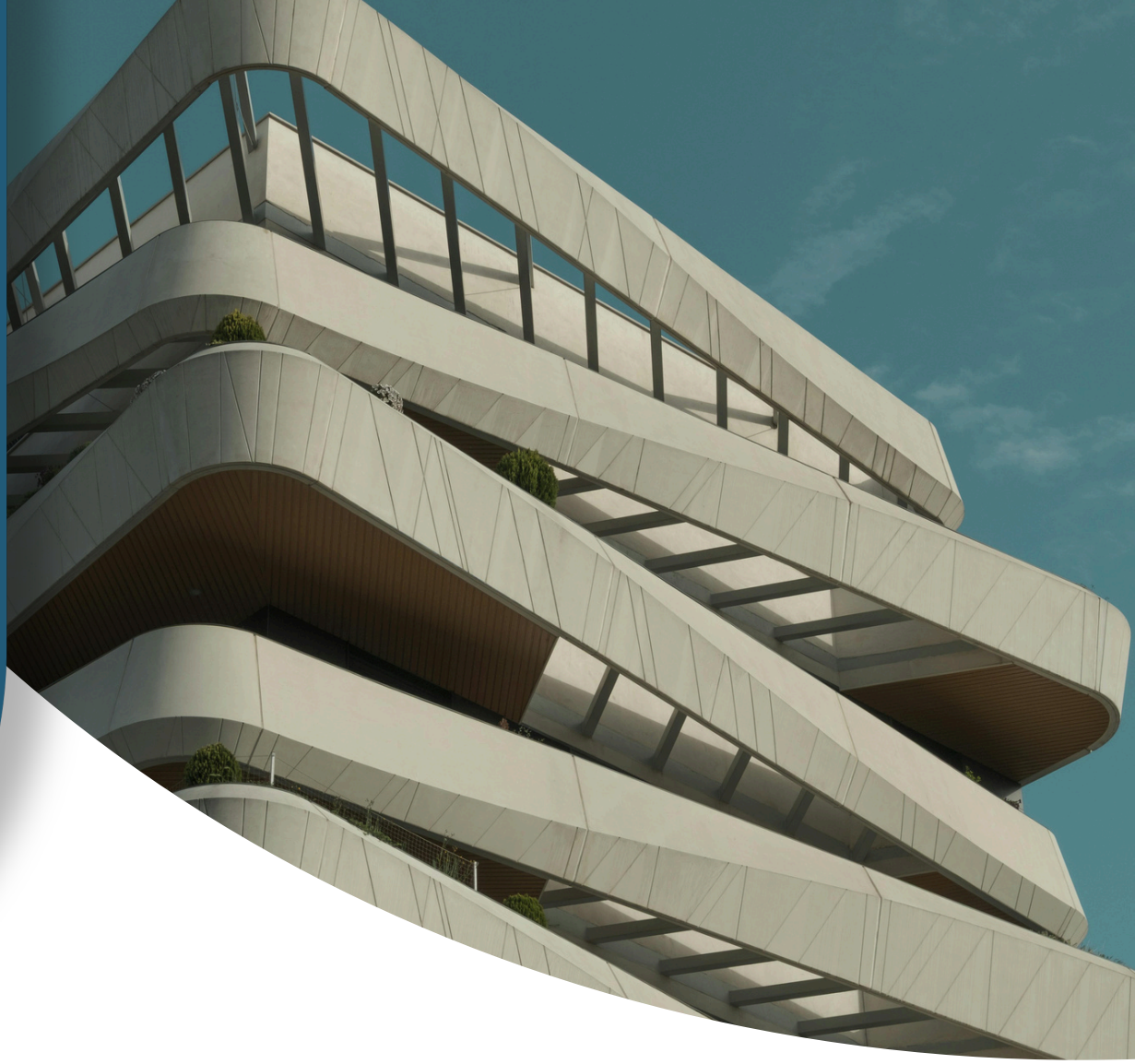

ECMI IN-DEPTH ANALYSIS

THE FUTURE OF FINANCIAL SUPERVISION FOR INTEGRATED EUROPEAN MARKETS: IS THE ARCHITECTURE FIT FOR PURPOSE?

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ECMI EUROPEAN CAPITAL MARKETS INSTITUTE

October
2026 - 01

SUMMARY

Deeper and more efficient EU capital markets capable of supporting investment, innovation and growth require a stronger EU dimension in financial supervision and greater supervisory convergence.

Since the Global Financial Crisis, the EU supervisory framework has evolved incrementally through successive additions of institutions and mandates. Over the same period, the financial system, characterised by growing non-bank financial intermediation and deepening cross-sector interconnections, has evolved beyond traditional sectoral boundaries.

Amid deeper EU supervisory integration and a renewed focus on competitiveness and simplification, these developments raise a broader question: is the current supervisory architecture best suited to support an integrated, competitive and resilient EU financial system?

To explore this question, this paper maps the composition and structure of the EU supervisory architecture. The analysis shows that national supervisory models, which are generally simpler and less sectorally organised, differ significantly from the sectoral structure embedded in the European Supervisory Authorities (ESA) framework. It also reveals that the same national authorities participate in multiple, and increasingly numerous, EU supervisory structures, resulting in institutional complexity that may hinder supervisory efficiency, coherence and accountability across the Union.

Against this background, this paper discusses simplification through better institutional design and suggests that an objectives-based architecture – such as the Four Peaks model, organised around financial stability, prudential soundness, investor protection and competition – may provide a useful direction for the future of EU financial supervision.

This reflection is grounded in Article 81 of the ESA Regulations, which requires periodic assessment of whether the existing supervisory architecture and the allocation of responsibilities remain appropriate, and are consistent with the longer-term institutional perspective set out in the de Larosière Report.

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INTRODUCTION: COMPETITIVENESS, INTEGRATION AND SUPERVISION

Europe's competitiveness challenge has become impossible to ignore.

The Draghi Report presented a sobering diagnosis of an economy struggling to generate the scale, productivity and investment needed to compete globally (Draghi, 2024). The Letta Report reached a similar conclusion from the perspective of the Single Market, arguing that Europe has yet to realise the full potential of market integration in key areas, including financial services (Letta, 2024). More recently, the Commission's Savings and Investments Union agenda and the Market Integration and Supervision Package (MISP) have placed financial integration firmly at the centre of the policy debate.

The diagnosis is increasingly shared: European capital markets remain fragmented, savings are not being channelled efficiently across the Union to finance investment and support growth, and companies continue to rely disproportionately on bank financing. On top of that, financial institutions face different supervisory practices and interpretations across Member States.

Meanwhile, European markets remain substantially smaller than those of the United States. Over the past 50 years, only 14 companies with a market capitalisation exceeding USD 10 billion have been founded in the European Union, compared with more than 240 in the United States (McAfee, 2024)[1]. At the same time, the median founding year of the 10 largest listed companies in the European Union is 1911; in the United States, it is 1985 (IMF, 2025).

These indicators suggest that Europe faces structural barriers to business growth and market development, reinforcing the urgency of the competitiveness and market-integration agenda now at the centre of the European policy debate.

If Europe wants deeper and more integrated financial markets, supervisory convergence must become a priority: Integrated markets require integrated supervision.

The debate, however, extends beyond technical questions of supervisory powers and governance arrangements. The current policy focus is on strengthening existing institutions. The MISP proposals seek, among other objectives, to strengthen supervisory convergence and expand certain direct supervisory responsibilities. This is a logical response to market fragmentation, and these discussions are important and necessary, yet they naturally lead to a broader institutional question:

As supervisory powers continue to move to the European level, is the architecture *itself* organised in the most effective way to support a more integrated, competitive and resilient European financial system?

The discussion on how to organise financial supervision is far from new.

For decades, academics and policymakers have debated whether supervisory responsibilities should be allocated by sector, by objective, through integrated supervisors or within central

[1] Market capitalisation in 2023 USD, assessed at November 2024. See Andrew McAfee (2024). *A Visualization of Europe's Non-Bubbly Economy*, data as of Q3 2024.

banks[2]. The discussion has often intersected with broader questions concerning the relationship between monetary policy and financial supervision, as well as the most effective way to oversee increasingly diversified financial institutions.

Many contributions have argued that supervisory arrangements should reflect the structure of financial markets and adapt as institutions, products and risks evolve. This paper therefore revisits questions that have accompanied financial regulation for decades, albeit in a new context shaped by the pursuit of competitiveness through market integration and a broader simplification agenda.

The European supervisory design emerged in the context of this broader intellectual and policy debate. Therefore, understanding the choices that shaped the current framework requires a brief return to its origins.

THE ORIGINS OF THE CURRENT FRAMEWORK

The Lamfalussy process at the beginning of the century represented the first serious attempt to organise financial supervision at European level (Final Report of the Committee of Wise Men on the Regulation of European Securities Markets, 2021). The creation of the Committee of European Banking Supervisors, the Committee of European Securities Regulators and the Committee of European Insurance and Occupational Pensions Supervisors reflected the dominant understanding of finance at the time: banking, securities and insurance as distinct sectors requiring distinct supervisory communities.

The Global Financial Crisis exposed the limitations of that approach.

The de Larosière Report recognised that increasingly integrated financial markets could not be supervised exclusively through fragmented national structures (High-Level Group on Financial Supervision in the EU, 2009). The result was the creation of the European System of Financial Supervision (ESFS), built around the three ESAs and the European Systemic Risk Board (ESRB).

The architecture represented a major step forward, and yet it was also a compromise. The new authorities were built on top of existing sectoral structures, and the underlying organising principle remained banking, securities and insurance.

The report, however, explicitly contemplated the possibility of moving, over time and upon review, towards a simpler structure built around a Twin Peaks system, where supervisory responsibilities would be organised according to objectives rather than sectors.

One authority would be responsible for banking, insurance and other matters relevant to financial stability, while a second authority would oversee conduct-of-business and market-related issues across the financial sector. The report argued that combining banking and insurance supervision could improve the oversight of financial conglomerates and contribute to the simplification of what it described as an already *'extremely complex institutional landscape'*.

[2] See, among others, Taylor (1995); Goodhart ET AL., (1998); Di Giorgio and Di Noia (2001); Kremers et al., (2003); Čihák and Podpiera (2008); Calvo et al., (2018).

The resulting framework adopted in 2009 was therefore born from pragmatism, as it represented what was feasible at the time, not necessarily the end point of European supervisory integration.

FIFTEEN YEARS LATER: WHAT DOES THE CURRENT ARCHITECTURE LOOK LIKE?

Over a decade and a half later, the supervisory landscape has undergone significant further development. The Banking Union introduced the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB). Anti-money laundering supervision is now being centralised through the Anti-Money Laundering Authority (AMLA). The ESAs have acquired new responsibilities, direct supervision is expanding in areas such as crypto-assets, while cross-sector risks increasingly require coordination through the ESAs' Joint Committee.

The result is a system that has evolved incrementally through successive reforms, each addressing a genuine problem. Collectively, however, they have added further layers to an already intricate system.

This is where a simple mapping exercise on the composition of the ESAs becomes revealing (see Table 1). By examining the membership of the Boards of Supervisors of EBA, ESMA and EIOPA across the 27 Member States a striking picture emerges: the sectoral logic of the ESFS is not reproduced at national level.

Table 1: Mapping of national authorities across the European supervisory authorities

Country	EBA	ESMA	EIOPA		Model
			Insurance	Pensions	
Austria	FMA	FMA	FMA		Integrated
Belgium	National Bank of Belgium	FSMA	National Bank of Belgium		Twin Peaks
Bulgaria	Bulgarian National Bank	FSC	FSC		Hybrid
Croatia	Croatian National Bank	HANFA	HANFA		Hybrid
Cyprus	Central Bank of Cyprus	CySEC	ICCS	*RIORP**	Sectoral
Czech Republic	Czech National Bank	Czech National Bank	Czech National Bank		Central-bank integrated
Denmark	Finanstilsynet	Finanstilsynet	Finanstilsynet		Integrated
Estonia	Finantsinspektsioon	Finantsinspektsioon	Finantsinspektsioon		Integrated
Finland	FIN-FSA	FIN-FSA	FIN-FSA		Integrated
France	ACPR	AMF	ACPR		Twin Peaks hybrid
Germany	BaFin	BaFin	BaFin		Integrated
Greece	Bank of Greece	HCMC	Bank of Greece		Twin Peaks hybrid
Hungary	Central Bank of Hungary	Central Bank of Hungary	Central Bank of Hungary		Central-bank integrated
Ireland	Central Bank of Ireland	Central Bank of Ireland	Central Bank of Ireland	*Pensions Authority***	Central-bank integrated
Italy	Banca d'Italia	CONSOB	IVASS	*COVIP***	Sectoral

Country	EBA	ESMA	EIOPA		Model
			Insurance	Pensions	
Latvia	Latvijas Banka	Latvijas Banka	Latvijas Banka		Central-bank integrated
Lithuania	Bank of Lithuania	Bank of Lithuania	Bank of Lithuania		Central-bank integrated
Luxembourg	CSSF	CSSF	CAA		Hybrid
Malta	MFSA	MFSA	MFSA		Integrated
Netherlands	De Nederlandsche Bank	AFM	De Nederlandsche Bank		Twin Peaks
Poland	KNF	KNF	KNF		Integrated
Portugal	Banco de Portugal	CMVM	ASSFP		Sectoral
Romania	National Bank of Romania	ASF	ASF		Hybrid
Slovakia	National Bank of Slovakia	National Bank of Slovakia	National Bank of Slovakia		Central-bank integrated
Slovenia	Banka Slovenije	ATVP	ISA		Sectoral
Spain	Banco de España	CNMV	DGSFP		Sectoral
Sweden	Finansinspektionen	Finansinspektionen	Finansinspektionen		Integrated

Prudential	Conduct/markets	Integrated	Insurance	Pensions	Insurance + pensions

Notes: The table maps the national competent authorities represented as voting members in the Boards of Supervisors of EBA, ESMA and EIOPA. For Cyprus (*), Ireland and Italy (**), occupational pensions authorities are also shown to provide a more complete picture of the allocation of insurance and pensions supervision. The colour-coded classifications reflect the predominant organisation of supervisory responsibilities at national level, rather than formal legal categories or the specific function performed by an authority in the ESA represented by each column.
As for each supervisory model: **Integrated** refers to a single authority supervising banking, securities, insurance and pensions; **Central-bank integrated** to an integrated model within the central bank; **Twin Peaks** to an objective-based separation between prudential and conduct supervision; **Twin Peaks hybrid** to arrangements integrating banking and insurance supervision while retaining a separate securities authority; **Sectoral** to separate authorities broadly reflecting the ESA structure; and **Hybrid** to mixed institutional arrangements that do not fit neatly within the other categories. * Denotes an alternate member. ** Denotes a permanent representative.
Source: Authors' elaboration.

The mapping exercise reveals that the ESA model is not the dominant supervisory model within the Union itself. Very few Member States organise supervision through separate banking, securities, insurance and pension authorities.

The organising principle of the ESFS is sectoral. Banking is represented through EBA, securities and markets through ESMA, insurance and pensions through EIOPA, and macroprudential oversight through the ESRB. Yet the national supervisory authorities participating in those structures rarely mirror that same division.

Several Member States have entrusted supervision across multiple sectors to a single authority. For instance, Germany's BaFin, Austria's FMA, Finland's FIN-FSA and Poland's KNF all participate in the three ESAs through a single integrated supervisor. In these cases, (i) the distinction between banking, securities and insurance is far less important institutionally, and (ii) the supervisory framework is simpler than it is in the European architecture.

Beyond this, the mapping highlights the remarkable diversity of supervisory models across Member States. The mapping reveals a diverse landscape where integrated supervisors, central bank-led models, Twin Peaks structures and hybrid arrangements coexist across the Union, reflecting different legal traditions, market structures and institutional histories.

Within this diversity, some Member States organise supervision more explicitly around supervisory objectives. The Netherlands and Belgium provide the clearest examples, separating prudential supervision from conduct and market supervision, while France follows a somewhat similar logic through the division between ACPR and AMF. These arrangements are closer to the Twin Peaks model than to the sectoral organisation of the ESAs.

EIOPA provides a particularly revealing illustration of this diversity. Although EIOPA combines insurance and pensions within a single European authority, the corresponding national arrangements vary considerably: some Member States supervise both sectors within an integrated authority, some have a dedicated authority supervising the two sectors jointly, while others maintain dedicated pension supervisors or distinct insurance authorities, as in Ireland, Italy, and Cyprus for pensions, and Luxembourg for insurance. This makes EIOPA a particularly clear example of how the sectoral organisation of the EU framework can conceal a much more heterogeneous institutional reality at national level.

This observation is important because it highlights a broader question about the coherence of the sectoral model. Banking, securities, insurance, and pensions are treated as distinct institutional categories within the ESFS. Yet national supervisory structures increasingly combine, overlap or reorganise these activities according to different logics.

The mapping also reveals the extent to which the same authorities repeatedly appear across the European framework. In many Member States, a single authority participates simultaneously as a voting member in EBA, ESMA and EIOPA – and where it is the central bank, as we will further analyse below, that also applies to the ESRB. This repetition suggests that (i) the sectors themselves are often viewed domestically as sufficiently interconnected to justify common supervision, and that (ii) Member States rely on simpler supervisory frameworks than at the EU level, while carrying out the same supervisory activities.

Taken together, these findings point to a growing tension. That does not mean the ESA framework has been unsuccessful. On the contrary, over the past 15 years the ESAs have made an important contribution to the development and consistent application of the Single Rulebook, strengthened supervisory convergence and cooperation among national authorities, and provided common mechanisms for addressing cross-border and cross-sectoral supervisory issues. Nor does the diversity of national arrangements imply that the European architecture should simply replicate the structures found in Member States, as the European and national levels operate in different institutional contexts.

The mapping exercise nevertheless provides a useful perspective on how supervisory responsibilities are organised in practice. It suggests that many Member States rely on comparatively simpler institutional frameworks, while the sectoral division embedded in the EU architecture is neither consistently reproduced at national level nor fully aligned with an increasingly interconnected financial system.

This divergence may have mattered less when the ESAs exercised relatively limited direct supervisory powers and functioned primarily as mechanisms for coordination and supervisory

convergence among national authorities. Under such a model, a sectoral organisation at EU level could coexist with more integrated national structures.

As supervisory responsibilities eventually become increasingly centralised at Union level, however, the organisation of the EU framework assumes greater importance. The persistence of a sectoral architecture is then more difficult to reconcile with both the institutional arrangements found in many Member States and the increasingly interconnected nature of the financial system.

Additionally, the interaction between these different national arrangements and a layered European structure also adds to the complexity of supervision and coordination.

The question is therefore whether the long-term organisation of European supervision remains the most effective one for supporting deeper financial integration, greater competitiveness and a more coherent allocation of supervisory responsibilities.

Extending the mapping beyond the ESAs to the wider European supervisory architecture reveals several additional institutional features that further inform this discussion (see Table 2).

Across all Member States, the institution represented as voting member in the ESRB's General Board is the national central bank. Unlike the ESA framework, where authorities vary considerably between integrated supervisors, prudential authorities, conduct regulators and sector-specific agencies, the composition of the ESRB exhibits a noteworthy degree of institutional consistency, converging around a common logic centred on national central banks.

However, financial stability as a function remains fragmented across several EU institutions. The ECB, the ESRB and the SRB all contribute to safeguarding financial stability through different mandates and instruments. The result is a set of complementary institutions pursuing a common objective rather than a single, coherent institutional framework.

Most significantly, the extended mapping illustrates that the evolution of the European framework has largely taken place through the addition of new institutions and mandates at Union level, rather than through corresponding changes to national supervisory structures. The same national authorities that participate in the ESAs frequently reappear in the ESRB, SRB, AMLA and SSM, indicating that EU supervisory responsibilities have largely been layered onto existing national institutions.

This layering increases the number of institutional interfaces through which authorities must coordinate, exchange information and allocate responsibilities, adding complexity to the overall supervisory framework. Institutional overlap can also encourage defensive behaviour by authorities seeking to preserve mandates, competences or access to information.

It can also slow information flows between institutions operating under different legal mandates and confidentiality regimes. The ESRB has highlighted this problem: in 2024, its Chair called for easier access to data held by the ESAs, concerns that were not resolved by the EU data-sharing framework. Weak data-sharing arrangements can delay risk identification and produce fragmented supervisory assessments, particularly where vulnerabilities cut across institutional or sectoral boundaries. They can also force authorities to rely on incomplete or duplicated information, reducing the effectiveness of coordination and timely intervention.

Table 2: Mapping of national authorities across the EU financial supervisory architecture

Country	EBA	ESMA	EIOPA		ESRB	SRB	AMLA	SSM
			Insurance	Pensions				
Austria	FMA	FMA	FMA		Oesterreichische Nationalbank	FMA	FMA	FMA
Belgium	National Bank of Belgium	FSMA	National Bank of Belgium		National Bank of Belgium	National Bank of Belgium	National Bank of Belgium	National Bank of Belgium
Bulgaria	Bulgarian National Bank	FSC	FSC		Bulgarian National Bank	Bulgarian National Bank	Bulgarian National Bank	Bulgarian National Bank
Croatia	Croatian National Bank	HANFA	HANFA		Croatian National Bank	Croatian National Bank	Croatian National Bank	Croatian National Bank
Cyprus	Central Bank of Cyprus	CySEC	ICCS	*RIORP**	Central Bank of Cyprus	Central Bank of Cyprus	Central Bank of Cyprus	Central Bank of Cyprus
Czech Republic	Czech National Bank	Czech National Bank	Czech National Bank		Czech National Bank		Czech National Bank	
Denmark	Finanstilsynet	Finanstilsynet	Finanstilsynet		Danmarks Nationalbank		Finanstilsynet	
Estonia	Finantsinspektsioon	Finantsinspektsioon	Finantsinspektsioon		Eesti Pank	Finantsinspektsioon	Finantsinspektsioon	Finantsinspektsioon
Finland	FIN-FSA	FIN-FSA	FIN-FSA		Suomen Pankki	FIN-FSA	FIN-FSA	FIN-FSA
France	ACPR	AMF	ACPR		Banque de France	ACPR	ACPR	ACPR
Germany	BaFin	BaFin	BaFin		Bundesbank	BaFin	BaFin	BaFin
Greece	Bank of Greece	HCMC	Bank of Greece		Bank of Greece	Bank of Greece	Bank of Greece	Bank of Greece
Hungary	Central Bank of Hungary	Central Bank of Hungary	Central Bank of Hungary		Central Bank of Hungary		Central Bank of Hungary	
Ireland	Central Bank of Ireland	Central Bank of Ireland	Central Bank of Ireland	*Pensions Authority***	Central Bank of Ireland	Central Bank of Ireland	Central Bank of Ireland	Central Bank of Ireland
Italy	Banca d'Italia	CONSOB	IVASS	*COVIP***	Banca d'Italia	Banca d'Italia	Banca d'Italia	Banca d'Italia
Latvia	Latvijas Banka	Latvijas Banka	Latvijas Banka		Latvijas Banka	Latvijas Banka	Latvijas Banka	Latvijas Banka
Lithuania	Bank of Lithuania	Bank of Lithuania	Bank of Lithuania		Bank of Lithuania	Bank of Lithuania	Bank of Lithuania	Bank of Lithuania

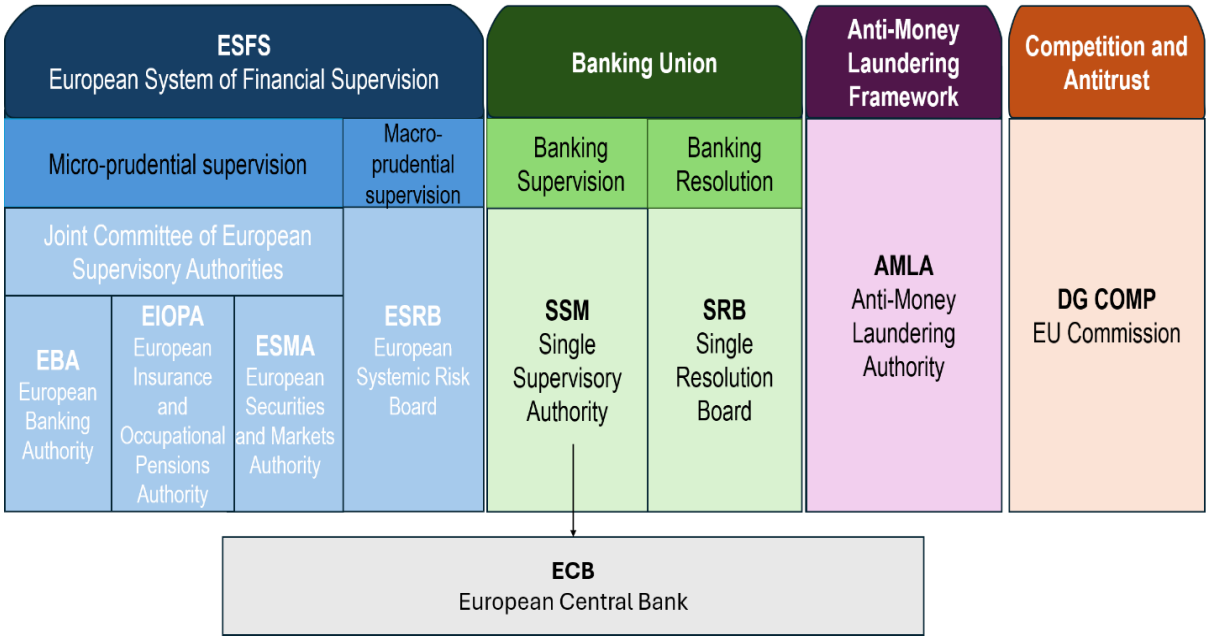
Country	EBA	ESMA	EIOPA		ESRB	SRB	AMLA	SSM
			Insurance	Pensions				
Luxembourg	CSSF	CSSF	CAA		Banque de Luxembourg	CSSF	CSSF	CSSF
Malta	MFSA	MFSA	MFSA		Central Bank of Malta	MFSA	FIAU	MFSA
Netherlands	De Nederlandsche Bank	AFM	De Nederlandsche Bank		De Nederlandsche Bank	De Nederlandsche Bank	De Nederlandsche Bank	De Nederlandsche Bank
Poland	KNF	KNF	KNF		Narodowy Bank Polski		GIFI	
Portugal	Banco de Portugal	CMVM	ASSFP		Banco de Portugal	Banco de Portugal	Banco de Portugal	Banco de Portugal
Romania	National Bank of Romania	ASF	ASF		National Bank of Romania		National Bank of Romania	
Slovakia	National Bank of Slovakia	National Bank of Slovakia	National Bank of Slovakia		National Bank of Slovakia	National Bank of Slovakia	National Bank of Slovakia	National Bank of Slovakia
Slovenia	Banka Slovenije	ATVP	ISA		Banka Slovenije	Banka Slovenije	Banka Slovenije	Banka Slovenije
Spain	Banco de España	CNMV	DGSFP		Banco de España	FROB	SEPBLAC	Banco de España
Sweden	Finansinspektionen	Finansinspektionen	Finansinspektionen		Sveriges Riksbank		Finansinspektionen	

Macro-prudential	Micro-prudential	Conduct/markets	Integrated	Insurance	Pensions	Insurance + pensions	AML/FIU	Resolution

Notes: The table maps the national authorities represented in the governance structures of the ESAs, ESRB, SRB, AMLA and SSM. The colour-coded classifications follow the methodology described in Table 1, expanded to distinguish macroprudential authorities, in particular central banks represented in the ESRB that do not exercise micro-prudential supervisory responsibilities, as well as anti-money laundering / financial intelligence and resolution authorities. * Denotes an alternate member. ** Denotes a permanent representative.
Source: Authors' elaboration.

Institutional layering can also generate duplication in governance and resource use, while making accountability for supervisory outcomes less clear. Multiple European bodies require separate boards, committees, reporting lines, secretariats, IT systems and decision-making procedures, even where many of the same national authorities participate across them (see Figure 1). This can increase the administrative and budgetary resources needed to operate the system and, where several institutions contribute to the same policy area, make it harder to identify which authority is ultimately accountable for outcomes, delays or supervisory failures.

Figure 1: Current European financial supervisory architecture



Source: Authors' elaboration.

At the same time, it is worth noting that throughout this expansion of EU bodies, there is little evidence that the transfer of responsibilities to the EU level has been accompanied by a corresponding reduction of supervisory resources at the national level.

These observations also raise a legitimate question about the overall architecture that has emerged from this process and thus invite a broader reflection on the evolution of the European supervisory framework itself:

Has European financial supervision evolved according to a coherent long-term institutional design, or has it developed incrementally through the addition of new layers, mandates and structures as new challenges have arisen?

We would argue that it has been the latter.

A FINANCIAL SYSTEM BEYOND SECTORS

The financial system has evolved significantly since the current architecture was conceived. Financial intermediation has become more interconnected, financial institutions more cross-sectoral and supervisory responsibilities increasingly exercised at European level. Yet

supervision continues to be organised largely around sectoral and legal categories whose boundaries are becoming less representative of how financial intermediation operates.

Financial institutions and markets increasingly operate across sectoral boundaries. European insurers and occupational pension funds together manage around EUR 12 trillion in assets[3], making them among the largest institutional investors in European capital markets. Banks, meanwhile, are major issuers and holders of securities, rely on wholesale and capital-market funding, and interact extensively with institutional investors through bond, securitisation and derivatives markets. In the first quarter of 2025, EU/EEA banks held around EUR 29 trillion in total assets, with debt securities alone accounting for 14.6 % of their balance sheets[4].

Sectoral boundaries are also crossed within individual financial groups. The Joint Committee's 2025 list of financial conglomerates identifies many groups combining activities that fall under the remit of different ESAs, typically bringing together banking, insurance and asset-management operations within a single corporate structure (Joint Committee of the European Supervisory Authorities, 2026). In many cases, these activities are economically integrated even though they remain subject to separate supervisory frameworks.

Similar cross-sector dependencies arise between institutions that do not belong to the same group. A bank may obtain short-term funding from money market funds, provide leverage to hedge funds, act as derivatives counterparty to insurers and pension funds, and issue long-term debt held by those same institutions. These relationships create integrated chains of financial intermediation without common ownership.

Non-bank financial intermediation (NBFI) now plays an expanding role in credit intermediation, market-making and liquidity provision. By mid-2025, the total assets of the euro-area non-bank financial sector had reached EUR 58.7 trillion, an increase of around EUR 7 trillion, or 14 %, since the end of 2022, driven primarily by investment funds but also by insurance companies and pension funds (European Central Bank, 2026). The sector is also closely interconnected with banks on both sides of bank balance sheets: NBFIs provide funding equivalent to around 15 % of euro-area bank balance sheets, while banks' asset-side exposures to NBFIs amount to around 10 % of bank assets (European Systemic Risk Board / European Central Bank, 2026).

These connections create channels through which liquidity shocks, leverage and market stress can propagate across banking and market-based finance. Risks transmitted through common funding, investment, derivatives and collateral arrangements are therefore increasingly difficult to assess within traditional sectoral boundaries.

Supervisory authorities are increasingly adapting their analytical tools to this reality. For instance, the report on the ESRB Review has highlighted the importance of developing system-wide stress-testing capabilities that can capture interactions across the financial system (High-Level Group if the ESRB Review, 2024). In France, the Banque de France, ACPR and AMF have jointly launched a system-wide stress-testing exercise involving banks, insurers, asset managers and central counterparties (Banque de France, ACPR and AMF, 2026). Likewise, the Bank of England has developed system-wide stress-testing frameworks to analyse the

[3] European Insurance and Occupational Pensions Authority, *EIOPA and the EU Institutions*, 2026.
[4] European Banking Authority, *First-quarter of 2025 supervisory data shows that the EU/EEA banking sector remains robust despite increased cost*, 11 August 2025.

transmission of shocks across different segments of the financial system (Bank of England, 2024).

Such exercises are designed to capture risks that cut across traditional supervisory boundaries and cannot be adequately assessed within a purely sectoral framework. More broadly, they suggest that the analytical focus of supervision is gradually shifting towards the financial system as a whole and the interactions between its constituent parts.

The resulting challenge is a mismatch between the perimeter through which supervision is organised and the channels through which financial risk is generated and transmitted. A supervisory architecture organised primarily around legal categories of firms may fragment the assessment of risks that emerge at group or system level. It may also divide responsibility for financial activities that are economically integrated but formally distributed across multiple regulated entities and markets.

Against this background, it is worth considering whether the future evolution of European supervision should be guided more explicitly by the public objectives that supervision seeks to achieve. **Financial stability, prudential soundness, investor protection, market integrity and competition represent distinct policy objectives, each requiring different supervisory tools and involve different trade-offs**. Organising supervision around those goals offers a possible framework for reconciling deeper market integration with a clearer allocation of responsibilities.

There is, of course, no universally optimal model of financial supervision. Different jurisdictions have adopted different models, often reflecting their own institutional traditions and market structures. However, the combination of both increasing institutional complexity at EU level and the diminishing relevance of strict sectoral boundaries make an objective-based model particularly worth revisiting.

REVISITING THE FOUR PEAKS, OBJECTIVE-BASED MODEL

This context brings renewed relevance to an idea that was first advanced before the financial crisis: the **Four Peaks model** (Di Giorgio and Di Noia, 2021). The central insight of the Four Peaks approach is that supervision should be organised according to objectives. Consistent with the philosophy reflected in Twin Peaks, the framework applies this organising principle across the financial system as a whole, encompassing systemic stability, prudential supervision, investor protection and competition (see Figure 2).

Structuring supervision around clearly defined public policy objectives can help reduce institutional interfaces, clarify responsibilities and strengthen accountability, while improving coordination across activities. Better institutional design through objectives can itself be a source of simplification.

Objective-based models have been adopted in several major jurisdictions. Australia has long organised prudential supervision through APRA, and conduct and market supervision through ASIC, alongside separate responsibilities for systemic stability at the Reserve Bank of Australia and competition at the ACCC – an arrangement that, while generally described as Twin Peaks, contains elements close to the Four Peaks logic. South Africa moved explicitly to Twin Peaks in 2018, establishing a Prudential Authority within the South African Reserve Bank and a separate

Financial Sector Conduct Authority. Similar objective-based distinctions are found in the Netherlands, Belgium, and the United Kingdom.

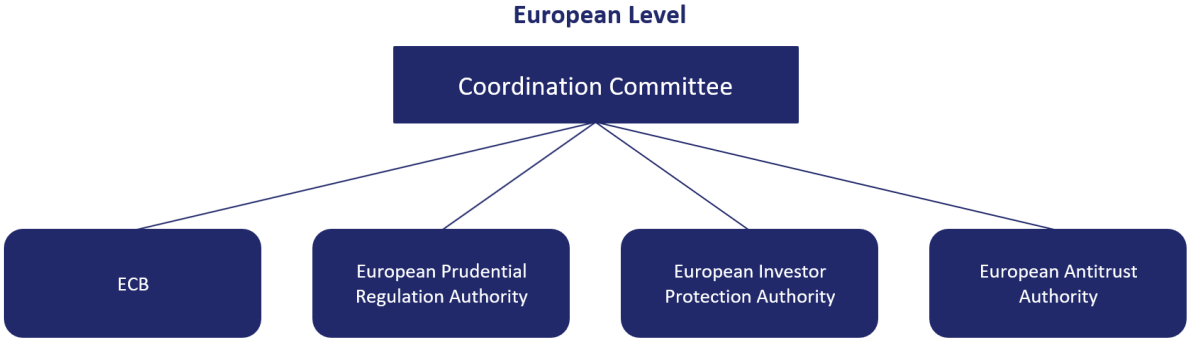
Yet, despite sustained academic and policy interest in organising supervision around objectives, these models have not become the dominant international approach. Supervisory architecture is highly path dependent: authorities accumulate legal powers, expertise, staff, and established relationships, making comprehensive institutional reorganisation costly and politically difficult.

A BIS review of post-crisis reforms found that most jurisdictions adapted their existing structures, particularly by strengthening macroprudential policy, resolution, and the role of central banks, while few changed their overall supervisory model (Calvo et al., 2018). There is also a genuine institutional trade-off: separating objectives can clarify mandates and reduce conflicts within individual authorities, but it creates new boundaries that themselves require coordination.

In practice, many jurisdictions have placed greater weight on exploiting synergies between supervisory functions than on separating them institutionally. Europe is no exception: successive reforms have largely built on the institutional architecture already in place, which makes the organising principle underlying that architecture itself worth reconsidering.

Figure 2 below reflects the Four Peaks model as originally envisaged. While the institutional landscape has evolved considerably since then, the underlying rationale remains relevant to the discussion on how best to organise financial supervision in an increasingly integrated European market.

Figure 2: The Four Peaks supervisory model at European Level



Source: Di Giorgio and Di Noia (2001).

Translated to today's institutional reality, the Four Peaks framework can be understood as a rationalisation of existing structures around their underlying objectives. In this sense, it offers a route to simplification through better institutional design.

Functions currently distributed across the ESAs, the Banking Union architecture and other European bodies could be organised within a smaller number of objective-based pillars, potentially enhancing coherence, reducing institutional complexity and strengthening the alignment between supervisory responsibilities and policy objectives.

The discussion below illustrates how the principal supervisory responsibilities currently exercised across the European framework could be viewed through four complementary objective-based pillars: (i) macro-financial stability, (ii) micro-prudential supervision, (iii) investor protection and market conduct, and (iv) competition.

1. MACRO-FINANCIAL STABILITY

Under such a model, macro-financial stability would form one pillar, bringing together functions currently associated with the ECB and ESRB. While performing distinct functions, they operate within a common objective: preserving systemic stability and ensuring that financial distress does not threaten the wider economy. Bringing these functions together conceptually within a single peak would not represent a radical departure from the current architecture and could result in efficiency gains and economies of scale.

Indeed, elements of this logic are already visible within the existing framework. The extended mapping exercise reveals a remarkable degree of convergence around central banks in the ESRB. Financial stability supervision is therefore already considerably more integrated towards an objective than the sectoral structure of the ESAs.

2. MICRO-PRUDENTIAL STABILITY

A second pillar would focus on micro-prudential stability across financial institutions and market infrastructures. This is perhaps where the limitations of the current sectoral architecture are most visible as sectoral lines become increasingly blurred.

The objective of prudential supervision is to ensure that individual financial institutions remain safe, sound and resilient, thereby reducing the likelihood that their distress could threaten confidence in the financial system or require public intervention.

Although the legal classification of an institution remains important because banks, insurers and pension funds have different liability structures, risk profiles and protection regimes, those differences do not necessarily require prudential supervision to be institutionally fragmented. A common prudential peak could preserve sector-specific rules and expertise while providing more coherent oversight of cross-sector groups, common exposures and comparable governance and risk-management questions.

A prudential peak would therefore bring together the currently fragmented supervision of banks, insurers, pension institutions and other systemically relevant financial entities within a more coherent framework for assessing solvency, governance, risk management and resilience across the financial system. Its institutional design would need to build on the roles already exercised by the ECB/SSM and EBA, as well as the SRB's resolution functions, while reconsidering how prudential responsibilities currently distributed across the European framework should be organised within a more integrated model.

3. INVESTOR PROTECTION, MARKET TRANSPARENCY AND CONDUCT

A third pillar would concentrate on investor protection, market transparency and conduct supervision. This objective differs fundamentally from prudential supervision. The purpose is to ensure that markets function fairly, transparently and efficiently for investors and market participants. Conduct supervision addresses issues such as disclosure, transparency, conflicts of interest, market abuse and consumer protection.

Misselling, conflicts of interest, disclosure failures, market manipulation and digital distribution can affect investors regardless of whether the product originates from a bank, insurer, investment firm or asset manager. An objective-based approach could therefore provide a

more consistent framework for addressing comparable conduct risks across the financial system.

Many national systems already recognise this distinction. The Netherlands, France and Belgium provide prominent examples of supervisory arrangements that separate prudential supervision from conduct supervision. Their structures reflect the view that investor protection requires different tools, expertise and priorities than prudential oversight.

At EU level, ESMA would naturally sit at the centre of such a pillar. The increasing importance of capital markets within the EU integration agenda further strengthens the case for viewing investor protection and market integrity as a distinct supervisory objective.

4. COMPETITION

Competition constitutes the fourth pillar because the design and application of financial regulation can materially affect market structure, entry, and competitive dynamics. Prudential requirements, licensing regimes, supervisory practices, and resolution arrangements can all influence which firms are able to enter, expand or remain in the market. A framework focused only on stability and investor protection may therefore produce outcomes that are safe but unnecessarily concentrated, costly or resistant to innovation.

The relevance of competition is particularly clear in financial markets, where concentration can itself have systemic and market-wide consequences. Highly concentrated markets may reduce choice and competitive pressure, entrench incumbent business models and increase dependence on a limited number of providers or infrastructures. At the same time, excessive competitive pressure can encourage risk-taking or weaken resilience. Treating competition as a distinct peak therefore makes these trade-offs explicit within the overall supervisory architecture.

Unlike the other peaks, Europe already possesses a well-developed institutional framework around this objective through DG Competition and the Union's competition policy framework. The European experience with competition policy shows how a clearly defined objective can be exercised through a relatively centralised institutional framework. DG Competition has developed and enforced a common body of competition rules across the Single Market through merger control, antitrust and State aid, including in financial services, while coordinating with national competition authorities through the European Competition Network.

COORDINATION COMMITTEE

Finally, a key feature of the Four Peaks framework is the presence of a Coordination Committee. Its role is to address the inevitable trade-offs that arise between different public policy objectives. Financial stability, investor protection, competition and market development are all legitimate objectives, yet they do not always point in the same direction. Measures that strengthen stability may constrain competition or innovation; stronger investor protection requirements may affect market dynamism; competition objectives may at times need to be balanced against prudential considerations.

These trade-offs involve policy choices with broader economic and social implications and should not be treated solely as technical supervisory questions. They therefore require an

institutional framework capable of weighing competing objectives under appropriate democratic accountability.

The recent debate over whether financial supervisors should be given an explicit competitiveness mandate illustrates this tension particularly clearly[5]. Competitiveness is an important policy objective, but it cuts across several supervisory objectives and often requires choices between stability, investor protection, competition, innovation, and market development. Embedding such trade-offs directly within the mandate of an individual supervisory authority may blur responsibilities and place essentially political choices within a technical body. A Coordination Committee could instead provide the appropriate forum for considering competitiveness across the supervisory framework as a whole.

The purpose of the Coordination Committee would therefore be to provide a political-level forum in which these trade-offs could be discussed and resolved on the basis of the technical analysis provided by the relevant supervisory authorities. The authorities would retain responsibility for assessing risks and consequences within their respective mandates, while the Committee would weigh those assessments against broader policy priorities and provide overall direction where objectives conflict. This would allow such choices to be made transparently and coherently, with clear democratic accountability.

AN ARCHITECTURE DESIGNED FOR EVOLUTION

Whether such a model represents the right answer is ultimately a matter for debate. The argument advanced here is that Europe has reached a stage where the debate should extend beyond the powers and responsibilities of existing institutions to the organisation of the supervisory architecture itself.

Such reflection is particularly timely from both an institutional and a legal perspective.

Article 81 of the three ESA Regulations[6] requires the Commission to periodically review the functioning of the ESAs and to assess whether the existing framework remains appropriate in light of market developments, supervisory experience and the broader evolution of the financial system. The review clause gives effect to an important principle: the architecture is not immutable. It was designed to evolve alongside markets and institutions.

Furthermore, Article 81 explicitly requires the Commission to examine whether (i) it remains appropriate to maintain separate supervision of banking, insurance, pensions, securities and financial markets, (ii) prudential supervision and conduct-of-business supervision should be exercised by separate authorities or by the same supervisor, and (iii) the overall architecture of the ESFS should be simplified and reinforced.

[5] See Ferran (2023); House of Lords Financial Services Regulation Committee (2025); Arnal et al., (2025); and Thomadakis (2026).

[6] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority);
Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority); and
Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority).

The review must also assess if (iv) the evolution of the ESFS remains consistent with developments in global supervisory frameworks and if (v) greater coherence between the macroprudential and micro-prudential dimensions of supervision is warranted.

These provisions are remarkable because they demonstrate that the legislator deliberately left open the possibility of future institutional evolution, including simplification away from a sectoral division, in line with de Larosière's long-term vision.

The review mechanism has been used in 2014, through the 2019 ESA reform and again in 2022. These exercises have examined the functioning of the ESAs, their governance arrangements, powers and supervisory-convergence tools, and have led to important adjustments to the framework. In practice, however, they have focused on improving the operation of the existing institutions, rather than on a broader reassessment of the sectoral organisation of the ESFS itself.

Fifteen years after the establishment of the ESFS, and in the context of renewed efforts towards integration, simplification and competitiveness, there is a strong case for using the review clause for what it also allows: **a broader reassessment of how EU financial supervision is organised**.

This mechanism also remains pertinent in the current legislative agenda, as the Commission's proposed MISP package includes an amendment to Article 81 of the ESMA Regulation. It would consolidate the existing review clause by retaining an explicit assessment of whether the architecture of the ESFS should be simplified and reinforced in order to increase coherence between the macro- and micro-prudential levels and between the ESAs. The proposal does not amend the corresponding review provisions in the EBA and EIOPA Regulations.

More fundamentally, the proposed amendment retains the underlying principle that the EU supervisory architecture should remain subject to periodic reassessment, including whether the ESFS could be simplified and made more coherent.

Reflecting on the long-term organisation of European financial supervision is thus an exercise expressly contemplated by the legislator and one that could be particularly relevant today.

CONCLUSION

The European supervisory architecture built over the past 15 years has delivered real gains. It has strengthened the Single Rulebook, advanced supervisory convergence and integrated banking supervision, and reinforced the European resolution framework. At the same time, however, each successive reform has added institutions, mandates or responsibilities to an already complex system.

Europe has now reached a consequential stage in its pursuit of financial integration. The MISP proposals appropriately seek to reduce fragmentation, strengthen supervisory convergence and reinforce the European dimension of financial supervision. Yet the debate should extend beyond the next allocation of powers or the next incremental adjustment. If Europe is serious about creating deeper and more competitive financial markets, it must also consider how supervision should be organised for the financial system it seeks to build.

The mapping undertaken in this paper reveals the institutional layering of the present framework. The same national authorities participate repeatedly across multiple European

bodies, while the sectoral structure of the ESAs sits above a more diverse and often more institutionally consolidated national supervisory landscape.

At the same time, the financial system has become increasingly interconnected across sectors. Financial groups combine banking, insurance, asset management and investment service activities, while NBFI has expanded and developed close connections with banking through funding, securities holdings, leverage, derivatives and liquidity channels. An architecture organised around the institutional categories of an earlier financial system should therefore be reassessed against the structure and risk-transmission channels of today's markets.

An objectives-based model could provide a clearer and more coherent framework for the long-term evolution of European supervision. The Four Peaks model offers one possible way of organising supervision around four objectives: macro-financial stability, micro-prudential supervision, investor protection and market conduct, and competition. Applied to today's European setting, its value would lie in using clearly defined objectives to rationalise existing authorities and responsibilities, reduce unnecessary institutional interfaces and strengthen accountability.

The de Larosière Report set out a long-term vision of a simpler and more objective-based architecture, while the Article 81 review provisions preserve the possibility of institutional evolution. Fifteen years after the establishment of the ESFS, the next review of the ESAs should look beyond the operation of individual authorities and ask a broader question: what supervisory architecture does Europe need to make integrated financial markets work competitively, safely and effectively?

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