is likely that such vessels will also be used to carry the "fuels of the future".

Alongside this, the Poseidon Principles have been an important and constructive industry initiative to integrate climate considerations into financing decisions. However, as the targets become more ambitious over time, there is increasing competition among lenders to finance the newest and most energy-efficient assets. Given that the supply of such assets is limited, this can lead to concentration effects and, in some cases, unintended outcomes in the broader fleet.

> ***"[The Taxonomy] can be too rigid for the shipping sector."***

Secondly, prudential capital requirements are having a clear impact. Under the finalised Basel 3 framework, introduced in the EU in the CRR3, higher capital charges, particularly through changes to Loss Given Default[1] parameters and stricter collateral rules, have reduced the capital efficiency of shipping finance.

This affects how we allocate capital. We need to be increasingly selective, and in some cases, capital may be redirected towards activities offering more favourable risk-return profiles.

Finally, there is a competitiveness dimension. While similar regulatory frameworks exist in other jurisdictions, they are not always implemented or enforced in the same way. In some regions, there is a stronger emphasis on supporting economic activity and growth, which can translate into a greater willingness to finance certain transactions. However, for banks operating in jurisdictions which have tended to privilege standardized approaches for calculating capital requirements (as opposed to European banks which have a long history of internal model approaches), the introduction of the finalised Basel 3 agreement should lead to more risk sensitive outcomes than at present, whereas the reverse is true for those using internal models. All these factors inevitably affect the competitive landscape in global shipping finance.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

At present, market conditions remain supportive. There is a good level of liquidity in the system, and competition among lenders, including newer entrants, which has helped maintain access to financing, often on attractive terms.

However, I would characterise this dynamic as potentially cyclical. Some of the newer or less established providers may be more sensitive to changes in market conditions, including macroeconomic or geopolitical developments. In a less favourable environment, there is a risk that these participants could withdraw relatively quickly.

[1] For banks using internal models, Loss Given Default (LGD) is one of the key parameters to determine capital requirements. It represents the proportion of a loan that a lender ultimately loses when a borrower defaults. Together with the probability of default, it is used to calculate risk weighted assets – see footnote 2.

From a client perspective, this raises questions around the stability and continuity of financing over the longer term. While the near-term picture is positive, the resilience of this financing ecosystem over a full cycle is less certain.

"Regulatory frameworks are influencing who finances global trade"

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

The primary transmission channel is through capital requirements and their impact on financing conditions.

Sectors such as shipping are inherently capital-intensive and rely on long-term bank financing. As capital requirements increase, this directly influences both pricing and lending capacity. In practice, this can lead to higher financing costs for clients and, in some cases, reduced availability for certain types of transactions.

On the sustainability side, while there is clear strategic alignment with decarbonisation objectives, I would note that green and sustainability-linked financing is not yet a decisive factor in client behaviour. These instruments are often perceived as relatively complex, and the financial incentives compared to traditional financing structures are not always sufficiently compelling to drive investment decisions.

A further consideration is the potential reduction in European bank participation in the sector over time. European banks have historically played a significant role in shipping finance and have developed deep sector expertise.

"If regulatory pressures lead to a reallocation of capital away from this sector, clients may face not only reduced access to funding, but also a loss of specialised knowledge and long-standing relationships."

If regulatory pressures lead to a reallocation of capital away from this sector, clients may face not only reduced access to funding, but also a loss of specialised knowledge and long-standing relationships.

Given the critical role of shipping in global trade and supply chains, changes in financing dynamics can have broader implications for the sector, including investment capacity and overall competitiveness.

Project Finance – When Prudential Rules Affect Long-Term Investment

Regulatory capital requirements are influencing the availability and cost of financing for long-term infrastructure projects critical to economic growth and the energy transition.

Interviewee Profile

Role

Head of Project and Structure Finance within the bank's Global Finance business line, responsible for financing infrastructure projects across Europe Middle East and Africa.

Business Scope and Focus

Project and infrastructure finance, supporting the development and operation of large-scale infrastructure projects. Activities include both advisory and lending functions. The advisory function supports clients in structuring transactions and sourcing efficient funding solutions, while the core activity involves providing on-balance sheet financing.

The business also plays a central role in syndicated project finance transactions, often underwriting significant portions of loans, typically ranging from 100 million euros to several billions of euros; and subsequently distributing part of the exposure while retaining a share.

Client Base

Clients primarily fall into two categories:

1. Corporates:
Including construction companies, utilities and industrial players involved in building and operating infrastructure assets (e.g. transport, energy, water, telecommunications, etc.)
2. Infrastructure funds:
which typically provide the majority of equity financing in project structures.

These stakeholders often collaborate within project finance structures, combining financial resources and operational expertise.

- Develop and operate essential infrastructure
- Support strategic sectors such as energy, transport and digital networks
- Contribute directly to economic growth, decarbonisation and the energy transition

Products and Services

The bank provides a full suite of project finance solutions, including:

- Advisory services: structuring transactions, identifying financing options and supporting capital raising.
- Lending: underwriting and providing long-term financing for infrastructure projects.
- Syndication: distributing exposures to other financial institutions while maintaining a stake.

These services enable clients to:

- Secure long-term funding for capital-intensive projects
- Optimise financing structures
- Deliver infrastructure assets critical to economic development

Utility and infrastructure

Utility and infrastructure operators play a critical role in modern economies. They develop, operate and maintain the essential services that underpin our way of living, including energy networks, water systems, transport infrastructure and telecommunications.

Meeting growing infrastructure needs, while advancing EU strategic objectives such as decarbonisation, energy security and digitalisation, requires significant long-term investment.

Infrastructure projects are typically characterised by high upfront capital expenditure, long development periods and asset lives that can extend for decades, with stable and predictable cash flows once operational.

Utility infrastructure construction & operators in the EU economy: Facts and figures

The EU utility infrastructure sector comprised 400,376 enterprises in 2024, employing approximately 4,77 million people and generating €2.8 trillion in turnover.

In 2023, the sector recorded €507.4 billion in value added.

Do European regulatory frameworks impact your ability to serve your clients?

Regulatory and supervisory frameworks, in particular capital requirements, can directly impact our ability to intervene -or not- in a project, as well as the profitability of such projects.

It is important to understand that project finance is characterised by very low default rates. This is due to the nature of the underlying assets which include transport infrastructure such as highways or, airports, energy facilities, including renewable energy generation such as windfarms, or communication infrastructure such as fibre networks, which are long-term, essential assets generating relatively stable cash flows. However, the regulatory framework does not adequately reflect this risk profile.

"About two-thirds of infrastructure in the EU is financed by banks, so when you impact banks, you impact the global ecosystem of infrastructure."

Limitations in the ability for banks to model the Loss Given Default (LGD) parameters under the Capital Requirements Regulation (CRR3) will lead to these parameters, and hence the associated regulatory capital requirements, doubling over the next years, potentially leading to higher financing costs for clients.

I will explain this by way of a concrete example of a large offshore wind project in Poland, in the Baltic Sea. This project has a strong alignment with EU strategic goals as it supports energy transition objectives. In this case, changes introduced in CRR3 would result in a significant rise in risk-weighted assets[2] of around 66%, and this would require us to increase our margin by around 50% to maintain current profitability levels This example illustrates the risk that regulatory changes may make strategically important EU projects more difficult to finance.

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

The main source of EU regulatory complexity lies in capital requirements under CRR3. In particular:

- LGD treatment, particularly input floors[3], which limit the ability of banks to reflect the low-risk nature of project finance exposures, as well as conservative discount rates used in LGD calculations, which may lead to an overestimation of risk and a significant increase in capital requirements;
- Output floor[4], which further constrains the use of internal models and limits the ability to reflect the actual risk profile of exposures.

At supervisory level, EBA guidelines on low default portfolios are also as an area of additional complexity. Taken together, these elements reflect a high degree of regulatory conservatism, which is not aligned with the empirical risk profile of infrastructure financing.

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[2] Risk-Weighted Assets (RWA) are bank's exposures adjusted for their level of risk. Banks hold more capital for riskier exposures (i.e. those with higher risk weights) and lower capital for those with lower risk.
[3] The input floor is a regulatory minimum limit set by Basel 3 (EU CRR3) on key risk parameters, such as LGD.
[4] The output floor is a regulatory minimum limit set by Basel 3 (EU CRR3) on total capital requirements calculated through banks' internal models. It ensures that the total risk-weighted assets estimated via internal models cannot fall below a specific percentage of the amount calculated using the standardized regulatory approach.

Regarding the transmission mechanism to clients, it emerges primarily in terms of increased capital requirements, and pricing dynamics. In particular:

- Higher regulatory capital requirements increase the cost of providing financing, which may be passed on to clients through higher margins;
- Where pricing cannot be adjusted sufficiently, the bank may reduce participation or withdraw from certain projects, affecting the availability of financing to clients and to strategically relevant EU projects;
- This may lead to delays or cancellations of infrastructure projects, particularly where financing becomes too expensive;

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

The impact on clients is direct and potentially significant, given the central role of bank financing in European infrastructure compared to other jurisdictions where market-based and non-bank finance play a more important role.

In the short term, higher financing costs and reduced availability of bank lending may lead to delays or cancellation of projects, particularly if non-bank alternatives are not readily or sufficiently available.

This will have implications not only for the clients directly involved in these projects (e.g. corporates and infrastructure funds), but also for the broader economy, as these investments are critical for economic development, the energy transition and digitalisation. As an example, EU banks have participated in financing almost 80 billion EUR in fibre optic cables for home networks across the EU over the past 10 years.

"What we are facing is the risk of a slowdown in investment across energy, clean transport and digital infrastructure. That affects not only project sponsors and infrastructure funds, but the wider European economy."

A slowdown in strategic investments, including projects aligned with EU policy objectives (e.g. renewable energy) if financing conditions deteriorate is real and concerning.

While alternative sources of financing (e.g. non-bank providers or capital markets) may grow over time, and is a strategic EU objective as well, this transition will be gradual. In the meantime, there is a risk that reduced bank capacity could create a financing gap, with negative implications for investment and growth in the EU. This risk is particularly acute as infrastructure finance involves long term projects, with financing being granted for periods of 15-20-25 years. The CRR3 LGD floors are due to be fully phased in by 2028[5] and will thus already impact banks' lending decisions for any new such long-term projects.

[5] Pending an EBA review

Trade Finance – When Regulation Increases Friction in Global Trade

Compliance burdens and capital requirements are reshaping access to trade finance, particularly for smaller firms.

Interviewee Profile

Role

Trade finance bankers covering 35 global locations, with a strong footprint in Europe and Asia.

Business Scope and Focus

The bank provides a range of trade finance services to a diverse client base, supporting clients through sector-based relationship management, complemented by specialist product teams, helping them manage payment risk, secure financing and facilitate international trade transactions.

Client Base

The bank's client base is diverse, spanning SMEs, mid-sized corporates, large multinational companies, major trading houses, financial institutions and non-bank entities.

These clients are active across a broad range of sectors, including energy, agriculture and telecommunications, and are primarily engaged in cross-border trade between Europe, Asia and the United States.

Clients are supported through sector-based relationship management, complemented by specialist product teams, helping them manage payment risk, secure financing and facilitate international trade transactions.

Products and Services

The bank provides the following services:

- Letters of credit.
- Guarantees.
- Corporate trade loans.
- Bank-to-bank trade loans.
- Certain commodity-related trade activities.

European Trade

Trade is a key strategic sector of the EU economy, accounting for around one-third of EU GDP and underpinning millions of jobs across Member States. It encompasses a broad range of participants such as exporters, importers, manufacturers, commodity traders, distributors and logistics providers, operating across various industries such as energy, agriculture, industrial goods, defense and telecommunications.

Trade finance is a critical enabler of global trade and international supply chains. By facilitating payments, providing risk mitigation and supporting trade operators financing needs, banks providing trade finance services enable businesses, including SMEs, to engage in cross-border commerce with greater certainty and efficiency.

Facts and figures

The EU is the world's largest trade bloc in terms of goods and services combined accounting for almost 16% of the world trade in 2024. The total value of the EU's trade was almost €7.9 trillion, compared with €6.8 trillion for US and €6.7 trillion for China.

Exports indirectly support 1 in every 5 jobs within the EU, making the movement of goods crucial to the whole European economy. From manufacturing to logistics, millions of roles depend on trade.

More than 30 million people in the EU work in jobs related to EU exports.

The EU external trade-to-GDP ratio is 21.4%, measured as international trade in goods and services as a share of GDP. It is 65% higher than the ratio of the USA and 14% higher than that of China.

The EU has trade agreements in place with 84 non-EU countries. In addition, trade negotiations with 29 countries have been concluded but have not yet been signed or ratified. The EU is currently negotiating updates to trade agreements with 6 countries, while agreements with other 19 countries are on hold.

Do European regulatory frameworks impact your ability to serve your clients?

We fully recognise the need for regulation and supervision of the banking sector. However, regulatory expectations in certain areas, such as Anti-Money Laundering (AML) and sanctions compliance, tend to increasingly treat trade finance as an inherently high-risk activity. This has resulted in extensive due diligence and monitoring requirements for banks, to the point that it can be said that customs and other governmental bodies are effectively outsourcing certain operational capabilities directly to banks. These requirements translate into additional information requests and documentation checks for our clients, as banks need to demonstrate compliance with regulatory expectations to their supervisors.

There is also continuously evolving industry best practice in these areas, and while this is of course a positive, it can also have some downsides as expectations continue to pile up. And while banks are increasingly automating processes or outsourcing certain aspects of verification a significant degree of compliance is still done manually and internally, generating cost.

Finally, EU prudential capital requirements also impact trade finance activities, particularly as the finalised Basel 3 agreement is progressively implemented in the EU.

"Due diligence and monitoring requirements for banks are so extensive that it can be said that customs and other governmental bodies are effectively outsourcing certain operational capabilities directly to banks."

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

Yes – for instance, the AML and sanctions compliance obligations increase processing times and administrative burdens for trade finance. In practice, this means requiring clients to source additional documentation and as a result, the actual execution of transactions can be delayed.

For example, products involving extensive documentation - such as documentary collections[6] - require banks to review large volumes of documents for compliance purposes. This creates higher operational costs for banks, which can either translate into higher pricing for clients - or internal discussions within our bank on the continued provision of these products. We see these impacts on documentary collections as being counterintuitive to the extent that the bank is not taking on risk itself these cases, this would be different for example in the provision of a letter of credit.

Furthermore, the implementation of Basel 3-related reforms and, in particular, changes to the definitions of commitments and the standardised output floor will have a significant impact in terms of Risk Weighted Assets (RWA) impacts. We expect this will require banks to increase pricing to meet their internal hurdles for trade finance.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

Controls we need to carry out include in-depth verification of export licenses or historic tracking, which means going back a significant amount of time to track a vessel's use prior to that of the current client's transaction. The further we need to look back the more time this takes. And the sanctions environment

[6] A documentary collection is a method of payment used in international trade whereby banks facilitate the exchange of commercial and shipping documents between exporters and importers against payment or acceptance of a draft. Banks act as intermediaries and do not provide a payment guarantee. In practice, the exporter instructs its bank to forward documents related to the export of goods to the importer's bank, which presents them to the importer in exchange for payment. The importer obtains the documents required to claim the goods only once the conditions set out in the document have been met.

is dynamic, creating uncertainty. All in all, we must make additional information requests to our clients and carry out new due diligence, which delays the execution of transactions and increases operational burdens for clients, ultimately affecting their ability to sell goods around the world.

Smaller companies can be particularly impacted as they tend to have fewer internal resources to manage complex compliance requirements. Dealing with export controls and obtaining appropriate licensing and documentation can be particularly burdensome for them. And while larger corporates may be able to access trade finance products from banks in countries which will be less impacted by such rules, smaller corporates are less likely to be able to access such solutions outside of their domestic market.

"Over the 20 years I've worked in trade finance, the number of compliance checks has increased considerably. That's not necessarily a negative thing, but it has made it increasingly difficult to apply a truly risk-based approach when the consequences of getting it wrong can be significant."

Amongst trade finance professionals we talk about a "risk ladder" in the products provided to clients, ranging from cheaper solutions where the client bears more risk (like a straightforward 'clean payment') and more expensive solutions where the bank is taking on risk (letters of credit). Documentary collections sit in the middle of this ladder and can therefore often be advantageous from a client point of view; however, the compliance verification burden is impacting the pricing and availability of such solutions as already mentioned. This is limiting client choice.

The full impact of prudential regulatory changes is not yet visible while capital requirement changes are in a transitional phase.

There is therefore a need to ensure that the corporate exporting and policy making community is made fully aware of the potential end-state of these requirements in order to ensure that industry and supply chains can continue to function smoothly.

Trade finance plays an important role in supporting international trade flows and supply chains. Regulatory developments affecting the cost, availability or operational complexity of trade finance services may therefore have implications for the functioning of cross-border trade and ultimately on the availability of certain goods to the general public.

Corporate Finance – When Prudential Rules Shape Financing Flexibility

Regulatory complexity is influencing banks' ability to allocate capital efficiently, with implications for clients' access to funding, particularly for SMEs.

Interviewee Profile

Role

Director, Financial resource management, Corporate Banking Division.

Business Scope and Focus

Corporate lending, trade finance and commodity finance.

Client Base

The bank serves a broad and diversified client base across sectors and geographies, including:

- Large corporates and multinational groups
- Financial institutions
- Small and medium-sized enterprises (SMEs), including family-owned businesses

Corporate clients operate across multiple industries, primarily within the EU, while trade finance activities also support clients in emerging markets, including Asia and Africa.

These clients play a central role in economic activity by:

- Producing goods and services
- Supporting international trade flows
- Driving investment, employment and growth

Products and Services

The bank provides a wide range of corporate and trade-related financing solutions, including:

- Corporate lending: bilateral and syndicated loans across various sectors.
- Trade finance products: including letters of credit, guarantees and short-term financing linked to the exchange of goods and services.
- Commodity finance: supporting clients involved in global commodity supply chains.
- Export finance: including transactions covered by export credit agencies (ECAs).

These products support clients' working capital needs, enable cross-border trade and help manage counterparty and payment risks.

SMEs and the European Corporate Sector

In 2024, the EU had 26.17 million enterprises active in the non-financial business sector. They employed 137.8 million people and created more than €7.6 trillion of value added.

In 2025, loans to non-financial corporations in the EU amounted to around € 3.5 trillion, corresponding to 16.7% of GDP. This share is higher than in other major economies such as the US, the UK, and Japan (all around 10%).

This reflects the EU's strong reliance on bank-based financing.

Facts and figures

- SMEs are a cornerstone of the European Union's economy: in 2024, the non-financial business sector counted 26.13 million SMEs, representing 99.8% of all enterprises in the sector.
- SMEs employed approximately 89.8 million people, supporting jobs across the EU economy.
- SMEs generated nearly 54% of total value added, significantly contributing to overall economic output. Notably, SMEs were the main generators of value added in the "construction", "retail" and "tourism" sectors.
- Micro enterprises (fewer than 10 employees) made up 94% of all SMEs, a feature consistently observed across all EU Member States and industrial ecosystems, reflecting their widespread presence and importance in the EU economy.

Do European regulatory frameworks impact your ability to serve your clients?

Taking the Capital Requirements Regulation (CRR) as a reference, the effects of regulatory complexity are mostly perceived in terms of our ability to provide financing to clients efficiently. Let me give you a few examples:

- For trade finance products, the current definition of trade finance[7] introduces a restriction on maturity or tenor, which limits the flexibility of these products. A new definition of trade finance would be preferable to better reflect the reality of the underlying economic activities, where trade finance is granted for terms both below and above one year. The duration of the transaction does not fundamentally change its nature.
- Also credit conversion factors[8] for unconditionally cancellable commitments might be a potential game changer with the transitioning from 0% to 10% over the next years.
- Regulatory induced administrative constraints on clients, particularly smaller clients, such as family-run or SME corporates, which find it impractical or burdensome to provide the necessary information required to acquire an external rating could negatively impact client relations in the future. For instance, family-run corporates may resist disclosing data to obtain an external rating, potentially limiting our ability to offer certain financing solutions efficiently due to the treatment of unrated corporates under the finalised Basel 3 output floor.
- Particularly for exposures to large corporates with longer tenors, such as those in the energy or defence sectors, we need to be increasingly careful in considering our future Risk Weighted Assets (RWA) consumption in light of the finalised Basel 3 agreement before making lending and pricing decisions.

"At first, clients see regulatory capital requirements as the bank's problem. But over time they realise these constraints ultimately affect them as well, through financing conditions and the increasing information they are asked to provide"

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

The implementation of the finalised Basel 3 agreement output floor is likely to have a significant impact, especially on our clients who have high ratings in our internal systems. It is also an incoming regulatory constraint which is difficult to explain to clients. Discussions with clients on how the finalised Basel 3 agreement rules may progressively affect financing terms, where we show them what the interplay between bank capital and the cost of their lending will be, have become more frequent.

In particular, the new output floor requirement, together with other changes constraining banks' use of internal models under the finalised Basel 3 agreement, when fully phased in, is indeed expected to increase the cost for banks to provide credit, which in turn could translate into higher financing costs for clients.

For clients such as family-run or SME corporates, the need to envisage obtaining an external rating[9] in the future will bring significant cost and complexity. While it may open up capital market-based funding options in the future, for certain corporates this would be a big departure from their current approach which involves long-term relationship with a handful of banking partners. It's unclear if many clients have begun to consider which rating provider(s) to use and the costs of this. Moreover, in situations like syndicated loans[10], involving several lenders, banks and clients would likely need to align to choose a rating provider.

[7] (Art. 4 (1) (80) CRR *'trade finance' means financing, including guarantees, connected to the exchange of goods and services through financial products of* fixed short-term maturity, generally of less than one year, *without automatic rollover*)
[8] regulatory prescribed factors which are used to convert off-balance sheet exposures, such as undrawn credit lines, into a balance sheet equivalent exposure
[9] External ratings are assigned by credit rating agencies (like S&P, Moody's, or Fitch) and measure how likely a borrower is to default.
[10] Large loan provided to a single borrower by a group of multiple lenders (the "syndicate"), rather than a single bank, allowing banks to share the financial risk of significant transactions.

In considering alternatives and possible mitigating factors to finalised Basel 3 agreement implementation, we are starting to discuss the provision of additional collateral by our clients. Preliminary indications are that clients are not willing to consider this, particularly in light of their existing credit standing and relationship with the bank.

In trade finance, differences in regulatory requirements are contributing to non-bank providers such as insurance companies offering plain-vanilla guarantees and becoming more competitive for such products, although they may lack the expertise and reach that banks have to provide letters of credit or more complex products to clients with more sophisticated needs.

A further obstacle, to our ability to apply more beneficial rules for trade finance exposures, in addition to those I already mentioned under the CRR, are local laws prescribing the need of bank guarantees by their suppliers with open-ended maturity. For example, the supplier of rubber gloves to an Italian hospital would need to provide such open-ended performance guarantee even if the supply contract only last for one year[11].

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

Clients are indirectly affected by regulatory complexity, both in terms of costs and flexibility. For instance, large corporate clients are mainly affected in terms of uncertainty in their planning, as they must carefully consider their future financing needs and how these can be met as our bank capital requirements will influence both the costs and availability of financing.

The impact on small corporates clients, mainly located in Europe, is even more marked: the administrative burden of providing detailed financial information to obtain external ratings, or complying with additional reporting requirements can be so cumbersome to even discourage certain transactions. As a result, clients may seek alternative sources of funding, such as non-traditional providers when these are cheaper. While these alternatives can be viable for standard transactions, they are often less suitable for more complex or specialized financing needs, where banks' expertise and knowledge of counterparties are critical. Larger corporates in particular will likely have a greater ability to tap different sources of financing than smaller ones.

"Many family-owned companies are simply not willing to share detailed financial information for external ratings. Yet regulatory developments increasingly push in that direction"

[11] (Italy's "Codice dei contratti pubblici n. 36" (articles 106, 113 and 117), for legal reference).
Other examples of local laws:

- Spain's "Ley 9/2017 de Contratos del Sector Público" (articles 106-110)
- France's "Code de la commande publique" (article L2191-7)
- Germany's "Erneuerbare Energien-Gesetz (EEG)" (paragraph 31)

Structured Finance – When Regulation Shapes Credit Intermediation

Regulatory complexity is influencing how credit is channelled to the real economy, accelerating the role of alternative lenders.

Interviewee Profile

Role

Managing Director, Structured Finance.

Business Scope and Focus

Pprovision of senior financing to non-bank lending platforms and private credit-backed entities. The activity typically sits within the wholesale banking division and supports credit intermediation to the real economy through capital markets-based structures.

The business's core role is to provide funding through securitisation structures, primarily by investing in senior tranches backed by diversified portfolios of underlying loans. These loans are originated by specialised platforms and cover a wide range of sectors and borrower types.

Client Base

- Fintech lenders and specialised credit platforms.
- Private credit-backed origination vehicles.
- Platforms sponsored or backed by private equity or institutional investors.

These clients operate across a broad spectrum of economic sectors, including manufacturing, energy, hospitality and services.

Their primary role is to originate loans to the real economy, including:

- SMEs and mid-sized corporates.
- Larger corporates.
- Consumers (e.g. mortgages, vehicle financing, leasing and rentals).

These platforms play an increasingly important role in credit provision, complementing traditional bank lending and expanding access to financing.

Products and Services

Structured financing solutions, in particular:

- Senior financing via securitisations: the bank invests in senior tranches backed by portfolios of loans originated by a platform (e.g. SME loans, consumer credit, mortgages, corporate loans).
- Capital structure optimisation: the platform typically retains junior or equity tranches, aligning incentives and absorbing first losses.

This structure enables:

- Lower funding costs for the platform, due to the presence of senior bank financing.
- Risk-sharing between the bank and platform.
- Efficient capital deployment for the bank.

The bank also benefits from:

- A secured exposure profile and sectoral and geographical diversification
- Access to granular pools of underlying exposures

Non-bank lending to the real economy

The provision of credit to the real economy is undergoing structural change, with non-bank lenders and private credit platforms playing an increasingly prominent role. These actors complement traditional banking channels by providing financing to segments that may be underserved or more costly for banks to reach directly.

At the same time, stricter regulatory requirements on banks' balance sheets have increased the cost and complexity of direct lending, particularly to riskier or more granular borrower segments such as SMEs and consumers.

In this context, structured finance and securitisation have become important tools to channel bank funding efficiently to the real economy, including via lending platforms. They enable risk distribution across different types of investors, while maintaining credit supply to businesses and households.

Facts and figures

Investment in FinTech drives both employment and financial innovation in the EU. The sector accounted for around 135,000 jobs in 2022.

FinTech is reshaping access to finance, particularly for SMEs, by expanding non-bank lending channels and introducing more efficient, technology-driven financial services.

As of 2025, the EU had 21 FinTech unicorns with a combined valuation of €60 billion, equivalent to around 0.3% of GDP.

Do European regulatory frameworks impact your ability to serve your clients?

Yes - Capital requirements and other constraints on banks' balance sheets make it disproportionately more costly for banks to lend and provide services directly to end clients (e.g. SMEs, consumers) in light of the risks they face. On the other hand, banks are able to better optimise funding costs via secured financing to platforms which then in turn lend to real economy clients who can ultimately benefit from a lower borrower cost.

Further, certain rules disincentivise banks maintaining client relationships when, from a regulatory perspective, certain client exposures would be considered as in default, even if they are still paying their underlying payment obligations.

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

The treatment of non-performing exposures (including EBA guidelines on the management of non-performing and forborne exposures and NPL backstop rules), creates this disincentive in maintaining certain client relationships.

For example, a bank may grant a loan to a corporate borrower (SME or a larger entity) based on a positive assessment of the market in which it operates, its business model, technologies offered and its market position. If market conditions deteriorate and the borrower's sector weakens, the company will be in a more challenging position, even if it continues to meet its debt obligations.

In this type of scenario, under the current EU regulatory framework, banks are required to assess not only actual payment performance but also the likelihood that the borrower may default in the future (e.g. unlikely to pay).

"The framework for non-performing exposures incentivises banks to exit client exposures even when a debt is still being serviced. This limits banks' ability to act as long-term partners to their clients."

As a result, an exposure may be classified as non-performing even if the borrower is still servicing its debt. This classification triggers a significant increase in capital requirements.

In this context, banks find themselves facing a trade-off between:

i. continuing to support the client; or
ii. exiting the exposure at an early stage.

Given the weight of holding non-performing exposures from a regulatory capital perspective, the regulatory framework tends to incentive the second option. This can limit the ability of banks to act as long-term partners to clients.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

We see that clients are affected in several ways, in particular, their ability to rely on stable and long-term banking relationships reduces and, therefore, they will have limited access to consistent, predictable and cheaper financing conditions, particularly in stressed situations, as banks may be incentivised to exit exposures rather than support clients through recovery phases. This may affect clients' capacity to plan and manage their funding over time.

Consequently, clients' reliance on alternative financing providers, such as less regulated institutions - which may not necessarily offer the same level of stability, continuity or alignment with the local economic environment- will increase.

Clients may become more exposed to any changes in these lenders' strategic priorities, particularly if they are not deeply embedded in the domestic economy of the client. This can lead to uncertainty around refinancing conditions and potential withdrawal of funding over time, for instance if a lender exits a sector or geographic market. Such p roviders may also be less anchored to the local economy and less incentivised to maintain long-term relationships, thereby increasing volatility in clients' funding structures and potentially creating structural complexity in their financing arrangements. Considering that clients' business model consists also of providing financing to the real economy (e.g. lending platforms, private credit entities), less stable or more expensive funding may directly affect their ability to originate and sustain lending to SMEs, corporates and households.

"Regulatory-driven shifts in credit intermediation may affect the competitiveness and resilience of clients, particularly where stable and long-term financing is critical to their operations"

Overall, these dynamics may affect clients' competitiveness and role in the economy, as less stable, external, or more costly funding structures can constrain their ability to operate efficiently.

Equity Capital Markets and Corporate Advisory – When Regulation Shapes Market Attractiveness I

Regulatory complexity and geographic fragmentation in issuance markets are influencing corporate's access to capital and the attractiveness of EU public equity markets.

Interviewee Profile

Role

Managing Director, Global Banking and Markets, delivering high-touch, board-level advice to large, listed corporates on strategic transactions and capital markets decisions.

Business Scope and Focus

Corporate advisory and equity capital markets (ECM) services, including supporting clients across the full lifecycle of market interactions, from initial public offerings (IPOs) to mergers and acquisitions (M&A), disposals and capital raising.

The bank also plays a key role in facilitating engagement between issuers and investors, providing strategic insight, market intelligence and guidance on regulatory requirements affecting listed companies.

Client Base

Primarily large-cap, multinational corporates operating across sectors and geographies. These companies play a central role in the economy as:

- Drivers of investment and innovation.
- Major employers.
- Key participants in global capital markets.

These corporates rely on access to efficient, deep and liquid capital markets to fund growth, execute strategic transactions and optimise their capital structures.

Products and Services

The bank provides a comprehensive range of advisory and capital markets services, including:

- Equity capital markets: IPOs, secondary offerings and other equity raisings.
- Mergers and acquisitions: advisory on acquisitions, disposals and strategic transactions.
- Corporate broking: ongoing advisory on market practice, investor engagement and regulatory obligations.
- Investor engagement: facilitating interaction between issuers and institutional investors.
- Market intelligence: providing insights into investor sentiment, valuation dynamics and potential market reactions

The bank also supports clients in navigating regulatory requirements, including listing rules, disclosure obligations, investor protection frameworks and market abuse regimes.

Large cap multinationals

Large-cap multinational companies are core to EU economic power: they drive international trade, innovation, and growth, generating more than half of the EU's total business net turnover and employing millions of citizens.

To support their strategic development objectives, these companies rely on access to deep and liquid capital markets. In fact, capital markets play a critical role in financing economic growth by enabling companies to raise funding, allocate capital efficiently and pursue strategic opportunities.

However, primary capital markets in the EU remain fragmented across multiple national jurisdictions, with different listing venues, regulatory practices and market dynamics. This fragmentation contrasts with more integrated markets, such as the United States, which benefit from greater scale, liquidity and investor depth.

Facts and figures

In 2024, 149,678 multinational enterprise groups operated in EU or EFTA countries, of which more than 24,000 were controlled by UK, US or China, reflecting the global integration of the European economy.

Multinational enterprise groups employed over 51 million people, meaning that around 30% of employment in the European business economy was within multinational enterprise groups.

Employment in MNEs was largely concentrated in EU-controlled groups, which accounted for 76% of total MNE employment. Moreover, employment was highly concentrated in a small number of very large groups employing more than 1,000 persons (84%) carrying out more than 5 economic activities (75%) and operating in more than 6 EU or EFTA countries (65%).

Do European regulatory frameworks impact your ability to serve your clients?

Regulation plays a fundamental role in ensuring investor protection, market integrity and the proper functioning of capital markets. However, certain aspects of the European regulatory framework create frictions that may constrain corporate activity and growth.

We see a number of areas where regulatory complexity affects our clients, particularly:

- Overly prescriptive ESG reporting requirements:
  Under the original Corporate Sustainability Reporting Directive (CSRD), corporates were required to produce extensive disclosures, including on elements with limited or no financial materiality. Such measures were particularly burdensome for smaller corporates, requiring the deployment of significant human and financial resources fully dedicated to CSRD compliance, while delivering limited visible benefits for them or investors.
  The CSRD review reduced the scope of application and streamlined reporting requirements, which for us is a really positive development.
- Uncertainty around the Sustainable Finance Disclosure Regulation (SFDR):
  The uncertainty surrounding the SFDR has generally weighed on investor sentiment, particularly due to ambiguity over the eligibility of certain sectors—such as defence —within ESG-labelled funds. This lack of clarity materially dampened investor engagement, with interest in defence company roadshows being subdued. However, we've seen investor appetite rebounding sharply following clarifications from the European Commission around their eligibility of such companies under the SFDR. Large corporates, such as energy majors, have raised concerns regarding potential valuation impacts if they are excluded from funds carrying an "ESG basic" label. We expect that the ongoing review of SFDR will be viewed positively by asset managers, particularly if it leads to less numerous and detailed disclosures, which are at the same time more focussed on providing decision-useful information.

"Some companies are concerned that not qualifying for ESG-labelled funds could affect investor appetite and, ultimately, their market valuation"

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

For us the fragmentation of EU capital markets is a key structural issue underpinning regulatory complexity.

In particular, the existence of multiple listing venues across Member States (e.g. Paris, Frankfurt, Amsterdam), each operating under different national rules and practices, reduces efficiency and makes listing in the EU less attractive. Instead of a single integrated market, corporates operate across multiple bourses and regulatory frameworks, which can vary in their level of flexibility and may lead to regulatory arbitrage.

This fragmentation limits the scale of EU capital markets and reduces the availability of specialised research coverage, making it more difficult for corporates to raise significant amounts of capital at an acceptable cost. As a result, the choice of listing venue becomes a "regional conversation", with larger corporates, particularly in high-growth sectors such as technology, often opting to list in the US, while mid-sized companies may remain within EU markets.

The transmission mechanism to clients operates primarily through reduced market depth, higher compliance costs and lower efficiency. In practice, fragmentation limits corporates' ability to access deep and liquid capital markets within the EU, increases the cost and complexity of listings and ongoing compliance, and ultimately reduces the attractiveness of EU markets as a venue for capital raising and growth.

Overall, this lack of scale and integration prevents EU capital markets from fully reflecting the strength of the European economy and may weaken its global competitiveness.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

Regulatory complexity affects our clients' businesses primarily through increased compliance costs and reduced operational flexibility.

In particular, corporates have experienced a **reallocation of resources away from core business activities,** such as sales or research and development, towards compliance and reporting functions. This increases their cost base and may reduce overall productivity.

More broadly, regulatory complexity may reduce corporate agility, making it more difficult for companies to respond quickly to market opportunities and pursue growth strategies.

In terms of evolving market dynamics, we've seen a decline in demand for certain ESG-labelled investments, particularly among large asset managers, alongside a shift towards more innovation- and growth-oriented sectors.

By contrast, there can also be positives in regulatory reform. For instance, changes to the UK listing and prospectus regimes have made a tangible difference in supporting companies' ability to grow through equity capital markets, both in terms of raising capital and pursuing M&A. For instance, lowering the free float (from 25% to 10%)[12] led to one IPO in our experience that otherwise would not have happened.

Similarly, the possibility of carrying out capital raisings without issuing a prospectus for transactions in the UK representing less than 75% of existing share capital (up from 20%), as well as the removal of certain shareholder approval requirements for significant transactions, has contributed to a more active M&A environment.

More generally, these reforms are reducing compliance burdens and significantly increasing the speed and flexibility of transactions, thereby improving the competitiveness of public markets, for example in comparison with private equity buyers or US investors. A more dynamic M&A market and increased capital raising could have positive effects on the broader economy, including through higher investment, productivity growth and employment.

"Every additional requirement means diverting resources to compliance that would have been otherwise invested in sales, innovation or growth"

[12] Note that while the interview refers to UK regulatory updates a similar reduction of the free float requirement was introduced also in EEA countries.

Equity Markets – When Regulation Shapes Market Attractiveness II

Regulatory fragmentation and complexity are shaping the competitiveness of EU equity markets, with implications for liquidity, market access and client participation.

Interviewee Profile

Role

Managing Director, Global Banking & Markets.

Business Scope and Focus

Full-service, waterfront model, providing end-to-end support to clients across the equity value chain. This includes facilitating market access, providing liquidity and balance sheet, and supporting clients in establishing and scaling their market operations.

Beyond execution, the bank plays a broader role in enabling clients' trading and investment activities, including infrastructure support, connectivity and operational services. This allows clients to operate effectively across EU and UK equity markets.

Client Base

Diverse range of market participants, including:

- Asset managers.
- Hedge funds and quantitative funds.
- Broker-dealers.
- Principal trading firms.
- Retail brokers.
- Early-stage firms and market entrants.

These clients play a central role in financial markets by:

- Allocating capital across the economy (e.g. asset managers, pension funds).
- Providing market liquidity (e.g. trading firms, hedge funds).
- Facilitating retail participation in equity markets.

Together, they support market functioning, price discovery and capital formation, ultimately contributing to investment and economic growth.

Products and Services

The bank provides a comprehensive suite of equity market services, including:

- Market access and execution across EU and UK venues.
- Liquidity provision and balance sheet support.
- Clearing and connectivity solutions.
- Infrastructure and operational support for clients establishing or expanding their activities.
- Advanced execution capabilities, including smart order routing and internalisation.

These services enable clients to:

- Access fragmented markets efficiently.
- Execute trading strategies.
- Manage liquidity and operational complexity.
- Participate in capital markets and support investment flows.

Equity Markets

Equity markets are a cornerstone of capital allocation, enabling market participants, such as asset managers (mutual funds, pension funds, insurance companies or hedge funds) broker-dealers, retail brokers and others to buy and sell equity securities and manage their portfolios. Deep and liquid secondary markets also facilitate capital raising on primary markets.

Asset managers trade on secondary markets to execute investment strategies on behalf of end-investors.

Asset managers in the EU economy: Facts and figures

As of 2024, more than 4,300 asset management companies were operating in the EU and 6,000 across Europe, employing 131,000 people directly, including around 55,000 in the UK and Switzerland. When indirect employment is also taken into account, the number of people employed in the European asset management industry reaches 600,000.

Total assets under management in Europe amounted to € 33 trillion at the end of 2024, of which around 58% on behalf of investment funds and 42% in managing discretionary mandates. AuM in Europe are estimated to have reached € 34.4 trillion at end of September 2025.

Asset managers held around€ 2.9 trillion in EU-issued listed shares at the end of 2024, playing a significant role in financing the European economy.

Do European regulatory frameworks impact your ability to serve your clients?

Given the global nature of our client base, the key issue is not only the ability to operate within the EU and to serve clients based in the EU, but more broadly the extent to which the EU remains an attractive and investible region for international investors, capable of supporting listing activity, capital raising and market growth, and ultimately our ability to serve global clients with operations in the EU.

The complexity and volume of regulatory changes in the EU over the past decade, particularly in recent years, have undermined this objective. The accumulation of regulation, and constant regulatory changes, makes the EU market environment increasingly difficult to navigate for both buy-side and sell-side participants. The commercial viability of EU markets, as a region, is at stake.

It is increasingly challenging to engage with global clients when it comes to activity in EU markets. These clients closely monitor trading volumes when making asset allocation decisions across regions, but, in the EU context, volumes are not always clearly represented or visible, which leads to clients struggling with their investment decisions and risk management.

"The challenge is often not the absence of good regulation in the EU, but the fact that it is not always implemented consistently in practice"

The challenge in the EU is often not the absence of well-designed regulation, but rather the fact that it is not consistently or fully implemented across Member States. This is particularly the case in the post-trade space (e.g. clearing and settlement), where elements such as open access and competition in the clearing space have not yet been developed or fully implemented, often due to national interests.

From a bank's operational perspective, regulatory complexity increases costs and barriers to entry, particularly for smaller or more marginal firms. While large institutions may have the scale to navigate this complexity by providing direct and indirect connectivity; consolidating trade flows; or acting as clearing members, smaller players may struggle to operate efficiently in the EU market.

From a client perspective, regulatory complexity translates into additional operational challenges in managing certain products and activities. For example, in the case of ETF trading, clients may need to navigate multiple layers of complexity related to the management of inventory across depositories and incur significant costs when their inventory needs to be moved across these depositories.

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

Clearing and settlement, transaction reporting and research unbundling requirements together have contributed to the overall complexity of operating in EU equity markets in our view. Research unbundling being a case in point of how "not to do" regulatory changes, with market participants restructuring their business 5 years ago, and incurring millions of dollars of costs to do, together with a number of firms disappearing or winding down their research departments. This led to reduced coverage for some small, medium caps. Then, some 5 years later, EU and UK regulators decided to revert to the original regulatory situation, with firms not immediately adjusting their new business models after incurring in such high costs only 5 years ago.

Similarly, after significant costs (tens of millions of Euros) have been incurred to implement the 2018 transaction reporting framework, the EU and UK are now considering simplifying the entire regime. Simplification is positive, but successive rounds of regulatory change in short sequence can be disruptive.

One of our key objectives is to ensure access to our clients to a liquidity environment in the EU that is competitive at a global level. Therefore, most of the costs of any ill-advised regulatory change are shouldered by us and other firms in the sector to continue to grant that access to clients, for instance by providing state-of-the-art smart order routing systems or bespoke internalisation capabilities.

In this context, we think that it is essential to preserve the current momentum in EU equity markets and ensure that the regulatory framework supports, rather than undermine, market liquidity and competitiveness.

It is key that ongoing policy discussions, such as those on the Market Integration and Supervision Package, achieve the right outcome in order to maintain the value of EU markets for clients. It is important to steer away from any introduction of measures which could result in limiting banks' ability to execute on behalf of their clients according to existing best execution rules.

"Simplification is positive, but successive rounds of regulatory change in short sequence can be disruptive."

In some areas, complexity arises not only from the regulatory framework itself but also from challenges in implementation, including the interaction with national interests. For example, in the area of post-trade infrastructure, certain initiatives such as settlement-related developments like TARGET2Securities (T2S)[13] have taken a long time to materialise -and are still not fully developed- in part because of national-level delays, contributing to ongoing complexity for market participants, which is similar on the clearing side.

In terms of transmission mechanism to clients, we see particularly that:

- complexity in post-trade processes and reporting requirements increases the operational burden and costs for clients;
- uncertainty or delays in implementation can reduce the predictability and attractiveness of the EU market environment, with potential implications for clients' ability to operate and compete effectively at a global level.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

Regulatory complexity has a material impact on clients especially from a cost perspective, impacting their business models and competitiveness, particularly where regulatory changes require significant operational adjustments.

A key example relates again to research unbundling and the associated implemention. As mentioned, this required clients to fundamentally restructure parts of their business and involved multi-million-euro investments, including changes to research procurement models and associated operational processes.

This represents a broader pattern whereby clients are required to adapt to significant, often rapid, regulatory changes, involving high costs, only to face further adjustments a few years later. These costs are particularly burdensome for smaller market participants, and in some cases have contributed to the exit of certain providers from the market, reducing diversity in coverage of the ecosystem.

"Ultimately, what we want is that the EU thrives in listings and capital raising. To make this possible, the EU must become an investable region for global investors."

[13] TARGET2Securities (T2S) is a European Central Bank platform for the settlement of securities transactions, designed to harmonise and streamline post-trade processes across European financial markets

Custody and Collateral and liquidity management – When Fragmentation Constrains the Single Market

Regulatory complexity and geographic fragmentation in issuance markets are influencing corporate's access to capital and the attractiveness of EU public equity markets.

Interviewee Profile

Role

- Managing Director Client Coverage, Head of Continental Europe Relationship Management, responsible for asset servicing relationships with European banks, insurance companies and broker-dealers;
- Managing Director Client Coverage, Global Head of Collateral Sales, focusing on liquidity, securities financing and collateral solutions;
- Head of Legal Belgium & Netherlands, supporting client negotiations, including contractual aspects linked to regulatory requirements

Business Scope and Focus

Global custody and asset servicing business. The bank provides infrastructure services that support the functioning of financial markets, including the safekeeping, administration and servicing of assets, as well as collateral and liquidity management solutions.

Its activities are positioned at the core of post-trade value chains, enabling institutional clients to manage investments, meet regulatory requirements and optimise operational processes across jurisdictions.

Client Base

Large institutional investors and financial intermediaries with a pan-European and global footprint, including:

- Insurance companies.
- Asset managers.
- Broker-dealers.
- Sovereign wealth funds.
- Banks.

These clients either manage assets on behalf of third parties or invest for their own balance sheets. They rely on asset servicing providers to ensure the efficient and compliant management of their portfolios.

Products and Services

The bank provides a broad range of asset servicing and collateral-related services, including:

- Core asset servicing activities:
  - Custody services: safekeeping and administration of securities.
  - Fund services: including fund accounting, transfer agency and depositary functions.
  - Middle-office outsourcing: operational support for asset managers, including trade processing and reconciliation.
- Collateral and liquidity solutions:
  - Securities financing and liquidity management
  - Collateral optimisation across asset classes (fixed income, equities, ETFs)
  - Tri-party collateral management (acting as neutral agent for repos and derivatives)
  - Execution and cash solutions

These services can be provided either alongside custody or on a standalone basis, helping clients:

- Manage investment portfolios efficiently.
- Meet legal and regulatory obligations.
- Access to granular pools of underlying exposures.

Institutional investors

Institutional investors, play a central role in the European economy, by allocating capital to businesses, governments and key strategic infrastructure project, while at the same time supporting households to save for retirement and other long-term financial goals.

Their economic role can therefore be summarised as:

- Allocating capital across markets and asset classes.
- Managing long-term liabilities (e.g. insurance, pensions).
- Supporting liquidity and market functioning through trading and investment activity.

Institutional investors, such as insurance companies and asset managers, often rely on global banks providing asset servicing, custody and collateral management to ensure the efficient functioning of their investment activity and capital flow across borders.

Insurance companies in the EU: Facts and figures

The insurance industry is one of the largest institutional investors in the EU making insurers key providers of the investments needed for economic growth. European investors manage around €9.5 trillion in assets, 70% of which is invested in the EU.

Around a third of all internationally active insurance groups are headquartered in the EU, and Europe is the global leader in reinsurance, writing around 50% of the world's reinsurance business.

The insurance sector is also a significant employer in the EU, with around 800,000 people employed in 2024

Asset managers in the EU: See Facts & Figures on page 33

Do European regulatory frameworks impact your ability to serve your clients?

Yes, particularly due to divergence across Member States. A key issue is that, in order to service our pan-European client base, we must operate across multiple Member States with different national rules and interpretations, which creates structural inefficiencies in how services are designed and delivered. This is indirectly perceived by clients in variations across countries in the service offering, whereas domestically active investors would not experience such differences. Processes and procedures need to be tailored to the specificities of each Member State, which creates costs throughout the chain, from us, the custodian, to our clients and in turn to the asset-owner or retail clients at the end of the chain. Fragmentation translates into regulatory complexity and affects our core services particularly in:

- the custody business, where taxation is a major source of complexity. Each country applies different rules (e.g. relief vs reclaim processes, varying documentation requirements under double taxation treaties), requiring tailored processes, systems and controls. This results in higher operational costs and inefficiencies across the value chain, affecting custodians, and as a result their clients and end-investors. This complexity is increasing rather than being simplified, despite EU single market objectives. By comparison, although relatively complex, at least in the US there is just a single set of tax rules . Similarly, differences in corporate actions processing across countries introduce further complexity, as rules on entitlements and execution vary depending on jurisdiction and issuer practices or preferences (which also tend to vary by country). This creates additional operational risk (e.g. potential missed corporate events and losses when specificities local regime are not well understood) and cost across the chain of intermediaries.
- In the collateral and liquidity space, some EU requirements, such as EMIR Article 47.3, which requires CCPs[14] to hold securities collateral with a CSD[15] are also particularly constraining, as certain margin collateral processes can only be performed by entities with CSD status or require regulatory exemptions. This limits flexibility and slows down the implementation of efficient solutions, such as tripartite collateral management[16], making their deployment more complex and time-consuming.

"In custody, if we look at the tax process across the EU, every country has its own rules, and it's not getting any simpler. It is complex, it is costly, it is inefficient, and it is not helping anyone across the industry, down to the retail investor"

Can you elaborate on the mechanics of how these impacts are transferred to your clients?

As said, divergence across EU Member States is the main driver of regulatory complexity, particularly in the areas of taxation and corporate actions but also across collateral and settlement frameworks, which directly affect our core asset servicing activities.

We think that the absence of a depositary passport in the EU is also contributing, since depositary services remain largely organised on a national basis, which appears inconsistent with the concept of a single market. In our view, this limits competition and prevents scale, potentially resulting in higher costs and less choice for clients.

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[14] A Central Counterparty (CCP) is an entity that mitigates settlement risk by interposing itself between buyers and sellers, becoming the buyer to every seller and the seller to every buyer.
[15] A Central Securities Depository (CSD) is a financial market infrastructure that holds, maintains the record of ownership, and enables the transfer of securities through book-entries.
[16] is a service where a neutral third party (such as a CSD or custodian bank) manages the collateral on behalf of both sides in a repo transaction.

Additional sources of complexity relate to emerging regulatory areas, including digital assets and stablecoins, where differences in national approaches and evolving EU frameworks create uncertainty and barriers to entry.

This complexity is transmitted to clients through three main channels: competition, costs and service quality. In particular, fragmentation:

- limits competition, as clients may not be able to access the same range of service providers across different jurisdictions.
- increases costs, as different national rules require multiple processes, systems and compliance frameworks, which are ultimately passed on to clients.
- affects the quality and consistency of services, as regulatory requirements differ across countries, leading to variations in controls and service delivery

EU pension reforms however could be a potential future area of positive impact, generating growing client interest, particularly from pension fund organisations, with discussions focusing on the need for more infrastructure investment. Developments in the pensions remit could significantly contribute to mobilising capital and supporting investment in EU markets.

What does this mean for your clients' own businesses in terms of their productivity, competitiveness or their contribution to the EU economy?

Clients' businesses are impacted primarily through higher costs, increased administrative burdens and reduced operational efficiency.

In practice, this makes it more difficult for clients to operate seamlessly across jurisdictions, limiting their ability to optimise their investment and liquidity management strategies, and allocate capital efficiently within the EU Ultimately, these costs are borne by asset owners and retail investors, impacting the returns on their investments.

As an example, we have a lot of interest from private equity investors in Europe, however when they look closely at the resulting costs created by these divergences, they then tend to favour jurisdictions (e.g. the US) where regulatory frameworks are more unified and/or simpler, allowing faster deployment of capital. Ultimately, these dynamics could contribute to reduce the competitiveness of clients operating in Europe compared to other jurisdictions.

"Regulatory fragmentation makes it difficult for our clients to operate seamlessly across the EU, limiting their ability to optimise their investment strategies. Ultimately these costs are borne by asset owners and retail investors"

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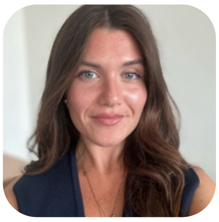

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