PIFS

Program on International Financial Systems

Symposium on Building the Financial System of the 21st Century:

An Agenda for Europe and the United States

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Final Report

SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR EUROPE AND THE UNITED STATES

The 24th Europe-U.S. Symposium of the Program on International Financial Systems was held in Washington, DC from April 13-15, 2026. Participants discussed the impact of tokenization and artificial intelligence (AI) on financial services, the future of public and private capital markets, the implementation of Basel III Endgame, and macroeconomic prospects for the U.S. and Europe.

Topic 1: The Future Impact of Tokenization and AI on Financial Services

In Topic 1, participants discussed the current and future impacts of tokenization and AI in financial services. Many participants saw tokenization as providing important new benefits in a variety of financial transactions, due to the potential for improved efficiency and lower costs. Others anticipated more limited usage. Much of the discussion focused on tokenized money, including stablecoins and central bank digital currencies (CBDC), where tokenization had been used most extensively to date. An important question for many was how to regulate issuance and use of stablecoins, including concerns about anonymity, irreversibility, financial stability, and potential disintermediation of banks. Participants also discussed the use of AI in financial services at length. While noting that versions of AI were already extensively used in finance, they raised questions about how AI should be managed by financial institutions and regulated by authorities, and how to prevent regulatory fragmentation and arbitrage.

Tokenization of Securities or Other Assets

There was considerable enthusiasm about tokenization at the symposium. Trading assets on the blockchain would allow for improved efficiency by simplifying record-keeping and settlement, whether through permissioned blockchains maintained by exchanges or other financial institutions or allowing for fully decentralized financial transactions (de-fi) on public blockchains.. This could speed transactions, allow for immediate settlement, and reduce transaction costs for custodianship, escrow, and record-keeping. It was noted that, despite significant technological improvements over the last century or more, transaction costs had continued to account for around 2% of the costs of investing; tokenization and blockchain trading had the potential to finally reduce that amount and free up more capital for investors and the economy.

In addition to improving efficiency of existing functions, tokenization also offered novel features that could benefit investors and issuers of tokenized assets. These included fractionalization, which could expand access to high-priced securities; smart contracts, which could enhance custody and escrow arrangements, even in large transactions; and decentralized. Finally, tokenization was seen as an infinitely flexible wrapper for any asset, ranging from money to securities to real estate.

For many participants, immediate settlement on a delivery vs. payment (DvP) blockchain was a particularly attractive feature of tokenization. This would allow for 24/7 trading and settlement without settlement risk, while also enabling investors to keep their money invested at all times rather than sitting in non- or low-interest-bearing reserves.

Some participants were more skeptical about the potential of tokenization to transform financial intermediation. Several argued that the current system is working well in many regards. It is fast, accurate, and available around the globe. The system was built on a solid legal foundation and had an extensive set of infrastructures that accurately processed enormous numbers of transactions and data. Even though these systems involve multiple ledgers and intermediaries

appeared to be a less efficient architecture, they benefit from massive network effects and have proven their usefulness and adaptability through many decades of practice. Thus, these participants anticipated that traditional finance ("trad-fi") would remain the dominant form of financial intermediation for years to come, even though tokenization was likely to make inroads for some types of transactions and investors.

In addition, a number of participants made the case that some of the problems that tokenization promised to solve were desirable features of the trad-fi system rather than bugs. An important case in point was intermediation. Tokenized trading offered promises of speed and lower transaction costs, but intermediation was also seen to offer some important benefits. One example was netting, which significantly reduced costs of transactions in intermediated finance, but was not practical in tokenized trading. Reversibility was another important feature of intermediated finance, allowing mistaken or criminal transactions to be traced and reversed. Likewise, some participants questioned whether 24/7 trading may prove problematic during periods of enhanced market stress or financial instability, when solutions are often crafted while the markets are closed. As some participants argued, the efficiency gains of going from T+1 settlement to T+0 settlement might be much lower than the potential losses that could be incurred through erroneous transactions, system hacks, and the like. A related downside, as with all forms of digital assets, was concerns over the potential of DLT to facilitate money laundering, tax evasion, and other criminal activities due to the ability to operate in anonymity.

Other questions participants raised were practical ones as to whether tokenization could fulfill some of the hopes of its advocates. For example, fractionalization could be a way to extend ownership opportunities and offer liquidity. However, fractional tokens might trade at a discount or premium to the underlying asset. Challenges also could arise in valuation and transfer of the asset. Clear legal frameworks to define ownership rights would be needed to achieve the promise of fractionalization.

One apparent takeaway of the discussion was that tokenization would likely operate as just one component (albeit a rapidly growing one) of a broader set of ways of owning and transacting assets. Different types of investors were likely to have different preferences for tokenization or various parts of the trad-fi universe, based on their size, legal status, and risk tolerance.

Tokenization of Money: Stablecoins and Deposits

The discussion of tokenization also focused on money and payments. Much of the discussion focused on stablecoins, but participants also discussed CBDC and tokenized bank deposits as viable alternatives going forward.

Tokenized money, primarily in the form of stablecoins, was already by far the biggest use case for tokenization, and participants anticipated that it would likely continue to expand more rapidly than other uses. Moreover, tokenized money was the essential substrate for digital payments and settlement, so its success and widespread usage would be essential to the success of the tokenization of securities and other assets.

Stablecoins had already become an essential bridge between trad-fi and digital finance, and were expected to remain so. More broadly, tokenized money offers the promise of fast, inexpensive, direct payments. Using the example of stablecoins, a number of participants argued that the only real obstacle to their widespread use in settlement was network effects, but as investment in digital assets became more ubiquitous, payment in stablecoins was likely to surpass other forms of electronic payments among households and individuals. Tokenized money would be particularly useful for cross-border transactions, where transaction costs were higher than domestic electronic payments. Moreover, for unbanked individuals or residents of high-inflationary environments, stablecoins could be an attractive store of value that would hold their value and have the anonymity of cash without the dangers of holding physical currency.

However, participants raised a variety of concerns that still impeded the expansion of tokenized money as a payment system. Perhaps the most important of these was whether issuers of such tokens could guarantee that they would hold their value under stress. While private stablecoin issuers had long made claims about the quality and sufficiency of their backing, participants noted that users would need a high degree of certainty that their holdings of stablecoins would not decline in value if they were to use them widely for settlement or storing value.

One solution to concerns over sufficient backing was a regulatory one. This was an approach that authorities in Europe and the U.S. had converged upon, in the form of the EU's Markets in Crypto-Assets (MiCA) Regulation, the U.S. GENIUS Act, and the soon-to-be-finalized UK Stablecoin Regime. In each case, regulators would ensure adequate backing of stablecoins using high-quality liquid assets. Moreover, these regulations barred stablecoin issuers from paying interest. In principle, central banks could offer to backstop stablecoins that met regulatory standards, in the same way that the discount window was available to banks and that the Fed had backstopped money-market funds during the global financial crisis. However, this was seen as unlikely to be instituted as policy, although some participants warned that a central bank might choose to do so to prevent a financial crisis.

Participants noted that an alternative approach to ensuring that the value of tokenized money would hold under pressure would be CBDC. As opposed to stablecoin regulations, where there was considerable convergence between the U.S. and Europe, there were significant differences among jurisdictions regarding CBDC. While the ECB was moving ahead with plans to issue a digital euro, the U.S. Congress and administration had rejected the possibility of a digital dollar. The BOE was still studying whether to issue its own CBDC.

Another alternative to stablecoins would be tokenized deposits. A number of participants were enthusiastic about this possibility, which they saw as superior to stablecoins in a number of ways. First, banks were already highly regulated, insured, and backstopped by central banks in order to preserve the value of deposits, making them immediately trustworthy. Second, unlike stablecoins under current U.S., EU, and UK regulation, tokenized deposits could pay interest. Finally, large banks or bank networks could further reduce costs of transactions by netting payments.

Most participants anticipated that the various forms of payments would coexist, with traditional payments systems (such as wire transfers and interbank payment systems like Zelle) operating alongside stablecoins and tokenized deposits, with users choosing among them based on their

own particular preferences. For example, stablecoins were seen as particularly attractive for small payments, cross-border payments, unbanked users, and accessing native-digital assets such as Bitcoin.

Despite the technological and legal advances that had enabled tokenized money, however, some participants cautioned that widespread use could be limited by lack of interoperability. For instance, there remained frictions when moving stablecoins from one blockchain to another; and although payments using tokenized deposits worked well *within* a given bank, for more widespread use, banks would have to create new systems to support transactions *across* banks. This would require the creation of new standards and agreements.

Regulating Tokenized Assets

With the passage of the GENIUS Act and the progress of rulemaking based on it, the transatlantic economies were approaching a comprehensive regulatory structure around tokenized money and other assets. Still, participants noted that important practical regulatory challenges continued to exist. For example, the anonymity of stablecoins raised regulatory concerns regarding AML and KYC. While many participants saw a path to address that issue through on-ramps and off-ramps at financial institutions in which users would be required to identify themselves, a comprehensive system had not yet been established. Also, there remained questions about how investors and market participants should be protected when trading tokenized assets, such as tokenized securities, which is the subject of the CLARITY Act pending in Congress..

One major question was who should be regulated and whether or how to address regulatory gaps and arbitrage. Participants noted discrepancies between the ways in which different jurisdictions regulated intermediaries like crypto exchanges. While regulation of such intermediaries was incorporated into the EU's MiCA regulations, there was still uncertainty in the U.S., where the CLARITY Act had not yet been finalized. Some participants also raised the question of whether protocols and protocol authors should be overseen by financial regulators, as MiCA did in principle.

The relationship between issuers of assets and issuers of tokens was also still in question. For example, the GENIUS Act barred stablecoin issuers from paying interest, but intermediaries like Coinbase or Robinhood were able to pay interest to users who held stablecoin accounts. Similarly, there were already cases in which ETF tokens had been issue by special purpose vehicles with no direct relationship to the ETF issuer. For some participants, this raised questions of branding and intellectual property, since the SPV was profiting off the ETF issuer's research and brand name without paying any fees. Moreover, such tokenized ETFs could create reputational damage to the ETF issuer if the token did not hold its value (e.g., due to mismanagement, fraud, or a cyber hack), raising further questions about whether token issuers should be accountable in some way to the issuer of the underlying asset.

Participants addressed two other issues of interest to regulators. One was fragmentation. Participants agreed that one of the biggest barriers to widespread use of tokenized money was fragmentation. While some of this was due to technical challenges of interoperability, many

participants saw opportunities for policy makers to promote interoperability. For example, policy makers could convene banks and stablecoin issuers with the goal of creating common standards. Moreover, some of the fragmentation, particularly in cross-border transactions but also even between U.S. states, was seen to be a result of differences in regulation across jurisdictions. A number of participants called for greater regulatory dialogue in order to create common principles and standards.

Finally, tokenized money and digital payments raised concerns among many participants about financial stability. Instantaneous settlement combined with 24/7 transactions had the potential to exacerbate contagion among financial institutions. It was argued that prudential regulators would need to adapt current practices of weekend bank resolutions in order to keep up with the faster pace and liquidity flows.

Participants also recognized the potential for cross-border instability. They expected stablecoins to be particularly challenging for developing economies with high inflation and/or capital controls, as stablecoins provided opportunities for retail capital flight and evasion of capital controls at a speed and scale that could be highly destabilizing. In contrast, the U.S., EU, and UK were seen as likely to benefit from inflows, with the international role of the dollar in particular likely to be enhanced.

Current Status and Emerging Use Cases of AI

Participants discussed at length current and future uses of AI in finance. So far, AI had penetrated deeply into several functions. One of the most common was customer relations, where chatbots and robo-advising had made substantial inroads. Participants agreed that AI allowed financial institutions to provide tailored advice to many more investors and depositors at lower cost than ever before, helping to improve investment returns and portfolio decision making, even though users might complain about not being able to connect with a person.

AI had also had a major impact on research, including by automating tasks such as updating data and producing figures and pivot tables. In recent years, there had also been a significant increase in the use of AI for collecting and analyzing unstructured data, such as processing thousands of pages of quarterly reports quickly and efficiently. Participants agreed that well-trained AI systems could increase analysts' productivity by tenfold or more, while uncovering relationships and anomalies in data that would be difficult or impossible for even an experienced analyst to do on their own. At the same time, the use of AI in research and analysis was also having a negative impact on employment in that function, leading firms to reduce headcount in their research sections.

AI had also proved extremely effective in detecting crime and abuse in the financial system, including money laundering, fraudulent transactions, and insider trading. Both financial institutions and supervisors relied on machine learning algorithms to detect such abuse in real time, improving efficiency and reducing the time lag between abuse and detection. (On the other hand, it was noted that criminals were also making use of AI to better carry out fraud, leading to an ongoing race between offenders and defenders to stay ahead.)

Participants also expressed enthusiasm about several emerging use cases. One of the most eagerly discussed of these was in credit evaluation. A variety of financial institutions were experimenting with AI to speed and improve the accuracy of credit evaluations, using both traditional and non-traditional data. Despite the evident potential for AI to improve both credit decisions, however, a number of participants also expressed the need for caution for several reasons. One was the lack of transparency into how AI models were using novel data to evaluate credit. Equally importantly, participants cautioned against making use of new forms of data whose value had not been rigorously validated across the full credit cycle, as it could lead to overconfidence. Moreover, AI models had been shown to have hallucinations and to reflect and reinforce social biases. Although hallucinations and biases could be reduced by training models on good data, the possibility of AI creating such errors could never be dismissed. As a result, most financial institutions were continuing to insist on leaving final decisions to humans, but many participants expressed the opinion that it was only a matter of time before many lending decisions were fully automated.

Another emerging use case was in reporting and compliance. A number of participants remarked on how time-consuming and tedious reporting could be. AI could streamline the reporting process considerably, for example by filling out boilerplate with data and analysis for quarterly reports and prospectuses. AI could be a game-changer in incident reporting as well, with the potential for a seamless sequence from detection to automated reporting.

Finally, AI was taking a growing role in ensuring cyber security and detecting breaches when they occurred. Only days before the symposium, Anthropic's Claude Mythos AI model had discovered thousands of zero-day flaws in major systems used in finance, which sparked serious concerns among many participants about the potential for cyber attacks and hacks. While Mythos had demonstrated that AI could be part of the problem, however, it also demonstrated the importance of using AI to stay ahead of attacks and respond to them quickly and efficiently.

Managing and Regulating AI in Financial Services

Participants wrestled with what roles humans should play as opposed to AI models. To date, they noted that a key principle in most uses of AI had been that humans would make critical decisions. However, that was being eroded in the interest of reducing costs and increasing the speed of decisions, but without adequate explainability. This could lead to problems in credit decisions, for example, where excessive risks could build up without managers being aware of them. A number of participants identified automated trading as a matter of particular concern. They noted that algorithmic trading had already created concerns over herd instincts and procyclical trading that could threaten financial stability. But generative AI-powered models making decisions that had not been programmed and that could not be explained to decision makers raised even bigger concerns.

Many participants also saw AI's ability to rapidly increase productivity and displace human analysts and decision makers as likely to lead to profound shifts in the nature of work in the financial sector. Job cuts were already evident in research, software development, and portfolio management, and participants agreed that it was just a matter of time before they extended elsewhere. At the same time, many participants anticipated that the penetration of AI would also

lead to the creation of new jobs and demand for skilled labor in other areas. However, there was considerable uncertainty as to where the demand would be and what skills would be called for.

These were seen as concerns for both financial institutions and regulators. Participants agreed that companies and financial institutions must have robust internal governance and controls on AI to ensure that managers understood how AI was being used throughout the firm and to have a clear decision-making process about what uses were appropriate. Moreover, given the very rapid speed of technological change, participants agreed that it was important to have processes for evaluating new uses and monitoring possible dangers or misuse. Many participants argued that firm-level governance was the first line of defense, as firms recognized that their business success or failure depended on effective management of AI.

Regulators were also seen to have an important role in defining legal responsibilities, mandating processes, and creating guardrails for the use of AI in finance. However, many participants emphasized that it was essential that regulators should work with financial institutions rather than try to impose solutions from outside. They pointed out that the interests of the financial institutions in preventing mistakes and abuses were at least as strong as the interests of regulators in investor protection and financial stability and so financial institutions themselves should take the lead; thus, communication, cooperation, and coordination were in order. Moreover, the very speed of change in the technology, capabilities, and use cases of AI meant that regulators were unlikely to have either the technological capability or knowledge of actual use of AI without establishing a cooperative relationship with financial institutions and tech platforms. Another implication of that speed of change was that participants also advocated for a principles-based approach to regulating AI in finance rather than a prescriptive compliance-based approach.

While much of the discussion of AI in the financial industry addressed common problems or trends and uses across the sector, participants noted that regulators in Europe and the U.S. were approaching some of the challenges very differently. They saw the major differences operating at a fundamental level rather than just in terms of specific rules or uses of the new technology. The U.S. approach to AI was permissive in principle and prioritized promoting innovation. To the extent that regulations were being imposed on the use of AI by financial institutions, they were based on existing legal categories and authorities, with a philosophy of regulating by function rather than trying to regulate the technology itself. In contrast, participants saw the EU as seeking to create a comprehensive approach to regulation of AI, as exemplified by the sprawling 2024 AI Act. Moreover, the EU had been much more assertive in defending privacy rights and data security, such as with the General Data Protection Regulation (GDPR), which imposed significant restrictions on companies' use and storage of data.

The gap between U.S. and EU approaches to AI and data raised concerns among participants about regulatory fragmentation. They worried that internationally-active financial institutions would have a hard time complying with conflicting U.S. and EU rules. Moreover, they worried that the potential threats raised by the improvements and widespread dissemination of AI would be harder to address if regulators could not come up with common standards. Thus, they urged regulators to pursue meaningful cooperation with their transatlantic counterparts.

Topic 2: The Future of Public and Private Capital Markets

In Topic 2, participants discussed the future of public and private capital markets in Europe and the U.S. They agreed that it was important to nurture a diverse financial ecosystem that could provide funding to companies across size, sector, business model, and stage of development, which would include roles for both public and private markets. Much of the discussion focused on why companies increasingly preferred to raise capital from private markets, as well how to regulate both public and private markets to ensure both financial stability and growth funding for the economy.

Growth of Private Markets

Private markets had expanded considerably in recent years in the U.S., and to a lesser extent in Europe. Participants saw the rise of private equity and private credit as related phenomena, but arising from different regulatory and competitive environments. This raised questions about the appropriate roles for public vs. private markets, as well as concerns regarding overregulation of public markets and the potential dangers of risk migration from banks to private credit.

Private Equity

In the equity space, participants remarked upon two trends. One was the increasing tendency of publicly-traded firms to go private. While there had always been some exits from public markets, such as in takeovers or leveraged buyouts, participants observed that the pace had increased. Also the same time, entries into the public markets through IPOs had decreased. The net effect was a retreat from public markets, particularly in the U.S. but also in European markets.

Participants attributed these trends to several causes. An overriding one was the high costs of operating as a public company, including compliance costs, reporting costs, and the ever-present risk in U.S. markets of securities class actions..

Some participants argued that not only had these costs risen over the past two decades of retreat from public markets, but that the relative benefits of being in public markets had declined. This was disputed by others, who argued that public listing was associated with a variety of important benefits, including access to lower cost funding. Going public meant not just the opportunity to raise money through an IPO, but also made it easier to access funds in other ways. It was noted that public companies raised even more through secondary offerings than through IPOs, which was a relatively low-cost way of bringing in investment at a predictable price. Publicly-listed companies were also able to borrow more cheaply than private companies, whether through bonds, bank lending, or private credit.

With regard to declining IPOs, a number of participants also argued that there were more options for founders and early investors to exit positions without going public. They pointed to the expansion of players in private market through all stages of corporate growth, with the rise of private equity firms with a variety of investment strategies and time horizons. Private secondary

markets had also expanded, giving individuals the opportunity to exit positions more flexibly and with fewer public disclosures than going public.

One important reason given for the rise of private equity was that over long time periods, private equity investment showed higher returns than investing in public markets. This raised the question of why that should be the case. Participants considered several possibilities. Some argued that the model of private equity was superior to public markets, because it better aligned the interests of owners with top management, since owners had direct control over companies. Others argued that public listing made companies more sensitive to short-term price movements and profitability, whereas private firms could take longer-term views on investment and decision-making because the long lock-in periods attracted investors with longer time horizons. This was seen as particularly helpful in frontier technologies and rapidly growing firms whose growth depended on sustained investment in research and equipment. In contrast, some participants argued that excess returns were due to supply and demand conditions—when there were relatively few private players, they could be highly selective about investments and could get better deals. With the rising number of players in private markets, they anticipated that returns would converge back toward those in public markets.

Participants agreed that a key factor in the rise of private markets was the rise of private investors with long time horizons. In the U.S., the rise of private markets as a large component of investment portfolios was pioneered by university endowments and pension funds. The amount of funding available from such investors rose rapidly as a result of both their expanding size and their decision to allocate larger shares of their funds to private markets. Other players, such as high-net-worth individuals and family offices had also joined the ranks of long-term investors in private markets. In the U.S. and UK, life insurers had also become major players in private markets, taking advantage of their long time horizons to trade lower liquidity for higher returns. The private market investor base was more constrained in Europe, partly due to laws and regulations (e.g., Solvency II) that restricted investment choices by life insurers and pension funds.

Private Credit

While the decline in IPOs and rise in companies going private had been identified as trends since before the global financial crisis, the growth of private credit had been much more rapid and began in the aftermath of the crisis. This was particularly true in the U.S., which had the largest amount and proportion of private credit, but private credit had notably expanded in post-crisis Europe as well.

Participants identified three causes for the rise of private credit. The most important was the withdrawal of banks from lending to newer, riskier, or more growth-oriented companies. Participants linked this withdrawal directly to enhanced prudential regulation of banks, especially risk-weighted capital ratios.

Some borrowers were also seen to prefer borrowing in private credit markets. Several participants argued that private credit was a more reliable source of long-term funding than banks. While public bond markets could in principle offer attractive long-term debt financing,

that was not really an option for most SMEs and privately-held companies. In addition, some participants noted that private credit funds could be more flexible in their offerings, allowing for more bespoke lending terms and in some cases less documentation.

The third cause for the rise of private credit was, as in private equity, a rise in investors whose time horizons and risk tolerance made them willing to lock into bespoke loans for extended periods of time. The private credit model was seen as especially attractive to life insurers in the U.S. and UK (which were not constrained by Solvency II), as they had both long time horizons and a preference for consistent payment streams. Similar incentives held for pensions, endowments, family offices, etc. Another alluring feature for investors in private credit was that they did not face the same compliance costs as banks, which meant higher margins even on identically-configured loans.

Policy Issues in Private Credit

The rise in private markets in the U.S. and Europe raised a number of policy issues. Participants focused on two of these: potential systemic risk arising from private credit, and the costs and benefits of expanding retail access to private markets.

Contagion Concerns

A primary concern about private capital for prudential regulators has been its potential to spark a broader financial crisis if borrowers are unable to repay *en masse*. Opinions among participants were mixed on this topic. On the one hand, there was widespread agreement that riskier loans had migrated from the banking system into private credit, while questions remained about the quality of credit evaluation and particularly the robustness of funds' evaluation in the face of serious economic downturns. Noting that the global financial crisis had started from a small corner of the financial system before propagating rapidly around the world, a number of participants expressed concern that bad loans in private credit could similarly set off a major financial crisis. Other participants were unconcerned, arguing that even large losses would be contained to fund investors and that private credit funds were less exposed to runs than banks.

The main issue was the degree to which private credit funds were leveraged. In principle, private credit was meant to operate as a closed-end investment fund, with little or no leverage. If that were the case, then the migration of risky lending to private credit would have stabilizing effects on the system by making banks safer through concentration on better credits without run risks on private credit with long term funding. However, some participants worried that there may be more extensive interconnections with banks and other financial institutions than had been understood, either through bank loans or through derivatives whose failure could force counterparties to sell assets and thereby lead to contagion. Several participants noted that the FSB was currently working on a study to try to map interconnections, but that it had been difficult to do so. With the growth of private credit in the U.S. and Europe, this lack of visibility was an increasing concern for prudential regulators.

Retail Access

The second policy issue that participants discussed at length was retail access to private markets. They noted that the Trump administration had been working to reduce barriers to retail access, whereas EU regulators remained wary. There were mixed opinions as to the wisdom of doing so as well as what rules should govern retail access.

A number of participants argued that retail investors should be able to invest in private markets. Since private markets offered returns often exceeded those in public markets while also offering more diversification, they reasoned that retail investors should not be denied the opportunity for those benefits. In particular, several participants argued that retail investors were unfairly excluded from investing in high-growth early-stage companies prior to an IPO, where they could benefit from rapid price increases. Other participants were more wary. A major sticking point for them was illiquidity, as they argued that retail investors may not be able to weather a personal financial challenge without cashing in their investments; however, this might not be possible at any given time due to fund redemption limits. Another issue was non-transparency, particularly as it pertained to pricing. Unlike in the case of publicly-traded securities, valuation of private assets was seen as murkier and less consistent. Thus, even if they were able to sell or redeem a private asset, there could be no guarantee that they were receiving a fair market price.

There was also considerable discussion of what kind of access retail investors should have. While some advocated unfettered access to private funds, many participants felt most comfortable with allowing ownership of private assets within the context of defined-contribution pensions. They reasoned that such pension accounts were naturally long-term in nature and early withdrawal was already limited by laws and tax penalties. Moreover, some participants pointed out that many defined-benefit pension schemes were already major investors in private assets, meaning that investors were already exposed to them; thus, they argued, it made little sense to allow private assets in defined-benefit but not defined-contribution pension funds. Indeed, the U.S. was already moving towards finalizing rules to allow limited investment in private assets by individuals in defined-contribution pension schemes.

Participants also debated whether the issue of illiquidity was as big a problem for retail investors as was often supposed. They noted that business development corporations, many of which traded publicly, were already widely available as investment vehicles. There were also a growing number of ETFs with private holdings (restricted to under 15% of assets in the U.S.), as well as secondary markets in some private funds. Thus, many participants argued that illiquidity should not necessarily be seen as a barrier to retail investment in private assets. That said, the question of valuation continued to loom large for many—could valuations be trusted, and would investors be able to sell their holdings at the claimed valuations in times of financial stress? Others countered that it was not evident that constantly changing public market determined values were significantly more reliable than private market values. Some anticipated that, as retail investors gained greater exposure to private assets, market regulators would inevitably be pulled into regulating trading and pricing.

As in many aspects of finance, participants saw a greater willingness among U.S. regulators to allow experimentation in this space than in the EU. Many attributed this to a regulatory tendency to value investor protection over investor's freedom of choice in pursuing maximum returns and deciding their own risk preferences.

Private Markets in Europe

While private equity and private credit constituted a smaller portion of total finance in Europe than in the U.S., many participants saw them as important to unlocking growth capital there. This raised questions of how best to promote the sector.

Participants noted that the vast majority of companies in Europe were privately-owned, with little access to bond markets or prospects for going public. This was particularly true of SMEs. Thus, companies were largely dependent on bank lending for their credit needs. However, banks were not well situated to provide growth capital, due to strict regulations, regional fragmentation, capabilities, and business models. As a result, high levels of private saving were not translating into growth capital.

Thus, many participants saw the development of a multilayered ecosystem of financial institutions as essential for Europe's ability to shift savings into productive investment. On the equity side, they noted that at many points along the corporate life cycle—from start-up to growth to senescence and take-overs—the system lacked financial institutions that could address the particular needs of companies. They saw the U.S. model of specialized private investment ranging from angel to venture capital to large-scale private equity as providing an attractive model that EU economies had so far struggled to promote. Private capital was also seen as an important part of that ecosystem, taking on riskier loans for growing companies as well as supporting restructuring and leveraged buyouts. Some participants noted that high-growth European companies were turning to U.S. private markets for funding, benefiting U.S. markets at the expense of European ones.

While private markets were expanding in Europe, participants agreed that they were hampered by a number of regulatory and cultural factors. On the regulatory side, a major concern was Solvency II, which effectively barred insurance companies from private markets. Given the importance of life insurers in U.S. and UK private credit markets, as well as their long-term maturity profiles, many participants agreed that this was a particularly important impediment to expanding private credit in the EU. A number of participants also pointed to banking regulations that they saw as hindering banks' cooperation with private equity and private credit. Meanwhile, some participants saw cultural issues as a major stumbling block, arguing that European households saw themselves as savers rather than investors, worried much more about potential losses than about potential gains. While they acknowledged that this might be attributable to personal experiences or beliefs, many advocated a stronger government role in promoting an investment mindset.

In addition, participants encouraged European authorities to experiment with policy and market innovations to improve the attractiveness of investing in private assets. One example that was widely noted was the UK's Private Intermittent Securities and Capital Exchange System (PISCES) platform, which was intended to facilitate trading of ownership shares of private companies. The PISCES platform, which was established in 2025 under a Financial Conduct Authority (FCA) regulatory sandbox program, allows private companies to hold intermittent trading opportunities for shares of varying classes, providing an opportunity for outsiders to gain ownership shares in rapidly growing companies and for employees and early investors to cash

out in a competitive marketplace. Participants saw novel approach as having the potential to improve liquidity, transparency, and valuation, while still allowing companies discretion over reporting and eligibility for ownership.

Improving Public Markets

While much of the discussion of Topic 2 focused on private markets, participants also considered the question of how to improve the functioning of public markets to make them more attractive to investors and effective at providing growth capital to economies in Europe and the U.S.

Participants agreed that public markets were a core element of the financial system. Public equity markets provided liquidity, price discovery, and transparency, as well as offering access to retail investors either in individual securities or in funds. Strict regulation for market integrity and reporting contributed to fairness and investor confidence, which further contributed to price discovery and liquidity. Traditionally, public equity markets provided an efficient and attractive means of exit for early investors such as venture capital funds, which in turn freed up funds that they could invest in new growth companies. As participants noted, publicly-listed companies typically grew faster and had access to lower-priced funding than private ones. Public debt markets, while used primarily by larger companies as well as government and quasigovernmental issuers, offered low-cost finance to established enterprises and attractive investment options for institutional investors. These benefits extended to the economy as a whole, as economies with large and liquid public markets consistently outperformed those with smaller and less liquid markets.

Nonetheless, as noted above, public markets in the U.S. and Europe had been in decline relative to private markets for the last two decades, with fewer IPOs and more delistings. While the relative attractiveness of private markets may have been one cause of this decline, participants largely understood it as a consequence of excessive regulation, high compliance costs and liability..

In the U.S., the new SEC leadership was seen to be prioritizing efforts to reduce unnecessary costs, such as in the recent proposal to eliminate the requirement for mandatory quarterly reports and to increase the reporting focus on material information to company performance. There was some debate as to whether it was a good idea not to require quarterly financial reports. While some participants argued that it was unnecessary for analysts and investors, others made the case for consistent and comparable information being made available to markets. However, there was a broader agreement that reports could be made more useful by being shorter and more focused on material information rather than comprehensively ticking every box for compliance purposes. Many participants also agreed that printing out and mailing proxy ballots for all shareholders, even those holding stocks through fiduciaries, was an expensive logistical challenge with little benefit. Enforcement practices could add to the costs and uncertainty facing public companies as well, as seen in high fines for inadvertent or technical errors under the previous SEC leadership. And participants saw securities class action lawsuits as a particularly frustrating, unpredictable, and costly element of operating as a public company in the U.S. Some applauded the recent SEC guidance abandoning opposition to substituting individual arbitration for securities class actions. Some changes would require legislation, which participants recognized as cumbersome and time-

consuming, but they called for market regulators to work with companies and investors to reduce unnecessary burdens on public markets.

With regard to the EU, participants focused on market fragmentation and issues of data quality and availability as major stumbling blocks to expansion of public markets. Both of these issues had been long recognized as major concerns by all the major market players, including issuers, investors, exchanges, and regulators, but many participants saw change as inadequate and agonizingly slow. Market fragmentation was seen by participants as being driven by EU competition rules as well as national governments' preference to protect local exchanges, making it very difficult to address. However, they saw the effects as severe. Market fragmentation meant limited liquidity on any particular exchange, raising bid-ask spreads, complicating price determination, and making best execution more difficult. Smaller and more local issuers further suffered from the limited investor base in their home bourses. Some also believed that fragmentation was exacerbated by the widespread use of systematic internalizers and other off-exchange trading, although such alternatives had worked well in the U.S.

Data quality and availability in the EU was another major concern among participants. Although the creation of a consolidated tape was mandated in principle, it remained a work in progress. Unlike in the U.S., where Rule NMS required exchanges to provide stock trading data at low cost, in a consistent format, and in real time, competition and variable pricing across exchanges made for a more expensive and complicated information environment. Market fragmentation exacerbated the problem considerably. Some important steps had been made in recent years, such as the implementation of a Designated Publication Entity regime to simplify reporting from off-exchange trading, but many participants complained that the quality, timeliness, and cost of data in the EU made its public markets much less efficient and attractive than those in the U.S. and UK.

Topic 3: Finalizing Basel?

In Topic 3, participants discussed implementation of the Basel III Endgame in Europe and the U.S. While they agreed that the post-financial crisis reforms in banking and markets had made the financial system more resilient and stable, many participants argued that bank regulations had been too onerous, hampering banks' ability to provide credit to growing companies and sectors. With the implementation of the endgame approaching, participants assessed differing approaches to implementation in the U.S., UK, and EU, as well as potential implications.

Basel III: Stability and Side Effects

Participants agreed that the Basel III proposal had both improved system stability and reduced the likelihood of systemically important banks failing at taxpayer expense. However, many argued that it had done so at the expense of limiting credit availability and economic growth. Accordingly, there was considerable discussion about the costs vs. benefits of various aspects of the system.

Discussion focused primarily on Basel III's capital requirements. For major banks, total capital requirements include a G-SIB[1] surcharge and Total Loss-Absorbing Capacity (TLAC) requirements, as well as the fundamental risk-weighting rules. The resulting capital stack was substantial, particularly in the U.S., where gold-plating (higher requirements than Basel) and stress testing could mean that a major bank could be required to hold as much as twice the capital of its competitors in other jurisdictions. While one formal justification was that U.S. G-SIBs' business models were more complex than those of foreign banks, participants also argued that various components of the capital stack had been established at different times, with little consideration as to their interactions and in many cases their overlaps. These costs had made big banks more conservative in their lending as well as their willingness to engage in market-making in the Treasury market, which had the effect of shifting more of those functions to private credit and hedge funds.

Other participants saw EU rules as more onerous for the banking system. Importantly, the EU was applying Basel rules to all banks, in contrast to the U.S., where Basel only applied to large ones. The effects of Basel III on the European banking system were seen as mixed. It was argued that the banking system had become much more resilient, primarily by requiring weaker banks to increase capital and improve risk management. However, a number of participants argued that, while individual banks and the banking system as a whole were better capitalized and more resilient, that had come at the expense of credit creation. This was seen as a bigger problem in the EU than in the U.S., as the alternative of private credit was much smaller and less developed there.

Thus, despite the principle of global regulatory convergence on which the Basel system was based, participants saw significant and continuing differences in regulatory approach across jurisdictions. This raised compliance costs for internationally-active banks. Moreover, different

[1] Global Systemically Important Bank.

home regulations were seen to have effects on competitiveness—although participants were not in full agreement as to whether they advantaged U.S. or European banks.

Endgame in Europe and the U.S.

With Basel III Endgame implementation finally in sight, participants compared the approaches of the U.S., UK, and EU. (In contrast, other jurisdictions, such as Japan, had already fully implemented Basel III and had expressed frustration with delays in the U.S. and Europe.) Differences among the jurisdictions added to the existing prudential regulatory fragmentation under Basel III, further complicating compliance for internationally-active banks. Thus, the promise of a consistent global prudential framework remained elusive and some participants argued that differences in Endgame implementation had actually exacerbated challenges of fragmentation.

In the U.S., participants noted that the original Endgame proposal of 2023 had been replaced by a new plan in 2026, reflecting a shift in priorities from the Biden administration to the Trump administration. The revised proposal was spearheaded by new appointees in key offices, especially the Fed Vice Chair for Supervision. While the overall increase of capital under the more recent proposal was seen as likely to be small (as opposed to the significant increase under the 2023 proposal), the U.S. approach sought to reduce complexity and overlaps (e.g., with stress tests), including reducing the G-SIB surcharge, removing the output floor, reducing penalties for complex portfolios, and allowing netting of non-interest revenue and expense. Overall, participants saw the U.S. approach as focused on simplification with the goal of facilitating credit provision and allowing capital to be deployed throughout the economy, but without significantly reducing the capital bases of major banks.

In contrast, many participants described the EU approach as complex and prescriptive. It involved detailed technical rules, extensive reporting and governance requirements, and layered capital requirements. For example, some participants noted that even some technical rules such as data reporting on derivatives positions were being implemented differently in the EU from other jurisdictions, adding to compliance costs without necessarily improving resilience or reducing risks. A number of participants argued that the prescriptive nature of the rules limited banks' ability to pursue innovation and new opportunities, which they anticipated would reduce European banks' competitiveness and further constrain credit creation in the EU.

A number of participants put forward the UK approach to the Basel III Endgame as an ideal one. They noted two points in particular. First, the UK approach was principles-based, allowing banks leeway to meet requirements in a way that worked best with their individual business models. Such an approach required a degree of dialogue and trust between regulators and banks, but it also promised to support competitiveness for banks as well as ensuring information flows that would support effective macroprudential regulation. Second, participants pointed out that the Prudential Regulation Authority had adopted a secondary objective for its prudential regulation of promoting growth; thus, the PRA would take into account banks' competitiveness and ability to increase credit provision in application of the finalized Basel III regime.

Topic 4: Economic Growth—Interest Rates, Inflation, and Tariffs

In Topic 4, participants discussed current economic conditions in Europe and the U.S. They noted the resilience of economies and markets prior to the onset of the Iran conflict and discussed likely impacts of the conflict. Key issues included economic growth, inflation, interest rates, and trade policy.

Economic Resilience

Participants agreed that the U.S. economy had been quite resilient in the face of significant headwinds, including supply chain disruptions, rising energy prices, large-scale deportations, and assertive tariff policies. Growth had remained healthy, unemployment remained mostly unchanged, and the stock market had hit new peaks. Inflation had been modestly above target, but participants disagreed whether that reflected one-time price level changes or actual inflationary pressures.

Participants offered different explanations for the strength of the U.S. economy. Some attributed it to supply-side Trump administration policies, including deregulatory measures, tax cuts, and trade policies that incentivized productive investment. They noted that industrial investment had ticked upwards and that markets had high expectations of corporate profitability (as seen in record stock prices). The administration was also supportive of the fossil fuel industry, making the U.S. less vulnerable to global oil shocks. While the tax cuts had also led to rising fiscal deficits, these participants dismissed the notion that they had served as a demand stimulus. In this sense, they contrasted rising deficits under the Trump administration with rising deficits under the Biden administration.

Other participants saw the resilience of the U.S. economy as part of a larger global story that started before COVID, in which economies had become more flexible. They noted that improved information and communications allowed companies to shift behavior rapidly in response to changes in market demand. This prevented build-up of inventory that might have to be sold at a loss in a downturn, for example. From this perspective, flexible manufacturing responding to real-time data might reduce boom-and-bust cycles. Several participants also noted that the advanced economies were heavily service-driven; they argued that reduced challenges of stranded capital.

A number of participants also pointed out the importance of rising productivity due to new technologies including AI and biotech. These sectors were, moreover, drawing considerable investment due to their potential profitability. While some participants attributed rising productivity partly to supply-side policies, others noted that it reflected a much longer-term trend that was enabled in part by a robust set of financial institutions supporting start-ups and rapidly-growing firms, including through the rapid growth of private markets.

While the U.S. economy had been particularly strong among developed economies, participants noted that the EU and UK economies had also been resilient in the face of even stronger

headwinds. These included a massive shift in sourcing of oil and natural gas, as well as active conflict nearby in Ukraine and the unilateral imposition of tariffs on their exports to the U.S.

However, participants saw two points of divergence between the U.S. and Europe with regard to economic growth. First, the U.S. faced significantly fewer challenges in energy supply. As the world's largest producer and refiner of oil and natural gas, the U.S. was much less vulnerable to supply shocks. For example, the shift away from dependence on Russian natural gas had been a painful transition that the U.S. had not had to make. Moreover, even though U.S. fossil fuel costs were subject to global price shifts, the Iran conflict did not threaten actual shortages for American industry and consumers. Fortunately for both the U.S. and Europe, their economies had become relatively insensitive to energy prices due to energy efficiency and the low share of heavy manufacturing in total production; still, participants agreed that the U.S. was less adversely affected by energy shocks than Europe.

Second, Europe still suffered from slower trend growth than the U.S. Several participants noted the conclusions of the Draghi report that Europe was losing competitiveness and not nurturing innovation due to inefficient and fragmented financial systems and lack of coherent industrial policies to address the needs of digital and climate transitions.

Monetary and Fiscal Challenges

Despite the positive assessment of economic resilience, participants raised several concerns about rising challenges. In the near to medium-term, many participants' biggest concern was over inflation (and potential stagflation), although participants expressed mixed opinions about the nature and extent of the threat. Over the longer term, many participants expressed serious worries about fiscal sustainability.

Much of the discussion addressed U.S. inflation. A number of participants expressed concern that, although core inflation had fallen from its post-pandemic peak, it remained above the Fed's 2% target. They argued that this reflected underlying inflationary pressures that had not been eradicated, including upward pressures on wages that had been exacerbated by reductions in the migrant labor force as well as excess demand that was exacerbated by tax cuts. Moreover, they argued that tariffs had been borne primarily by U.S. importers and consumers, with a growing proportion being passed on to consumers. Rising energy prices as a result of the Iran conflict were creating additional inflationary pressures.

Other participants disagreed with this analysis. They argued that there was no evidence of a wage-price spiral. Rather, the job market was cooling and core inflation was moving back toward the target level. They argued that tariffs would have a one-time effect on price level, but there was no reason to believe that it would feed longer-term pressure on prices. They were also relatively unconcerned about the inflationary impact of oil price rises, partly because they expected those price rises to be temporary. They also argued that fiscal policy was not expansionary, unlike the demand stimulus plans under the Biden administration, so concerns over 1970s-style stagflation were misplaced.

The differing analyses created a bind for monetary policy makers, as inflation hawks worried about inflationary pressures while other Fed board members focused on the cooling job market and the need to support investment. However, most participants agreed that monetary policy makers would be wise not to respond immediately to the energy shock. As they noted, monetary policy operates with long and variable lags, so policy makers should see if the shock was temporary and, even if it were longer-lasting, whether it would feed a wage-price spiral.

In the eurozone, participants felt that inflationary pressures had been contained prior to the Iran conflict and that inflationary expectations were anchored near the ECB target. While the conflict had created a price spike, participants agreed that it did not call for monetary policy shifts for the time being, unless demand dropped or long-term inflationary pressures kicked in. The Bank of England was seen as facing the biggest monetary policy challenges among the three central banks. UK inflation, which had spiked higher than in the U.S. or the eurozone during the pandemic, had stayed further above targets than U.S. inflation, suggesting ongoing inflationary pressures. However, weak labor demand raised concerns over stagflation, creating a dilemma for the BOE.

On the fiscal side, participants noted high government debt and growing fiscal deficits in the U.S., UK, and much of the EU. Even in EU economies with relatively low debt, slow economic growth and large contingent liabilities such as pensions threatened long-term fiscal sustainability. Structural factors—in particular, aging societies and declining working-age populations—raised even more questions about whether economies could sustain their current trajectories. A number of participants added that fiscal politics had become increasingly difficult due to intractable political divisions and populist challenges in the U.S. and much of Europe. Some participants singled out the U.S. as an economy where fiscal choices were leading to ballooning deficits even when the economy was strong (although some argued that the Trump administration policies would reduce debt burden over the long term by accelerating economic growth). Meanwhile, the prevalence of generous defined-benefit pensions in much of Europe, combined with low retirement ages and slow economic growth, raised the specter of future fiscal crises in those countries.

Rising Uncertainty

Many participants expressed unease about what they saw as rising uncertainty. This was seen to take multiple forms, ranging from regulatory and trade policy to potential impacts of AI to supply shocks.

Several participants stated that changing U.S. policies had become a major source of global uncertainty. In terms of financial regulation, they observed large-scale shifts between the Biden and Trump administrations. Following considerable market-friendly regulatory efforts under the first Trump administration, Biden-era regulation, supervision, and enforcement were seen to be much less collaborative, more punitive, less supportive of improving market competitiveness and efficiency, and more suspicious of innovation. The second Trump administration had largely dismantled those efforts, shifting back to a more market- and innovation-friendly. Perhaps the biggest move had been in digital assets, where the Biden-era patchwork of largely restrictive regulatory efforts had been replaced by encouragement of innovation, extensive support for

experimentation, and efforts to create a comprehensive and welcoming environment through legislation (GENIUS and CLARITY Acts). A number of participants questioned whether there would be additional large swings with a new presidential administration in 2029 or if Congress changed hands in the 2026 midterm election.

Beyond the financial regulatory pendulum, a number of participants expressed concern about rapid and seemingly unpredictable changes in trade policies and use of economic sanctions by the current administration. They argued that the resulting uncertainty would inevitably make it harder for companies and governments around the world to plan and invest. Some also argued that at least some non-U.S. companies—in particular, Chinese firms—were increasingly working to shift their supply chains and financial accounts in ways that would reduce their vulnerability to U.S. tariffs or sanctions. Other participants were skeptical, pointing out that there was little evidence that foreign direct investment into the U.S. had been adversely affected.

AI was seen by many participants as another potential source of economic uncertainty. Some participants argued that AI was likely to have major impacts on employment in a variety of fields, potentially displacing many workers and reducing the value of their skill sets. In addition to direct effects of AI in increasing unemployment in some sectors, uncertainty over what skills would be in demand over the longer term could reduce investment in education and training. Some also noted the potential of AI to increase inequality by amplifying scale effects and creating a winner-take-all economy. Finally, as noted in Topic 1, a number of participants raised concerns about the destabilizing effects of agentic AI in financial markets and other sectors.

In contrast, other participants expressed optimism about the economic and social effects of the advance of AI. They argued that AI had the potential to propel massive increases in productivity and reduce inefficiencies in ways that were both predictable and unpredictable. As for displacement of employment and the ensuing social impacts, they argued that all major technological shifts in history had ended up increasing employment opportunities and wealth in the aggregate and that there was no reason to believe that AI would be an exception.

The largest source of near-term uncertainty was over the macroeconomic impacts of the Iran conflict. The conflict raised at least three forms of uncertainty. One was over the duration. While the U.S. administration had expressed confidence that the conflict would be short-lived, allowing the flow of oil, natural gas, and other key commodities through the Strait of Hormuz to return to pre-conflict levels, many participants were skeptical. They noted that Iran retained the ability to disrupt shipping in the Strait and argued that Iran was unlikely to capitulate to U.S. demands that threatened the survival of the regime. Although a ceasefire was in effect at the time of the symposium, there were serious questions of how long it would last. In the absence of assurances that hostilities would not resume, shipping companies would be reluctant to return to business as usual, leading to continued supply shortages. Moreover, damage to some drilling and refining facilities would further restrict supply until it could be repaired or rebuilt.

A second form of uncertainty was over the geographical extent of the conflict. While the U.S. and Israel had apparently anticipated that the area of conflict would be confined to Iran, both Iran and Israel had chosen to attack other neighbors. Iranian attacks were damaging regional energy

and shipping infrastructure, while Israeli attacks in Lebanon and Syria raised concerns over the possibility of a broader regional conflict.

A third aspect of uncertainty was how global economies and supply chains would respond to the supply shock. For example, it was noted that Europe had sourced much of its jet fuel from the Middle East. Prices of fertilizer were on the rise as well, impacting food production, especially in emerging markets. Meanwhile, Asian manufacturers were facing shortages not only of energy, but also of key industrial feedstocks such as naphtha and helium that were necessary for producing goods ranging from plastics to semiconductors. Depending on how long the conflict lasted and the feasibility of finding alternative sourcing, the effects on prices and production could be significant.

Program on International Financial Systems (PIFS)
134 Mount Auburn Street, Cambridge, MA 02138
www.pifsinternational.org