ECMI Commentary no 111 | June 2026

To compete, Europe needs scale – not just simplification

Apostolos Thomadakis

Regulatory simplicity has become a significant part of the EU's competitiveness agenda. But while it's important, it's not enough to make Europe competitive on its own. A much bigger obstacle is the fragmentation of its markets as well as the lack of scale and suitable governance structure hindering cross-border business. Europe needs regulatory simplicity, but even more so it requires an integrated market that allows firms to compete on a global level.

Simplification is a prerequisite, not a solution

The EU has arrived at a new phase of the debate on the competitiveness of its markets. Regulatory simplification, burden reduction and proportionality are now central aspects of the policy agenda. There are fears that complexity might hinder investment, innovation and growth. Firms operating in the financial sector often cite overlaps in reporting requirements, documentation duties, lengthy implementation periods and high compliance costs as barriers to competitiveness.

These are all valid issues which can't be neglected. In the last 15 years, the EU has put in place a significant regulatory framework, mostly in the aftermath of the global financial crisis. This has greatly increased the financial system's overall stability. Yet it has also made the regulatory framework complex. Simplification is thus entirely justified and necessary.

Apostolos Thomadakis is Head of Research at ECMI, and Senior Research Fellow and Head of the Financial Markets and Institutions Unit at CEPS. The commentary was informed by discussions at a CEPS-ECMI-ECRI seminar, *More finance, less friction: simplifying EU financial regulation and strengthening supervision*, held on 16 June 2026.

European Capital Markets Institute, Place du Congrès 1, 1000 Brussels, Belgium
www.ecmi.eu, ecmi@ceps.eu

Yet the simplification process entails a trade-off between stability and perfection. If the framework remains constantly open to address all imperfections, it may become more precise, but also less predictable. Legislative and technical changes carry costs and regulatory fatigue for both firms and market authorities. Greater competitiveness might therefore require accepting a degree of imperfection in the regulatory framework in exchange for greater stability and predictability.

There’s the risk that the debate becomes too focused on regulation. Measures that include reducing reporting requirements, improving processes and getting rid of redundant obligations will surely make things easier. But these definitely won’t solve the EU’s competitiveness issues on their own.

In the end, the real challenge is whether Europe can build a set of integrated, scalable and attractive financial markets.

Often complexity is a symptom, not a cause

The European Commission’s approach to competitiveness and regulation has been focused on regulation itself. This is understandable as regulatory framework, and legislation in general, is the most direct instrument at the EU institutions’ disposal.

Nevertheless, complexity often stems from reality, not merely from drafting choices. It’s possible that regulations are drafted with a certain degree of complexity because they incorporate several provisions aimed at accommodating certain national preferences, different approaches in the world of business and different market structures.

Thus complexity often results from the need to maintain harmonisation while preserving flexibility. Fragmentation isn’t only a source of complexity; it can also make it more difficult for firms to compete across borders on equal terms.

Implementation mechanisms, including transpositions into national law, supervisory practices, guidance documents and gold-plating also generate regulatory burdens. In fact, many of the problems faced by businesses can’t be addressed solely by changing EU legislation.

Sustainability reporting proves that materiality was supposed to allow for a certain degree of flexibility, but in some cases big firms have demanded information from small businesses even when this information was completely irrelevant. In such circumstances, complexity doesn’t just emerge from the regulation’s text itself, but from a combination of risk aversion and compliance and – ultimately – the offshoring of obligations.

That’s why a real simplification agenda must consider more than the word-by-word content of EU regulation.

Size matters

Perhaps the most important lesson from the current debate is that Europe’s competitiveness issue can’t be boiled down to compliance costs.

Competitors in the global market face identical legal regulations and yet they beat Europeans. One good example is the case of US custodian banks. There are several such companies that operate in Europe with identical rules and in the same environment as European banks, yet they still perform better. Logically speaking, compliance and the operating environment can't be the cause. There's also a third factor – scale. The question then is whether European firms will be able to work at scale in an integrated market environment.

Inefficient capital markets are one of Europe's major shortcomings. Markets fragmented between various countries prevent corporations from expanding and achieving the necessary scale to develop business models that would globally compete with their international rivals in capital markets, investment banking, securities services and other wholesale finance activities.

The Savings and Investment Union's objective is to tackle just this. It won't matter much whether individual templates are simplified or not – what really matters is establishing truly integrated markets where large-scale business operations are possible.

In short, size matters. Simplification is helpful in some areas but size is achieved through integration.

The governance challenge

The debate also raises questions about how EU legislation is designed and implemented.

Over time, the EU has built a complex multi-level governance system. On top of the framework legislation lies an array of delegated acts, implementing measures, technical standards, supervisory guidance and domestic implementation procedures. All this enables greater flexibility and expertise in EU regulation, but also creates ambiguity and adds complexity for regulated actors.

Timing is an important factor. EU lawmaking is a lengthy process whereas the external environment changes quickly. By the time a certain policy proposal is drafted, discussed, adopted and implemented, the economic and technological situation could already be different. This underlines the relevance of adopting clear-cut Level 1 rules, disciplining the process of assigning Level 2 and Level 3 mandates, and developing appropriate implementation timetable based on businesses and supervisors' capacities.

The objective shouldn't be to break this system, but rather to improve how it works. Greater rigour in mandating, the proper separation of political decision-making and technical issues, stricter assessments of the preliminary implementing costs and systematic application of the proportionality principle can help to achieve this.

At the same time, there's the need for a constructive dialogue between policymakers, regulators and market participants. Simplification can't happen without a thorough grasp of the practical aspects of rules making and implementation. It's necessary to understand what costs are incurred and why certain provisions serve the public interest goals.

From simplification to competitiveness

The simplification debate currently presents a moment to address more general issues on legislation, supervision and the regulation of financial markets in Europe.

But simplification can’t be an end in itself. The purpose isn’t to reduce legislation and reporting obligations alone. Rather, it’s to establish a regulatory and institutional framework that will promote investment, innovation, competition and growth without threatening financial stability and consumer interests.

This demands more than debating the issue of regulatory burden alone. We need to tackle fragmentation, build up our single market, improve our governance systems and enable firms to do business at a European level.

With all this in mind, simplification isn’t the goal but simply one component of a much wider competitiveness strategy.