



FINANCE
DENMARK

Financing the Future

*A competitive and secure Europe
requires a competitive financial sector*

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Foreword

A new world order is taking shape. The tectonic shifts in geopolitics, the increased use of tariffs and trade defence instruments and ultimately the fundamental change of the security architecture of the western world will challenge and change Europe. The Russian war of aggression in Ukraine and US-China competition have fuelled fragmentation and the emergence of geopolitical blocs. The actions and signals from the new US administration creates fundamental doubts about the content and the future of the transatlantic alliance. This has severe implications for Europe's security and competitiveness.

Reviving the economy trapped in a slow-growth cycle and driven by persistently low productivity compared to other parts of the world is crucial. Major policy challenges lie ahead, notably in the fields of security and defence, in achieving the dual targets of energy supply and decarbonisation and in securing the necessary digitization.

To safeguard European security and strengthen European competitiveness, an annual investment gap of 800-1000 bn euros has been identified. This gap cannot be closed by public investments alone. As highlighted in recent reports by Mario Draghi and Enrico Letta, there is an urgent need for a coordinated approach involving both public and private financing underpinning the identified strategic sectors.

The financial sector plays a key role in addressing and providing solutions to the challenges ahead of us. The call for action to mobilize private capital at an unprecedented level and speed in Europe means that we must also create the best framework conditions for the financial sector in Europe to play that crucial role.

The need to strengthen the EU's competitiveness and security means that we must now strike the right balance between ensuring financial stability on the one hand, and a resilient and innovative financial sector on the other. A recalibration will require multiple approaches to increase the sector's possibilities to fund and invest in the identified strategic policy priorities.

Adjusting and amending the fragmented capital markets will not be enough. We need to have a more comprehensive approach and include adjustment of fundamental regulation for banks to create a level playing field in the global markets. Europe must, like the UK and Canada already has, take the uncertainty surrounding the US implementation of Basel III into account. This could include postponing or changing Basel III implementation efforts. We must also work to derisk the funding and investments ahead of us to attract private capital. This calls for more ambitious and closer cooperation between public and private sectors going ahead to make sure that we improve synergies between EU- and national public funding instruments and the private sector.



Since the regulatory reforms began in 2010, the European banking system has achieved significant resilience. By the end of 2023, European banks had core equity tier-1 (CET1) capital ratios of 16%, liquidity coverage ratios of 167%, and substantial loss-absorbing instruments (MREL) exceeding international standards. Despite these achievements, the EU regulatory framework has become too complex, with rising capital requirements and supervisory expectations creating severe challenges for capital planning.

For financial services only, the IMF estimates that internal barriers to the EU single market are equivalent to a tariff of over 100 per cent.

We call for a comprehensive competitiveness plan for the financial sector to enable the sectors' ability to better fund and invest in Europe with the aim of improving European competitiveness and security.

Six necessary steps must be taken to improve the funding capability of banks and to enhance and deepen Europe's fragmented capital markets.

- 1. Securing a level playing field for Europe's banks**
- 2. Improving capital market opportunities**
- 3. Derisking bank finance and investments**
- 4. Delivering burden reduction and simplification of the regulatory framework**
- 5. Securing efficient and adequate supervisory structures**
- 6. Enabling the financial sector to support the swift buildup of Europe's defence industry**



1. Securing a level playing field for Europe's banks

European banks compete with global peers on capital markets for equity and debt financing in capital markets. Attracting capital to the EU is key to the EU's competitiveness, as reflected in the clear policy signals from the Commission and member states. Given the bank-centric financing environment of the EU, which cannot quickly be changed, EU banks need framework conditions which enables them to better fund the politically identified challenges and objectives, notably in the fields of security and defence, in achieving energy affordability, reliability and decarbonisation and in securing the necessary digitization. Europe's banks are well capitalized and - as showed during Covid - have already proved their ability to withstand external shocks as well as contribute to the economy during a crisis. Securing financial stability continues to be pivotal, but the overall policy objective to improve Europe's competitiveness and secure funding and investments in areas key to Europe's security and autonomy calls for a recalibration of the balance in fundamental regulation in the financial sector. The aim of recalibration is to improve and increase the sectors possibilities to fund and invest in the identified policy priorities.

Finance Denmark call for:

Recalibration of the Basel III implementation

European banks need a level playing field. The EU implementation of the Basel III requirements should be recalibrated considering the developments in competing markets in general, and in particular in the US. UK and Canada have already halted their implementation efforts awaiting the developments under the new US administration. While the revised Basel standards in many ways are an improvement to the previous rules and indeed mostly implemented already across EU, the need for re-balancing of the framework necessitates further targeted adjustments across key areas. This includes existing proposals on FRTB, NSFR, but also extends to a recalibration of the aggregate framework impact, including in particular the output floor, to ensure European banks do not continue to operate under the current adverse conditions hindering their ability to underpin the broader economy.

Simplification of the Macroprudential framework and reduction of capital

The EU macroprudential toolbox go well beyond the Basel rulebook. As a consequence, macroprudential rules are a key barrier to integration across EU banking sector and more broadly constraining competitiveness, disincentivizing cross-border business models, and more broadly give rise to increased regulatory capital requirements.

We therefore call for a macroprudential framework that is simpler, more precise and eliminates gold plating currently hampering the financial sector's ability to support the necessary European growth. We strongly support removing the systemic risk buffer to avoid gold plating on international standards as well as limiting the excessive local use of the Other Systemically Important Institutions (O-SIIs) buffer. We propose a framework that narrows down the number of tools, standardizes their application, and ensures that similar risks are addressed uniformly. As such the toolbox should be streamlined and national discretion restricted to ensure a consistent application across the EU.



2. Improving capital market opportunities

While new challenges are emerging and need addressing, European capital markets as a whole remain underdeveloped and fragmented compared to global competitors, even if some regions (e.g. the Nordic-Baltic region) provide many examples of national well-functioning and deep capital markets.

A real deepening of European capital markets will be essential to complement bank lending and public financing to fund the main policy priorities notably in the fields of security and defence, in achieving energy affordability, reliability and decarbonisation and in securing the necessary digitization, thereby improving the EU's long-term competitiveness. To achieve this goal, it will be crucial not only to continue removing structural barriers to cross-border investment within the EU, but also to focus on concrete, tangible actions to be implemented at all levels to deepen markets regardless of their size, build liquidity and unlock more investment opportunities for European businesses and households.

At the same time, national, well-functioning markets such as the Danish covered bond market and the Nordic equity markets, must be preserved. As both service providers and users of capital markets, banks are strong supporters of deep and integrated capital markets in the EU and remain fully committed to working with national and EU partners to realize the full potential of the EU single market. In our view, development towards this objective must be based on removing obstacles in the single market and by enhancing market-led initiatives while at the same refraining from unnecessary action in already well functioning frameworks like e.g. the covered bonds directive. To achieve this, we must push ahead with some of the central elements in the proposed framework for Savings- and Investment Union.

Finance Denmark call for progress on the following elements in the Savings- and Investment Union proposal:

Adjusting the Securitisation framework

EU's securitisation markets are underperforming, adversely impacting EU banks' lending capacity and depriving institutional investors from attractive investment opportunities.

Deeper securitisation markets will help bridge firms' financing needs by increasing the funding available from banks. To this day, small and medium-sized enterprises continue to be the backbone of the European economy. Yet, they often face financing constraints from the limited risk-taking capacity of banks. Against this background, securitisation can free up banks' regulatory capital, channelling more credit to smaller businesses, unlocking capital for innovation, and expanding the investor base across borders.

Finance Denmark welcomes the Commission's proposal for reviewing the current securitisation framework. For securitisation markets to unfold, including in the Nordics, harmonized regulatory treatment of issuances and predictable and proportionate supervisory practices is pivotal, including reducing administrative burdens and adjusting capital requirements to be proportionate to the risks and/or structural features of the transactions. As markets are two-sided, it is similarly important to recalibrate capital and due diligence requirements for investors (Solvency II), which currently do not reflect the underlying risk in securitised asset investments.



Create a blueprint for Savings and Investments accounts across Europe

Establishing investments accounts with attractive tax incentives has proven to be an effective way to get new and private investors on the market in several member states including Denmark.

The EU can play a central role in helping and inspiring other member states to introduce the use of such accounts by creating a blueprint model for the uptake of such accounts in member states. The blueprint should provide important guidelines on ensuring a broad range of eligible assets, high deposit limits (if any) and simple tax incentives for retail investors. In addition, the Commission could set up monitoring tools and score boarding of retail participation in member states as well as gathering and communication about good practices. Inspiration and best practices can be drawn from the Nordic markets, where investment savings accounts have already been successfully introduced.

Adopt a holistic approach to increase retail investments in general

EU measures or initiatives should in general focus on encouraging healthy market developments. While there are elements in the RIS package that do underpin European competitiveness in general, the important objective of shifting retail savings to investments should be addressed holistically, regardless of whether initiatives are included in the current workstreams in RIS or the broader policy objectives in the SIU.

Finance Denmark suggest focussing on the following pragmatic and simple initiatives across the retail investment value chain:

- Considerably simplify disclosure for retail investors to avoid information overload in MiFID II, PRIIPs and SFDR.
- Promote the use of Investment Savings Accounts with simple tax incentives (i.e. uniform tax treatment for all investments through the ISA) at member state level and without preferential tax treatment of geographical allocation of assets.
- Ensure digital and affordable investment advice for all types of retail investors, especially with regard to making advice accessible to new investors investing smaller amounts through the introduction of a 'advice light regime' for all types of advice for simple retail products.
- Promote better- and market driven quality in products and services for retail investors by anchoring so-called internal peer-grouping requirements and strong Value for Money policies at management level in asset management companies and banks.
- Look into harmonising products eligible for retail distribution in alternative investment funds similar to the UCITs 'passporting' possibilities.
- Look into increased transparency of investment product costs for investors and authorities through a simple and publicly accessible website based on existing reporting requirements and based on the industry-led European Fund classification system administered by EFAMA.
- Consider seed funding the development of a broad and democratic European Index family, which could be a useful instrument in encouraging manufacturers and investors to invest in European companies. At the same time this could set precedence for the market supply of further European indexes.



Secure competition in the capital market infrastructure

Addressing fragmentation and increasing the efficiency of European capital markets infrastructure is essential to increase the attractiveness of Europe as a financial centre for capital and investments and for companies in terms of deep liquidity leading to better valuations of companies, lower costs of capital and higher returns for investors and pension savers.

The Commission should via a holistic and competition and single-market driven approach carefully map and identify areas and services across European capital markets which are not subject to competition or where costs of the services provided are not following a fair-cost-based approach. Key areas to be investigated include trading venues, Central Counter Parties (CCPs), Central Securities Depositories (CSDs) as well as supporting services such as information providers like data vendors, credit rating agencies, ESG- and benchmark providers.

The Commission's infrastructure investigation must include a strong perspective from users of capital market infrastructure services, such as listed companies, investors and securities dealers as high costs, complexity and lack of liquidity in capital market infrastructure affect costs for all market participants in the entire value chain of capital markets, including the valuation of companies seeking financing and investors seeking returns. The Commission should assess the state of effective competition, for instance where service providers are in a position of market power that can be or is abused. It is also key to assess if services lack effective competition across borders (following horizontal consolidation) as well as in other parts of the value chain (following vertical consolidation).

The Commission should also dedicate a central EU supervisory authority with a competition mandate overseeing cross-border capital market infrastructure and data providers ensuring a level playing field, enforcement of regulatory measures.

Implementing the 28th regime

Finance Denmark supports the Commission's proposal on the so-called 28th regime. By promoting and expanding the 28th regime, the EU can achieve increased market integration, simplification of regulations, strengthening competitiveness, fostering innovation, and enhancing consumer protection. Simultaneously, the 28th regime will make it easier to invest in e.g. European defence, thereby making it more interesting to make joint investments in the defence industry which can bolster EU's security and reduce dependence on external actors. These measures will contribute to creating a more integrated, competitive, and secure EU.

Remove taxation barriers to cross-border investments and introduce tax incentives

Tax policy should support competitiveness and economic growth and promote a level playing field, thereby securing the significant investments needed.

Differences in national taxation systems creates administrative burdens and barriers to cross-border investments. Action is needed at national level to remove these barriers.



Banking sector-specific taxes should be avoided as they negatively impact the competitive position of EU banks vis-à-vis non-EU banks and hinder their resilience and ability to provide credit to strategic objectives. This is also a topic to be dealt with at member state level.

Finally, member states should work to ensure that national taxation frameworks incentivise e.g. investors accounts, thereby unlocking the potential of European retail savings to be channelled into investments.

At EU level, a number of policies and solutions should be reviewed or encouraged to facilitate the financial sector's ability to finance and invest in strategic priorities for European security and competitiveness.

Proceeding with a 28th regime can be a necessary step forward to make progress in overcoming structural barriers including general tax barriers in the EU but also in making progress on concrete files aiming to increase simplicity in tax rules and where negotiations have stalled.

Moreover, there is a need to review the overall tax burden on the financial sector. For instance, the existing VAT exemption from the 1970s needs updating to align with modern financial activities., including an option to tax transactions individually and extend VAT grouping to the EU level.

As for withholding taxes the recently adopted FASTER directive aims to streamline withholding tax processes, but its implementation requires careful review to ensure real simplifications for investors and financial intermediaries.



3. Derisking bank finance and private investments

Faced with the need to improve Europe's competitiveness and security dramatically by securing sufficient funding of notably security and defence, in achieving energy affordability, reliability and decarbonisation and in securing the necessary digitization, adjusted models and conditions for finance and investment should be considered. Meeting these policy objectives effectively will require a much more ambitious approach to policy coordination between member states as well as much more coordination between public and private sector financing entities.

The most effective way to mobilizing private capital will always be building accessible markets for private financing and attractive markets for private investments and at the same time rapidly improving the competitiveness of the financial sector in Europe. A prerequisite for more private capital is to reduce risk and uncertainty and thus create the framework for a sufficiently risk-adjusted return. It is therefore necessary to look at better risk sharing between private and public funds. State aid must also be seen as a strategic decision to promote Europe's competitiveness, security and decarbonisation and to make Europe a leader in renewable energy and green technologies. With the investment gap before us, quantified by Draghi in his competitiveness report to amount to 800 bill euros per year until 2030, this has only become even more necessary. Thus, it requires tools which can foster lending and investments by derisking private sector engagement.

We must create an environment conducive for rapidly increasing private investments. Both national and EU public funding instruments must be better aligned with the policy objectives identified to improve Europe's competitiveness and security. In policy terms it will be key to ensure coordination between and alignment of strategic objectives in the Savings and Investment Union, banking regulation, EU spending (MFF), EIB, public procurement rules, state aid rules, etc.

Finance Denmark call for:

Increased and targeted European State Aid instruments

Considering the current geopolitical situation, where global market competitors like China and the US are using public funds and state aid to advance their products in the market and with a view to markets being disrupted by tariffs, it is necessary to consider the strategic use of state aid in Europe.

In a market without failures, state aid is not necessary, but considering the current geopolitical situation, where global market dynamics are changing and outright failing, the strategic use of state aid in Europe is required.

Active state aid can therefore play a role in correcting market failures and promoting economic growth and Europe's competitiveness in specific sectors where Europe lacks sufficient competitiveness, particularly in the defence industry as well as pursuing ambitions of the Clean Industrial Deal. State aid can be crucial for the development of some sectors and competitiveness in a world where the global market is in flux, and where Europe needs to ensure its autonomy in several key markets.



Adjustment of the Public procurement regulation

EU public procurements regulation should be changed into a genuine political strategic instrument. Public procurement regulation must be adjusted in light of the new challenges to secure speedy implementation and to utilize the full potential of the EU economy and with a view to increasing EU competitiveness in a global context. This is particularly needed in the defence and energy infrastructure areas where long term contracts and cash-flow is essential.

Finance Denmark welcomes the planned evaluation of the public procurement directives.

Mobilising the EU-budget for the new challenges

Derisking and leveraging private investments through the EU budget - the Multiannual Financial Framework – is imperative. Both the upcoming midterm review of the current budget as well as negotiations on the upcoming MFF should aim to direct EU spending towards financing strategic objectives and improve public funding tools to attract more private investment.



4. Delivering burden reduction and simplification of the regulatory framework

There is an urgent need for reform in the EU financial regulatory framework. By simplifying and stabilizing the regulatory environment, the EU can boost competitiveness in the financial sector and thereby enable the financial sector to better fund and invest in EU security and competitiveness. By easing disproportionate reporting and other regulatory requirements, European financial and capital markets will become more attractive for institutional and retail investors as well as EU businesses – in particular, SMEs – seeking funding.

The regulation covering the financial sector has become too complex. Not only the amount of legislation has a negative impact but also the many layers of regulation has added to complexity. Excessive regulation and red tape stifle growth and hinder financial institutions' ability to adapt to rapidly changing needs and market dynamics. The current regulation includes too many barriers for cross-border investments and financing.

Simplification and burden reduction is necessary both on EU-level and in member states and it concerns both regulatory issues as well as supervisory practices and national gold plating. Finance Denmark has welcomed the strong focus on simplification from the Commission in its 2025 work program.

Finance Denmark call for:

Substantial burden reduction in current legislation

A review of financial regulation, both at Level 1 and 2, with the aim to reduce the frequency and complexity of e.g. reporting requirements for financial institutions should be carried out.

As a result of Level 1 regulation concluded in the previous policy cycle the sector is now facing almost 450 delegated and implementing acts, guidelines, RTS's etc. to be carried out by the Commission and the ESAs. This list should be substantially reduced to enable the sector to better fund and invest in energy infrastructure, defence and digitisation.

Omnibus proposal on sustainability reporting

Finance Denmark has welcomed the use of the omnibus instrument as a way forward for swift adjustment of current legislative framework.

Finance Denmark has welcomed the Commission's omnibus package I regarding the CSRD, CSDDD and the taxonomy. We call for a rapid adoption of the "stop the clock" proposal (COM(2025)80) in order to create clarity for covered companies. We support the "amending directive" (COM(2025)81), but point out the importance of taking into account the consequences that the diminished data availability will have for the financial sector's reporting and investment strategies, etc., in the financial legislation. This includes consistency correction of requirements for financial companies from SFDR, MiFID II, CRR, CRD and not least value chain reporting in the CSRD. The changed scopes of the taxonomy and the CSRD also create demands for technical adjustments to the ESRS standards and delegated acts. Furthermore, we call for simplification for Wave 1 undertakings which



would still be obliged to continue reporting according to current ESRs for instance regarding value chain reporting.

Efficient implementation and enforcement

Strengthening EU competitiveness and reducing burdens for companies must also be upheld in the implementation and enforcement of EU regulation. National and European supervisory authorities' narrow focus on financial stability and should be balanced by a mandate to also support European competitiveness in the implementation and supervision of European rules. This is especially relevant when looking at the over 400 delegated acts that will be drafted and implemented from the last five-year legislative period for the financial sector alone.

Impact assessment of new and revised legislation

Going forward, it should be ensured that regulations are clear, stable, and predictable to foster a secure legal environment for financial institutions.

When setting the regulatory agenda going forward, authorities should closely consider the costs for financial institutions and the impact costs will have on clients and Europe's economic growth. Competitiveness check should be mandatory for any new legislation directed at the financial sector.



5. Securing efficient and adequate supervision

The European financial sector is supervised by national supervisors, and central banks and European supervisors like the Single Supervisory Mechanism (SSM), the Banking Union's Single Resolution Board (SRB) and the European Supervisory Authorities (ESAs); EBA, ESMA, EIOPA and AMLA – and often in combination.

On top of this, the sector experiences divergent national application of rules and/or gold-plating, which is in itself a direct cause of market fragmentation and barriers of capital movement. The consequences are exacerbated by home bias for investment, lack of cross-border competition for customers and a lack of cross-border mergers and acquisitions.

There is an urgent need to align and streamline supervisory practices across member states in the application of the single rule book. The goal is to ensure that institutions and market participants have equal access to the opportunities provided in EU capital market regulation. To tackle this divergence, more effective supervisory practices must be complemented by convergence of rules and European supervisory mandates.

Finance Denmark call for:

The streamlining of supervisory practices across member states

Despite having a single rulebook much too often national supervisory practices result in additional requirements leading to fragmentation and unnecessary administrative burdens and represent barriers to business activities in the single market. There is also a risk of supervisory arbitrage, which can undermine confidence among market participants and erode trust between national supervisors.

The use of a single supervisor in cross border activities

Single supervision should first and foremost be achieved through conversion of national supervisory practices based on the single rule book. The use of a single (European) supervisor makes sense in cross border activities or where an entity is present in more member states.

For cross-border capital market infrastructure in particular, it is imperative with one supervisor in the EU with a competition mandate to ensure that 1) rent-seeking is prohibited by imposing ex ante competition regulation as for infrastructure in other sectors on business legs which cannot be exposed to competition and 2) an appropriate incentive structure to ensure competition in business legs which can, but are not, subject to genuine competition. This is to enable an infrastructure in Europe which support the development of deep, liquid and efficient markets instead of preventing this.



6. Enabling the financial sector to support the swift buildup of Europe's defence industry

The challenges to Europe's security caused by the recent development in transatlantic relations and the ongoing Russian war of aggression in Ukraine has led to a clear need for Europe to build up its own military capabilities. Since the end of the Cold War and the ensuing enlargement of the EU the defence capabilities of Europe have diminished to a point where we are no longer able to defend ourselves as a continent.

The Commission has put forward an ambitious funding plan for the rearmament of Europe (Rearm Europe) which has received support from EU member states. Furthermore, the Commission has presented a White Paper on Defence which provides a framework for the Rearm Europe plan amongst others by establishing a strong and competitive defence industrial base. The Draghi report highlighted that a strong defence industrial sector is also crucial for European competitiveness given its spill over in terms of innovation across the economy.

The rearmament of Europe needs financing and public funding will not be enough. There is an acute need to create a much more favourable and long-term environment for defence industry financing. On EU level the coordination of the defence industry can only truly thrive when it benefits from a consistent source of investment over multiple years and decades. Kick-starting a defence industrial cycle, where Europe and its member states can procure cost-effective and high-performance equipment and systems, requires long-term planning and investments.

Since the fall of the Berlin wall banks have increasingly diminished and avoided financing and investing in the defence industry and have considered financing arms manufacturers as a reputational risk. This needs to change and clear political signals and objectives are imperative both at the EU-and member state level. Lending to the defence industry is already increasing but we need to accelerate lending and investment in the sector both in member states and at EU-level.

We must identify and address possible regulatory obstacles, we must set up closely coordinated funding mechanism based on both public and private financing, and we must ultimately ensure a European defence industry which to a large extent can supply Europe with the necessary equipment in the future.

Finance Denmark call for:

A targeted defence financing review

Finance Denmark welcomes the Commission proposal to launch a Strategic Dialogue with defence and private finance industry to discuss possible regulatory hurdles and address defence industry challenges.

There is a need for a speedy and targeted review of financial regulation and risk assessment frameworks to facilitate and improve financing for defence projects both with a view to eliminating possible regulatory obstacles as well as identifying possible ways of incentivizing investments and lending to the defence industry. In this context, defence as an investment goal in the sustainability framework should be considered in the review of the Disclosure regulation (SFDR).



Simplification and harmonisation of regulation applicable to defence products and services

Finance Denmark welcomes the planned Defence Omnibus Simplification regulation aimed at removing general EU regulatory hurdles on defence industry.

Special focus should be on streamlining EU defence industrial programmes, simplifying the management of EU-funded projects and simplifying the treatment of member states co-funding under State Aid rules. Another area of importance is to adjust the current procurement regulation to facilitate a simple and dedicated procurement framework for the defence sector.

Establish public-private partnerships on defence

The Commission should encourage the creation of public-private partnerships to leverage private capital for EU defence projects, to make it easier to invest in and support joint defence projects.



