Policy Paper

EU AI Act

Balancing Innovation and Regulation:
Aligning the EU AI Act with Financial Market Competitiveness

September 2025

Executive Summary

The EU AI Act establishes the world's **first comprehensive framework** for regulating AI systems. While designed to protect citizens and ensure ethical AI deployment, its complexity – with over 68 definitions and numerous interlinked provisions – creates challenges for businesses seeking to interpret and operationalize the rules.

The regulation's implications are particularly significant for financial services, where disproportionate compliance burdens risk undermining innovation, investment flows, and Europe's capital market competitiveness. Misalignment with the objectives of the Savings and Investments Union (SIU) could discourage IPOs, drive startups abroad, and reduce venture capital activity.

By contrast, the US adopts a flexible, innovation-first approach, while Switzerland applies **principle-based** regulation emphasizing proportionality and business-friendliness. Unless the EU adapts, it risks falling behind more agile global competitors.

To mitigate these risks, this paper proposes **eight measures** to align the AI Act with SIU priorities: adopting principle-based regulation, ensuring EU-wide harmonization, simplifying technical obligations, reducing regulatory gaps with third countries, creating AI sandboxes for finance, enhancing industry involvement, distributing compliance burdens fairly, and fostering innovation.

These adjustments would **safeguard European values while avoiding overregulation** that could stifle growth and competitiveness in AI-driven financial services.

Policy considerations for safeguarding European innovation, investment, and growth under the AI Act

The EU **AI Act,** which entered into force in August 2024, provides a risk-based framework to regulate AI-based services and products. Amongst other roles, this regulation applies to both AI providers and users within the EU, as well as third-country providers whose AI systems or models are placed on the EU market. It will be fully implemented by 2027, with updates planned to keep pace with evolving technologies. With over 68 different definitions and numerous interlinked concepts, it can be difficult for some companies to interpret and operationalise the rules included the Act.

The European Commission is expected to publish necessary **implementing and delegated acts** – starting February 2026 –, which will shape how the Act is interpreted and enforced in practice. This will bring about consultations which will offer a crucial opportunity for industry to help optimise the value chain, clarify technical requirements and role definitions, and prevent unintended consequences.

The AI Act, particularly in its application to financial services, will directly impact firms seeking to raise capital, expand, or innovate within the EU. A disproportionate regulatory burden at technical requirement level on AI-powered financial services may reduce the attractiveness of EU markets, undermining efforts of the Savings and Investments Union (SIU) to deepen and unify capital markets.

As such, **alignment between the AI Act and the goals of the SIU is essential.** Ensuring that AI regulation supports investment flows, IPOs, and cross-border financial innovation will be vital for European economic competitiveness.

AI Regulation in Third Countries

The **EU's AI Act** is the first comprehensive, centralised regulatory approach to AI. In contrast, the **United States** adopts a **decentralised, innovation-driven** approach, relying primarily on **sector-specific and federal-level** regulation.

This divergence in regulatory philosophies has created a **considerable gap** between the EU and one of its main competitors. While the US promotes AI go-to-market race through flexible oversight, the EU focuses on end customer safety and respect of European principles to pursue ethically driven AI innovation and serve value chain transparency. However, this is an approach that may result in significant compliance costs without truly incentivising innovation.

On the other hand, Switzerland tends towards alignment with EU regulatory efforts but applies a **principle-based approach,** which emphasises **flexibility, proportionality, and business-friendliness.** This model offers a potential blueprint for balancing innovation with appropriate safeguards in the evolution of the AI Act.

Unless the EU simplifies and adapts its approach in the upcoming delegated acts, it risks falling behind more agile global players. The priority must be to protect values without undermining competitiveness. As such, several risks have been identified:

- **Reduced competitiveness:** EU strict, complex, and burdensome regulation could lead to a loss in competitiveness when comparing to other markets' more agile and innovation-friendly regulation. This could also result in the slowing down or even disincentivising of AI development in the financial sector. Financial services already operate under sectoral regulation such as the Markets in Financial Instruments Regulation and Directive (MiFIR/MiFID) or the Digital Operational Resilience Act (DORA), among others. As such, the introduction of new rules should be carefully analysed in order to avoid oversight duplication.
- **Start-up emigration and IPO outflows:** Innovative AI start-ups in the EU may choose to relocate to third countries during their growth or IPO stages to benefit from lighter regulatory burdens and lower compliance costs. This dynamic not only undermines the EU's innovation ecosystem but also leads to IPO outflows, weakening Europe's capital markets and investor base.
- **Decreased innovation:** If firms perceive AI compliance as unpredictable or costly, they may limit experimentation and adoption of transformative tools. This would stifle innovation in critical areas like risk modelling, algorithmic trading, or regtech automation
- **Decreased investment:** Venture capital and institutional investors may become hesitant to fund AI businesses in the EU due to regulatory uncertainty and high compliance overheads. This could further deepen the capital divide between the EU and third-country markets.

Proposals to Align the AI Act with the Savings and Investments Union

1

Apply a principle-based regulatory model:
AI-driven financial services should be regulated under existing frameworks (such as the AI Act, MiFIR, DORA) without duplicating oversight. A principle-based model – similar to Switzerland's – promotes flexibility and competitiveness. Overregulation may stifle innovation in financial services, especially where AI enhances trading efficiency, surveillance, or investor engagement.

2

Promote uniform, flexible EU-wide rules:
Elaborate implementing acts which create a clear, harmonised regulatory framework that applies consistently across Member States. This will reduce fragmentation and improve legal certainty, benefiting cross-border issuers, market infrastructures, and investors.

3

Simplify the AI Act to reduce burdens:
The upcoming implementing measures should aim to minimise complexity, administrative costs, and reporting obligations costs. Companies with multiple roles are already struggling with the volume and granularity of required technical documentation – such as conformity assessments and post-market monitoring files – which must be maintained and made available to authorities. Such regulatory burdens risk discouraging high-growth tech firms from accessing EU capital markets or may drive them to seek IPOs abroad.

4

Minimise regulatory gaps with third countries:
Adapt future implementing rules to facilitate regulatory alignment with third countries, such as the UK, US, and Switzerland. Harmonisation reduces duplication and improves Europe's attractiveness for global listings and fintech scaleups.

5

Launch regulatory sandbox for AI in financial services:
Develop a dedicated AI sandbox for the finance sector, enabling firms to test AI-driven services such as algorithmic trading, investor analytics, and compliance automation under regulatory supervision. This would de-risk innovation and strengthen Europe's AI capabilities in financial markets. The EU Competitiveness Lab – led by the Spanish Ministry of Economy & Finance and created with the aim to advance integration and mobilise private financing for European priorities – would be an ideal space to promote this type of initiative.

6

Enhance industry involvement in regulatory development:
Establish structured and ongoing dialogue with industry stakeholders throughout the AI Act's implementation process. This includes transparent consultation on delegated and implementing acts, early feedback mechanisms, and public-private working groups.

7

Burden-sharing across the value chain:
Ensure that compliance responsibilities are distributed proportionately across AI providers, deployers, and service providers. Avoid overburdening specific actors – such as fintechs or exchanges – with obligations they cannot realistically fulfil alone. In this sense, clarity is of the utmost importance as one of the practical difficulties companies face is precisely determining which role(s) they hold under the AI Act (provider, deployer, importer, distributor, authorized representative). This can shift depending on the specific activity, making compliance planning harder.

8

Foster innovation:
Design AI rules to actively support innovation, including low-barrier market entry and a technology-neutral approach.

Conclusion

The EU AI Act is a landmark achievement in global AI governance, but its success depends on careful implementation. Without **simplification, harmonization, and alignment with the SIU,** the regulation risks driving talent, capital, and innovation outside Europe. A **principle-based, innovation-friendly** approach can ensure that the AI Act strengthens rather than undermines Europe's competitiveness in financial markets.

This policy paper is part of a broader Strategic AI Framework by SIX and is complemented by two additional policy papers:

- One paper focuses on AI Regulation in Switzerland as third country with its approach of integrating AI governance principles into existing laws, while also outlining proposals for a well-calibrated adaptation going forward.
- The second paper emphasizes how industry-driven standards and best practices can supplement formal regulation, close practical implementation gaps, and foster trust in AI innovation (to be published soon).

These three papers together are intended to form a coherent basis for dialogue with policymakers, regulators, and industry stakeholders.

Disclaimer: This policy paper has been prepared by SIX Group Ltd, its subsidiaries, affiliates and/or their branches (together, "SIX") for general informational purposes and to contribute to the public policy dialogue. The content reflects the views and interpretations of SIX at the time of publication and is subject to change without notice. This document does not constitute legal, regulatory, financial, or other professional advice, nor should it be construed as a recommendation or offer to engage in any specific course of action. While efforts have been made to ensure the accuracy and relevance of the information provided, SIX makes no representations or warranties, express or implied, as to the completeness, reliability or suitability of the content. SIX accepts no liability for any loss or damage arising from the use of or reliance on this material. This document is the property of SIX and may not be reproduced, distributed, or published in any form without the prior written consent of SIX. © 2025 SIX Group Ltd. All rights reserved.

SIX Group Ltd
Hardturmstrasse 201
P.O. Box
CH-8021 Zurich

www.six-group.com

© SIX Group Ltd, 09.2025