RegCORE – Client Alert

European Commission publishes a "Competitiveness Compass" and its Annual Work Programme for 2025 – key aspects for financial services

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Financial Services

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QuickTake

Improving competitiveness, including by way of simplification plus regulatory burden reduction, and the strategic autonomy of the EU's Single Market more generally as well as for financial services more specifically has been placed in the spotlight in 2024 and continues to remain so in 2025. These considerations are part of the European Commission's longer-term priorities for the current 2024-2029 legislative cycle.

On 29 January 2025 the European Commission presented a Communication on a "Competitiveness Compass for the EU"[1] and on 11 February the European Commission's long-awaited annual work programme (**AWP**) for 2025[2] along with respective Annexes[3] (indicating which work is prioritised and which was to be deprioritised) was released.

As explored in this Client Alert, the European Commission's AWP outlines a series of legislative and non-legislative initiatives (such as the published Competitiveness Compass) aimed at enhancing the EU's competitiveness and strategic autonomy, sustainability, security and social fairness. The AWP also sets out a number of areas that will be reviewed and amended during 2025. Importantly the non-legislative initiatives published in 2025 may yield to respective legislative initiatives that are published in the path through to the end of 2029.

[1] Available here.
[2] See microsite here.
[3] Available here.

Key takeaways from the Competitiveness Compass

The European Commission's "Competitiveness Compass for the EU" is a detailed and 27-page document. It presents a comprehensive strategy aimed at tackling the priority sectors referred to in the Draghi Report[4] as well as more broadly. These all aim to advance innovation, simplification of legislation and reducing foreign dependencies.

This overarching non-legislative initiative, along with the respective legislative instruments that are to be advanced in furtherance of the aims of the Competitiveness Compass, are likely to offer significant benefits for but equally present a number of compliance implications for regulated firms across various sectors, including specifically for financial services. In the course of various key themes, the Competitiveness Compass sets out a number of priorities scheduled for action. These can be summarised as follows:

[4] See Client Alert available here.

<table>
<tr><th>Key theme</th><th>Actions</th><th>Key implications for firms</th></tr>
<tr><td>1. Innovation-led productivity</td><td>Closing the “Innovation Gap”: The Competitiveness Compass emphasises the need to close the innovation gap between the EU and other global powers. This involves:
Start-up and Scale-up strategy (Q2 2025): A dedicated strategy to address obstacles preventing new companies from emerging and scaling up. This includes improving access to venture capital and reducing regulatory barriers.
European Innovation Act: Promoting access to European research and technology infrastructures and regulatory sandboxes for testing new ideas by way of a 28th Regime for corporate, insolvency, labour and tax laws. The European Innovation Act will promote access to European research and technology infrastructures and regulatory sandboxes for innovators.
European Digital Networks Act (Q4 2025): The Commission will propose a Digital Networks Act to improve market incentives for building digital networks and reduce compliance costs.
EU Cloud and AI Development Act: Establishing AI Gigafactories and setting minimum criteria for cloud services.
AI Continent Action Plan (Q1 2025): A non-legislative initiative to boost competitive AI ecosystems in Europe.
Quantum Strategy of EU (Q2 2025): A non-legislative initiative to maintain a leading global position in quantum technologies.</td><td>This is likely to have the following implications for firms:
Increased access to funding: Regulated firms, especially in the tech sector, will benefit from improved access to venture capital and other forms of risk capital.
Regulatory Sandboxes: Firms will have the opportunity to test innovative products and services in a controlled environment, potentially accelerating time-to-market.
Compliance with new standards: Firms will need to comply with new standards and criteria set by the EU Cloud and AI Development Act, which may require adjustments in their operations and technology infrastructure.</td></tr>
<tr><td>2. Decarbonisation and competitiveness</td><td>Joint Roadmap for Decarbonisation: The EU aims to integrate decarbonisation policies with industrial, competition, economic and trade policies. Key initiatives include:
Clean Industrial Deal (Q1 2025): Securing the EU as an attractive location for manufacturing and promoting clean tech and circular business models – as an evolution of the Green Deal.
Affordable Energy Action Plan (Q1 2025): Addressing high and volatile energy prices and investing in energy transmission and distribution infrastructure.</td><td>This is likely to have the following implications for firms:
Energy Costs: Firms will benefit from measures aimed at reducing energy costs and volatility, which can improve their overall cost structure.
State Aid Framework: Simplified and targeted state aid can encourage investment in decarbonisation, but firms will need to navigate the new framework to access these benefits.
Compliance with environmental standards: Firms will need to align their operations with new environmental standards and participate in initiatives like the Clean Industrial Deal.</td></tr>
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Key theme	Actions	Key implications for firms
3. Reducing dependencies and increasing security	**Economic Security Strategy:** The EU will continue to expand its network of trade agreements and pursue policies to reduce dependencies on single or highly concentrated suppliers. Moreover, it will adopt measures to reduce dependencies on single or highly concentrated suppliers and enhance supply chain resilience. This involves: • **Joint Purchasing Platform for Critical Raw Materials:** Coordinating joint purchases to ensure a reliable supply of raw materials. • **Critical Medicines Act:** Strengthening the supply of critical medicines and their ingredients.	This is likely to have the following implications on non-financial corporates but equally financial services firms engaging with them: • **Supply chain resilience:** Firms will need to assess and potentially diversify their supply chains to reduce dependencies on single suppliers. • **Participation in joint purchasing:** Firms may benefit from participating in joint purchasing initiatives, which can provide more stable and cost-effective access to critical raw materials. • **Compliance with new regulations:** Firms in the pharmaceutical sector will need to comply with the Critical Medicines Act, which may involve changes in sourcing and production practices.
4. Simplification and regulatory burden reduction	**Simplification Omnibus Packages:** The Commission aims to reduce the regulatory burden by at least 25% for all companies and 35% for SMEs. This includes: • **A new definition of small mid-caps:** will be proposed to extend tailored regulatory simplification to more companies. • **Simplification of reporting requirements:** Aligning reporting requirements with the needs of investors and ensuring proportionate obligations. The first of a series of Simplification Omnibus packages will be introduced, covering areas such as sustainable finance reporting and sustainability due diligence. • **Digitalisation of reporting:** Moving towards digital formats for reporting and enhancing interoperability among public sector bodies.	This is likely to have the following implications on non-financial corporates but equally financial services firms engaging with them: • **Reduced Compliance Costs:** Firms will benefit from reduced administrative and reporting burdens, which can lower compliance costs. The introduction of a new category for small mid-caps could mean that more financial services firms will benefit from simplified regulatory requirements, potentially easing the operational load and fostering growth. • **Digital Reporting:** Firms will need to adapt to new digital reporting requirements, which may involve investments in technology and training. The focus on digitalisation and the use of AI to power simplification efforts will likely lead to more streamlined processes and improved efficiency in regulatory compliance. • **Proportionate Regulation:** SMEs and small mid-caps will benefit from tailored regulatory simplification, making it easier for them to comply with EU regulations.
5. Coordinating investment and financing competitiveness	**Coordination and investment:** including by: • **Proposing a new Competitiveness Coordination Tool:** to align industrial and research policies and investments at the EU and national levels. This tool will align reforms and investments at national and EU levels, ensuring that financial services firms can better deliver on policy priorities and enhance their competitiveness. The toll will complement the “European Semester”. • **Establishing a new European Competitiveness Fund:** to support strategic technologies	This is likely to have the following implications for firms: • **Financial services firms will have opportunities to participate in and benefit from coordinated investment initiatives,** particularly in strategic sectors such as digital technologies, clean tech and biotech. • **The Competitiveness Coordination Tool will ensure that financial services firms are aligned with EU-wide strategic priorities,** potentially leading to more cohesive and impactful investment strategies. • **The establishment of the European Competitiveness Fund** will provide additional funding opportunities for financial services firms, enabling them to support and

Key theme	Actions	Key implications for firms
	and manufacturing, leveraging private investments. **Delivery of the E-SIU:** including by: • **Moving CMU to E-SIU:** The EU faces massive financing needs, estimated at EUR 750-800 billion per year by 2030, to achieve its goals on innovation, climate neutrality and defence. The Commission will present a Strategy and Communication on the E-SIU to mobilise private capital and promote low-cost saving and investment products at the EU level. On 3 February the European Commission launched a call for evidence on E-SIU.[5] • **Promoting low-cost saving and investment products:** Encouraging retail investors to invest in EU projects. • **Securitisation market:** Measures will be introduced to promote the EU's securitisation market, create additional financing capacities for banks, and harmonise insolvency frameworks across the EU. • **Unified supervision:** Promoting market-driven consolidation of financial markets infrastructure.	invest in high-growth sectors. • **Access to capital:** Firms may benefit from greater access to capital through new investment products and a more integrated financial market. • **Regulatory compliance:** Firms will need to comply with new regulations related to the E-SIU, which may involve changes in their financial practices and reporting.

The Competitiveness Compass for the EU presents a comprehensive framework aimed at enhancing the EU's competitiveness through innovation, decarbonisation, reducing dependencies, regulatory simplification and improved access to financing. Regulated firms will need to navigate these changes and adapt their operations, compliance practices and strategic planning to align with the new regulatory environment. The potential benefits include reduced compliance costs, improved access to funding and enhanced supply chain resilience, but firms must also be prepared to meet new standards and participate in joint initiatives to fully leverage these opportunities.

Key takeaways from the European Commission’s AWP

The European Commission’s AWP for 2025 and its Annexes outlines, over 42 pages, a series of legislative and non-legislative initiatives, the latter including the Competitiveness Compass but much more. This can be summarised as follows:

Type of deliverable	Proposals	Key implications for firms
Legislative initiative	**1. Revision of the Sustainable Finance Disclosure Regulation (SFDR)**	Regulated firms may need to adapt to new disclosure requirements, which may include more detailed reporting on environmental, social, and governance (ESG) factors. This will likely

[5] Available here.

Type of deliverable	Proposals	Key implications for firms
	The SFDR revision, scheduled for Q4 2025, aims to enhance transparency in sustainable investments.	increase compliance costs but also provide opportunities for firms to differentiate themselves through robust sustainability practices.
Legislative initiative	**2. Digital Package** Expected in Q4 2025, this legislative package will include measures to streamline digital processes and enhance cybersecurity.	Regulated firms may need to invest in digital infrastructure and cybersecurity measures to comply with new standards. This initiative aims to reduce administrative burdens and improve operational efficiency, but firms must be prepared for initial implementation costs.
Legislative initiative	**3. European Business Wallet** The European Business Wallet, also slated for Q4 2025, will facilitate secure data exchange between businesses and government entities. This initiative will simplify compliance processes and reduce the need for paper-based documentation.	Firms may need to integrate their systems with the new digital wallet, which may require significant IT investments.
Legislative initiative	**4. Industrial Decarbonisation Accelerator Act** Scheduled for Q4 2025, this act will support energy-intensive industries in their decarbonisation efforts.	Financial services firms, particularly those involved in financing industrial projects, may need to align their investment strategies with the new decarbonisation requirements. This may involve reassessing the risk profiles of certain investments and increasing due diligence on environmental impacts.
Legislative initiative	**5. Targeted Revision of the REACH Regulation** The revision of the REACH Regulation, planned for Q4 2025, will simplify the regulatory framework for chemicals.	Firms involved in the production or financing of chemical products will need to stay abreast of the new requirements to ensure compliance. This revision aims to reduce administrative burdens and accelerate decision-making processes.
Simplification and implementation priorities	**6. Omnibus Packages** The CWP includes several Omnibus packages aimed at simplifying legislation. These packages will address sustainability (including its taxonomy), investment simplification, and the removal of paper requirements. Thes can be summarised as: • **First Omnibus Package on Sustainability (Q1 2025):** This legislative initiative aims to streamline sustainability reporting and due diligence requirements. • **Second Omnibus Package on Investment Simplification (Q1 2025):** This package will simplify investment processes and reporting requirements. • **Third Omnibus Package (Q2 2025):** This includes measures for small mid-caps and the removal of paper requirements.	Regulated firms will benefit from reduced administrative burdens, but they must stay informed about the specific changes to ensure compliance. These changes may contribute to: • **Reduced compliance costs:** Firms can expect a reduction in compliance costs due to simplified reporting and regulatory requirements. • **Increased operational efficiency:** The removal of paper requirements and the shift towards digital processes will enhance operational efficiency. • **Improved regulatory clarity:** Streamlined regulations will provide greater clarity and reduce the complexity of compliance.

Type of deliverable	Proposals	Key implications for firms
	• **Digital Package (Q4 2025):** This initiative will focus on creating a digital regulatory environment, removing inefficient paper-based requirements.	
Simplification and implementation priorities	**7. Simplification and streamlining initiatives – other than the Omnibus proposals** The European Commission will focus on simplifying and streamlining existing regulations rather than introducing new, complex regulations (other than those already in the pipeline as proposals – see below). This includes: • **Annual Plans or Evaluations and Fitness Checks**: This plan will allow for a critical look at the potential to simplify, consolidate, and codify the EU acquis, reducing costs and administrative burdens. • **Fitness check on the legislative acquis in the digital policy area (Q4 2025)** • **Evaluation of the Geo-blocking Regulation (Q4 2025)** • **Revision of the Sustainable Finance Disclosure Regulation (Q4 2025):** This legislative initiative will include an impact assessment and aim to enhance transparency in sustainable finance. • **Review of the Securitisation Framework (Q2 2025):** This will address issues related to private funding and competitiveness.	Regulated firms will want to proactively engage in this space in order to be able to forward plan for respective changes.
Non-legislative initiative	**8. Competitiveness Compass** – as above.	As above.
Non-legislative initiative	**9. Single Market Strategy** Expected in Q2 2025, the Single Market Strategy will aim to remove barriers to cross-border trade and investment. The Single Market Strategy will present a new horizonal strategy to modernise the Single Market with a clear path towards further facilitation cross-border provision of services and goods.	Financial services firms will benefit from a more integrated market, but they must also be prepared for increased competition. Firms should consider strategies to leverage the expanded market opportunities while maintaining compliance with harmonized regulations.
Non-legislative initiative	**10. EU Start-up and Scale-up Strategy** This strategy, scheduled for Q2 2025, will support the growth of innovative companies, including around access to finance and infrastructure, entering new markets, obtaining data and attracting the necessary talent. This work will prepare the ground for the new European Innovation Act.	Financial services firms should look for opportunities to finance start-ups and scale-ups, particularly those involved in high-tech and sustainable sectors. This initiative will likely increase the demand for venture capital and other forms of risk capital.

Type of deliverable	Proposals	Key implications for firms
Non-legislative initiative	**11. Social fairness and consumer protection** This includes deliverables in response to a: • **New action plan on the Implementation of the European Pillar of Social Rights (Q4 2025):** A non-legislative initiative to tackle employment, skills, and social issues. • **2030 Consumer Agenda (Q4 2025):** A non-legislative initiative to (further) protect consumers in the Single Market.	Financial services firms will need to ensure that they: • **Social Responsibility:** Firms will need to align their practices with the principles of the European Pillar of Social Rights, ensuring fair treatment of employees and stakeholders. • **Consumer Protection:** The 2030 Consumer Agenda will introduce new requirements for consumer protection, which firms will need to comply with to avoid penalties and maintain consumer trust.

In terms of pending legislative proposals, the Annex to the European Commission's AWP sets out that the following financial services relevant pending legislative proposals are planned to be advanced by the European Commission:

- Proposal of the EU's Late Payments Regulation remains tabled – despite numerous criticisms[6]
- Proposal on EU Directive European Cross-Border Associations
- Proposal for a Regulation on the provision of digital euro payment services providers incorporated in Member States whose currency is not the euro
- Proposal, as part of the Single Currency Package,[7] for a Regulation on the legal tender of euro banknotes and coins
- Proposal for the Payment Services Regulation (PSR), revised Payment Services Directive (PSD 3) and the Regulation for Financial Data Access (FIDAR)[8]
- Proposal for a Directive and Regulation for amendments as regards EU retail investor protection rules as delivery of the Retail Investor Strategy package. Progress had stalled in recent months
- Proposal for a Regulation as regards the modernisation of the Key Information Document
- Delivery of the bank crisis management and deposit insurance (CMDI) package. CMDI comprises changes which would amend the Bank Recovery and Resolution Directive, the Single Resolution Mechanism Regulation and the Deposit Guarantee Schemes Directive. Specifically, the Annex refers to a:
    - Proposal for a Directive as regards scope of deposit protection, use of deposit guarantee schemes funds, cross-border cooperation and transparency
    - Proposal for a Regulation establishing the European Deposit Insurance Scheme (EDIS)
    - Proposal for a Regulation as regards early intervention measures, conditions for resolution and funding of resolution action
- Proposal for a Directive on harmonising certain aspects of insolvency law
- Proposal for a Council Directive laying down rules on debt-equity bias reduction allowance and limiting the deductibility of interest for corporate income tax purposes
- Proposal for a Directive preventing the misuse of shell entities for tax purposes (the Unshell Directive)

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[6] See Client Alert here.
[7] See earlier Client Alert here.
[8] See earlier Client Alert here.

- Proposal for a Council Directive on the common system of a digital services tax on revenues resulting from the provision of certain services

- Proposal for a Council Directive laying down rules relating to the corporate taxation of a significant digital presence

Not included in the above list, but published separately in conjunction with the release of the above is the European Commission's legislative proposal to amend the Central Securities Depositories Regulation in line with the planned move to a T+1 securities settlement cycle by 11 October 2027. This, and each of the respective developments above are covered in standalone Client Alerts.

In addition to the above, the Annex to the European Commission's AWP confirms that the following EU legislative instruments have been identified as obsolete or unlikely to reach agreement and will be withdrawn. These include:

- **Proposal for a Council Directive on a common system of taxation applicable to interest and royalty payments**: This proposal is considered obsolete and will be addressed via an upcoming Omnibus act.

- **Proposal for a Regulation on sovereign bond-backed securities**: This proposal is (perhaps somewhat regrettably) blocked and further progress is deemed unlikely.

- **Proposal for a Directive on standard essential patents**: No foreseeable agreement and the Commission will assess whether another proposal should be tabled.

So, what perhaps is missing from both the Competitiveness Compass and the AWP for 2025? While innovation to drive economic growth is very much centre-stage in these legislative and non-legislative proposals, there are a number of items that are perhaps missing to support the harmonisation and efficiency of working capital provision and supply chain financing – an area that is both important to the real economy and the financial services as well as market participants active in financing the execution of global trade. This is particularly important given the outlook for 2025 through to 2029 given the rising politicisation of the use of tariffs and its impact on trade. The EU's focus on supply chain resilience does not really address some of the practical issues in that market. Nor does the continued EU proposal of the Late Payments Regulation.

The EU's Late Payments Regulation, which would replace the EU's existing Late Payments Directive, will likely continue to fail to address what the EU but also global market participants to operate more efficiently and indeed to foster competitiveness.[9] Far more sensible efforts might see the Commission actually directing its rulemaking efforts in streamlining existing rules and consolidating these in a new chapter in the EU's Single Rulebook for financial services to cover factoring, invoice and/or receivables financing plus supply chain financing with greater uniformity and consideration of the practical issues and pitfalls that arise throughout the financing and equally the supply chain. If this were to happen, it perhaps might make it easier for EU financial services firms to better deliver (secured) financing and much needed capital to SMEs on a cross-border basis and in particular in respect of cross-border exposures, where issues on conflicts of laws on assignability and notification requirements may often hinder execution, and thus improve the EU's competitiveness for financial services firms and real economy firms active in this area.

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[9] As noted in the earlier Client Alert (available here): Since the introduction of the Late Payment Directive, several business models have also emerged to address working capital and other trade and supply chain financing needs of the real economy. This ranges from securitising receivables through to alternative financing approaches, to address the challenges on cashflow arising for businesses when dealing with delayed or outstanding payments. Among these models are factoring or invoice financing, supply chain financing such as dynamic discounting and reverse factoring and peer-to-peer (P2P) lending which all aim to creating a more efficient payment ecosystem overall by also reducing financial stress. The development and adoption of these models may vary across the EU Member States and approaches as to how such alternative financing models are regulated are still drawn-up against national lines. This thus drives fragmentation instead of efficiency and certainty that could be achieved through pan-EU legislative and regulatory harmonisation of factoring and supply chain financing in a meaningful manner so as to make such vital and in-demand products easier to operate across the EU-27 for the benefit of SMEs and indeed all businesses. As receivables financing, receivables securitisations as well as factoring and supply chain financing transactions are often cross-border, in particular where receivables are also offered to be financed via platforms, multiple laws apply to such transactions and (competing) compliance requirements including on notification and perfecting assignments.

Outlook

The European Commission's Competitiveness Compass and AWP for 2025 present a transformative agenda aimed at bolstering the EU's competitiveness through innovation, decarbonisation, regulatory simplification, and enhanced investment coordination. For financial services firms, this comprehensive framework offers both opportunities and challenges.

On the one hand, firms can look forward to possibilities of increased access to funding, the ability to test innovative products in regulatory sandboxes and (eventual) reduced compliance costs through streamlined reporting requirements. On the other hand, they must prepare to meet new standards, particularly in the areas of cloud services and AI and navigate the complexities of a more integrated and competitive market environment – especially at a time where other global jurisdictions are proposing different (perhaps not always prudent) approach(es) on (de-)regulation

The EU’s continued focus on decarbonisation and energy efficiency will also have significant implications, requiring firms to align their operations with new environmental standards and participate in initiatives like the Clean Industrial Deal. Additionally, the emphasis on reducing dependencies and increasing supply chain resilience will necessitate strategic adjustments in sourcing and production practices.

Overall, the initiatives outlined in the Competitiveness Compass and AWP 2025 signal a dynamic shift towards a more competitive, innovative, and sustainable EU economy. Financial services firms must proactively engage with these developments, leveraging the opportunities for growth and innovation while ensuring compliance with the evolving regulatory landscape. By doing so, they can position themselves to thrive in a rapidly changing market and contribute to the broader goals of economic resilience and sustainability.

About us

PwC Legal is assisting a number of financial services firms and market participants in forward planning for changes stemming from relevant related developments. We have assembled a multi-disciplinary and multijurisdictional team of sector experts to support clients navigate challenges and seize opportunities as well as to proactively engage with their market stakeholders and regulators.

In order to assist firms in staying ahead of their compliance obligations we have developed a number of RegTech and SupTech tools for supervised firms. This includes PwC Legal’s Rule Scanner tool, backed by a trusted set of managed solutions from PwC Legal Business Solutions, allowing for horizon scanning and risk mapping of all legislative and regulatory developments as well as sanctions and fines from more than 2,500 legislative and regulatory policymakers and other industry voices in over 170 jurisdictions impacting financial services firms and their business.

Equally, in leveraging our Rule Scanner technology, we offer a further solution for clients to digitise financial services firms’ relevant internal policies and procedures, create a comprehensive documentation inventory with an established documentation hierarchy and embedded glossary that has version control over a defined backward plus forward looking timeline to be able to ensure changes in one policy are carried through over to other policy and procedure documents, critical path dependencies are mapped and legislative and regulatory developments are flagged where these may require actions to be taken in such policies and procedures.

The PwC Legal Team behind Rule Scanner are proud recipients of ALM Law.com’s coveted “2024 Disruptive Technology of the Year Award”.

If you would like to discuss any of the developments mentioned above, or how they may affect your business more generally, please contact any of our key contacts or PwC Legal’s RegCORE Team via de_regcore@pwc.com or our website.

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