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Ms Ursula von der Leyen
President of the European Commission
The European Commission

Mr Stéphane Séjourné
Executive Vice-President for Prosperity and Industrial Strategy
The European Commission

Mr Valdis Dombrovskis
Commissioner for Economy and Productivity
The European Commission

Ms Maria Luis Albuquerque
Commissioner for Financial Services and the Savings and Investments Union
The European Commission

Brussels, 19 January 2026

Subject: The urgency to simplify

Dear President von der Leyen,

Dear Executive Vice-President Séjourné,

Dear Commissioner Dombrovskis,

Dear Commissioner Albuquerque,

The European Union stands at a pivotal moment, in a world increasingly shaped by geopolitical shifts, and renewed competition for economic leadership. As Mario Draghi and Enrico Letta have clearly diagnosed, Europe's competitiveness and future prosperity is at risk unless it undertakes bold reforms to restore its economic sovereignty and unleash its full potential.

The European Banking Federation very much welcomed the Commission's Competitiveness Compass published last January to reignite Europe's economy and build strong foundations for growth. To this end, we invite the European Union to act decisively to streamline its rules and make them more effective, efficient, and accessible, for Europe's businesses, including banks. This call for simplification is particularly urgent in the financial sector, which plays a central role in financing Europe's strategic priorities—from innovation and sustainability to defence and digital transformation. Europe faces massive investment needs, estimated at least €1.2 trillion annually, including requirements for defence and security. We believe the European banking sector can be instrumental in achieving these goals.

Because Europe's economy is still—and will remain—predominantly bank-financed, the banking sector is not just an enabler but an indispensable driver of Europe's competitiveness and sovereignty. This makes the efficient deployment of bank capital a truly strategic question for the future of the European economy.

Since 2008, the EU's financial regulatory architecture and the continuous efforts of the banks have ensured that European banks are resilient and well-capitalised. This position of strength and resilience can be an opportunity for Europe's future, if we ensure the regulatory and supervisory empowers the banking sector to act as a strong catalyst for Europe's much needed growth, strategic autonomy and long-term prosperity.

The EBF believes the current situation is neither satisfactory, nor sustainable for Europe. The regulatory and supervisory landscape has grown increasingly complex and fragmented. Banks, already subject to high capital requirements, operate under the constant spectre of further increases. Our banking system is weighed down by gold-plating over international standards, numerous national and supervisory discretions and capital add-ons, and a proliferation of regulatory initiatives and overlays coming from multiple authorities—EBA, ECB, AMLA, national authorities—often lacking coordination or a holistic vision. This fragmented approach, which diverges from most regulatory and supervisory models, blurs our strategic perspective.

While the original intent to safeguard financial stability remains fully valid, the unintended consequences include reduced competitiveness, increased administrative and compliance costs, and diminished capacity of banks to support growth sustainably. As an example, recent data collected by the EBF shows that, between 2021 and 2024, the additional capital required due to supervisory discretionary measures increased by more than €100 billion across a sample of 15 major European banks. This represents more than €1.5 trillion in potential financing capacity prevented from reaching the European economy.

At the same time recent developments in other major jurisdictions such as the US and the UK highlight the strategic importance of regulatory reform, as Europe is risking further competitive disadvantage in terms of level playing field that could be irreversible for our economy. European banks already operate under a more stringent and extensive regulatory framework compared to their global peers, which impacts their potential to finance the economy, maintain profitability and appeal to investors to fund their balance sheets.

Addressing this complexity holistically requires a fundamental change in our regulatory and supervisory mindset. Such moves are not about weakening oversight or compromising on the safety and soundness of the financial system, but about better serving EU economic interests from a position of strength and resilience.

For these reasons the EBF strongly supports the Commission's focus of simplification and welcomes initiatives such as the Savings and Investments Union and the ongoing work on banking integration and competitiveness. The EBF takes note of the ECB's intention to contribute to the simplification of the prudential regulatory, supervisory and reporting framework, with recent proposals we are looking forward to discuss to ensure simplification objectives are addressed effectively, with no adverse outcomes nor missed opportunities. We invite the EU institutions to accelerate these efforts and present a bold and comprehensive package, with tangible improvements and a real impact to meet our shared objectives.

To assist in this critical endeavour, the EBF has recently published its report "Simply Competitive", which puts forward a wide range of concrete proposals aimed at further streamlining the regulatory and supervisory framework for banks in Europe, while enhancing the strategic potential to finance the European economy and preserve financial stability. Attached to this letter we have included a list of priorities, which are further developed in our report. This does not preclude further proposals that may be made in relation to future consultations from the Commission, nor does it address certain ongoing files for which the EBF has developed detailed positions—such as the securitisation framework or the digital euro.

We are grateful for your attention and look forward to engaging further on these topics, as key stakeholders of Europe's strategic autonomy and economic strength. We are determined to be a solid partner in supporting Europe's competitiveness and growth agenda. I remain at your disposal to discuss further.

Yours sincerely,

Slawomir Krupa

PRIORITIES FOR SIMPLER, MORE EFFICIENT AND COMPETITIVE REGULATION

The EBF has developed a platform of priority actions[1] aligned with the Commission's simplification and competitiveness objectives, while addressing the complexity and inefficiencies within the regulatory and supervisory framework. A special attention has been paid to gold-plating over international standards in European capital requirements and supervisory discretions and capital add-ons, that could be reviewed as a matter of priority, in support of Europe's economic objectives, without compromising on the safety and soundness of the financial system.

The EBF would welcome the opportunity to engage further on these topics, based on the simplified and aggregated list of priorities below, aimed to lay the ground for further discussions.

1. Simplifying the European capital stack, by eliminating duplications between Pillar 1 and Pillar 2, freezing the output floor and reviewing transitional provisions

The EU regulatory framework has become particularly complex, with layers of regulatory capital and discretionary supervisory capital add-ons imposed at multiple levels. As evidenced by a recent study of the EBF and the Global Association of Risk Professionals (GARP)[2], EU discretionary supervisory capital requirements represent an additional 67% over the Basel baseline. These measures have increased by more than €100 billion in the 3-year period from 2022 to 2024 for the 15 banks in the GARP study representing approximately two thirds of the industry. Overall, during the same period, 90% of the net capital generated has been dedicated to meet new discretionary requirements instead of increasing the competitiveness of European banks in terms of appeal to investors and capacity to finance the economy.

We believe several inefficiencies have been created within this framework. For instance, risk weighted assets (RWA) add-ons now represent a significant portion of capital requirements according to the study (€ 54 billion in total in 2024). Fundamentally this instrument cannot be seen as increasing resilience in terms of capital ratios, as regulatory add-ons on RWAs mean risks at the denominator of capital ratios are bigger.

Other issues related to duplications of capital requirements between Pillar 1 and Pillar 2, with measures addressing the same risks, compelling banks to hold excess capital that could otherwise be used for economic purposes. For example, model risk will be double counted by the Basel 3.1 output floor and the Pillar 2 Requirement (P2R).

The implementation of the output floor is also of great importance for many European banks and will explain a large part of the increased capital requirements in many countries. An important aspect is the transitional arrangements, for example for mortgages and unrated corporates, which have been introduced to mitigate the immediate impact of the output floor. In order for banks in the EU to be able to better support economic growth in the EU, and for EU banks not to lose competitiveness compared to banks from other regions, the level of the output floor should be reviewed and the existing transitional arrangements should be made permanent and be extended to the banks which use the standardised approach. As the standardised approach output floor serves a similar purpose as the leverage ratio, it should remain a backstop.

Conversely other elements of the capital framework support the efficiency of the banking system. Preserving the three elements of capital in the capital structure of balance sheets - Core Equity Tier-1 (CET1), Additional Tier-1 (AT1) and Tier-2 (T2) – enables to appeal to

[1] Simply-Competitive-report-EBF.pdf

[2] New study stresses urgent need for regulatory capital efficiency - EBF

different types of investors, while ensuring the efficiency of balance sheets and financing capacity of banks in going-concern.

The EBF recommendations are:

- To review the European capital stack to remove duplicated requirements between Pillar 1 and Pillar 2 (including discretionary add-ons) and increase the predictability of supervisory expectations
- To preserve the 3 elements of capital: Core Equity Tier-1 (CET1), Additional Tier-1 (AT1) and Tier-2 (T2)
- To review the level of the output floor
- To make the transitional arrangements permanent and non-discretionary, and extend them to the Standardised approach

2. Simplifying the Macroprudential Framework for Banks

A key example of complexity resulting from EU regulatory requirements going beyond international norms is the capital buffer system, such as the EU gold plating Systemic Risk Buffer (SyRB). This framework complicates banks' capital planning allocation and discourages consolidation with the single market. In addition, the EU makes extensive use of the buffer for domestic systemically important institutions (O-SII): almost 90% of the banks in the world bearing a domestic buffer are European and none from the US or China.

The EBF recommendations are:

- To remove the Systemic Risk Buffer
- To review the identification of the O-SII buffer to eliminate the duplication between the O-SII and G-SII buffers
- To cap the O-SII buffer at 1%
- To disallow positive neutral CCyB or cap it at 1%

3. Neutralising the EU Prudent Valuation Adjustment

The Prudent Valuation Adjustment (PVA) is an EU goldplating regulatory standard. The draft revised version of the EBA increases significantly the capital requirements across the whole panoply of buffers.

The EBF recommendations are:

- Make the revised PVA capital neutral for all banks
- Alternatively remove the EU PVA requirement

4. Aligning the Fundamental Review of the Trading Book (FRTB)

The FRTB standard affects the cost of capital of businesses that are global by nature, including hedging of international trade instruments, foreign exchange, commodities trading, equity investment in funds and market making notably of sovereign bonds.

The recently launched European Commission's targeted consultation on the FRTB aims to ensure a proportionate and internationally consistent implementation, considering temporary adjustments to mitigate excessive capital impacts and maintain competitiveness for EU banks until global convergence is achieved. The EBF stresses the importance of preserving the international level playing field to support the competitiveness and strategic autonomy of Europe's banking sector.

The EBF recommendations are:

- To align the timing and content of market risks with other main jurisdictions and ensure a level-playing field with the US
- To simplify requirements related to the trading/banking boundary including for institutions that do not have a trading book under CRR2

5. Recalibrating MREL requirements against international TLAC requirements

The Minimum Requirements for Own Funds and Eligible Liabilities (MREL) is gold-plated in many ways:

- It only exists in Europe, and it is not contemplated in the international standards;
- It applies to all banks and not only the internationally active ones;
- It is calibrated above the equivalent Total Loss Absorbency Capital (TLAC) requirement of the Basel Committee.

The EBF recommendations are:

- To cap the MREL at the level of the TLAC
- To remove the MREL Maximum Distributable Amount (M-MDA)

6. Enhancing the support to EU economic activities

a. Trade Finance

Trade finance not only secures international transactions at the various stages of the supply chain (both from the point of view of the exporter and the importer) but also finances them. It plays a key role in the digital and green transitions, channelling funds towards sustainable and innovative technologies and infrastructure. It also strengths the EU's competitiveness by facilitating access to the global market for EU large companies and SMEs alike, across the supply chain. The US and the UK have ceased, at least temporarily, the implementation of the Basel 3.1 rules. The International Chamber of Commerce (ICC) commercial register confirms the very low loss rate, with exposure-weighted default rates of 0.14%.

The envisaged application of a CCF to unconditionally cancellable commitments (UCC) is detrimental to banks' capacity to provide credit to EU businesses. Moreover, the subjective criteria for limited cancellability introduced by the EBA will increase compliance burdens and costs for businesses in a flexible and targeted manner. All banks are affected, including those using the advanced or foundational measurement approach for credit risk and for the calculation of RWAs (Risk-weighted assets) and of the Basel III output-floor.

The EBF recommendations are:

- To change the definition of Trade Finance in the CRR by removing any reference to the maturity of exposures
- To make the transitional arrangements in Art. 495d permanent and thus keep the CCF for UCCs at 0%, including those that fulfil article 2 of the EBA off-balance sheet RTS
- To exclude instruments misclassified as revolving commitments
- To postpone the entry into force of the EBA RTS until at least 1 January 2027
- To extend the 20% CCF for all performance and technical guarantees to align with the UK PRA approach
- To review the treatment of insurers LGD under Foundation approach and the LGD for factoring and other trade business
- To extend the infrastructure factor to trade finance transactions

b. Specialised financing

The European prudential framework applies unsuitable and penalising methodologies to Specialised financing activities, including substantial constraints on credit insurance. This has resulted in a stranglehold on specialised financing, as banks are forced to give up certain market segments and reduce their lending volumes on strategic assets such as the financing of infrastructure projects related to electricity (generation such as solar, networks, storage), the environment (water treatment plants), health (hospitals), defence (military infrastructure), digitalisation (data centres), aircraft, real estate and raw materials (agricultural products, metals (used in Tech), semiconductors).

The internal modelling requirements are unsuitable for specialised financing because they were initially designed for portfolios with a high volume of defaults. The lack of guidelines adapted to the modelling of losses for low-default portfolios, the use of flat-rate discount rates that do no reflect the economic reality, and the imposition of uniform weighting floors, ignore the robustness of this type of low-risk financing.

The EBF recommendations are:

- To revise the modelling guidelines applicable to specialised financing
- To restore a prudential balance consistent with Europe's economic and industrial challenges

c. Operational risk

The EBA's draft standards on operation risks rely on rigid accounting definitions for calculating the Business Indicator, trapping capital beyond the Level 1 mandate. By designating the accounting approach as default and imposing restrictive conditions on the use of the Prudential Boundary Approach, the standards limit the flexibility explicitly foreseen in the Level 1 text. This approach ties up capital that could otherwise support European economic activities. Adhering to the optionality and proportionality of the Level 1 text would ensure more efficient capital use and strengthen EU competitiveness.

The EBF recommendations are:

- To allow use of either the Accounting Approach or the Prudential Boundary Approach for the financial component
- To exclude insurance income and expenses of a financial conglomerate acting as a risk taker from the Business Indicator
- To set 1st January 2027 as the first application date for level 2 categories and attributes in the RTS on losses taxonomy
- To make permanent the transitional arrangement for the business indicator Interest, Leases and Dividend Component (ILDC) in operational risk
- To allow the use of insurance as a risk mitigation measure in the calculation of capital requirements

d. Real Estate

The financing of real estate, and more particularly housing, is a major issue at the national and European levels. However, prudential regulations not only provide a framework for measuring risk to determine the solvency of lending institutions, they also set burdensome conditions for granting loans, their management until repayment and on banks' relationships with customers in the event of the latter's default. Under these conditions, it is important that the regulator examines all the existing provisions and decides on their necessity in the context of measuring the solvency of banks.

Moreover, the concept of property value included in the standardised approach for credit risk, which requires a bank to establish a value of the property for prudential purposes that is sustainable over the life of the loan, is flawed. This concept is difficult to operationalise and creates the potential for different outcomes in an approach designed to produce comparable results. For these exact reasons, the PRA has decided not to implement the new definition of property value, the EU should remove it from the CRR and revert to the previously allowed approaches, i.e. the market value and the mortgage lending value.

The EBF recommendations are:

- That the Level 1 regulation incorporates a pragmatic and proportionate approach to the definition of valuation requirements, which avoids an operational burden that is disproportionate to the actual level of loss risks, the excessive cost of which will ultimately penalise borrowers
- To remove the definition included in article 4(47a) of CRR and the condition in article 229/1 CRR that valuation of immovable property shall meet the requirement that the value is adjusted to the value sustainable over the life of the loan
- To revert to the previously allowed market value and mortgage lending value approaches

e. Software

Banks must make significant investments in software development and other technologies to keep up with the new market developments and also to build up operational resilience against cyber risks. The revision in the EBA RTS (2020/07) is insufficient to deal with hurdles for EU banks to engage in technological developments, while the current regulatory framework makes these necessary investments uneconomical for banks.

The EBF recommendations are:

- To remove software deductions from capital requirements weighting them as regular assets

f. Support to SME

The SME Supporting Factor (SF) supports the competitiveness of European companies. It could be extended to a wider scope of companies.

The EBF recommendations are:

- The scope of the SME SF could be widened
- The criteria for the application of the SME SF should only be met at the closing of the transaction

g. Repeal the NPL backstop

The initial objective of the NPL prudential backstop, another goldplating measure, was to encourage banks to actively manage their portfolio of non-performing loans and to sell the oldest ones to free up their balance sheet and thus not penalize lending. But this backstop is now harming the competitiveness of EU banks, blocking funds that could be mobilized and used for new loans to support economic growth. It could also have the effect of discouraging banks from supporting their clients in temporary difficulties therefore undermining economic recovery and growth.

Given the low and stable NPL ratios observed in EU banks (average of 1.9% at the end of 2024), the NPL backstop should be repealed to achieve a better balance between financial stability and economic growth.

The EBF recommendations are:

- To repeal the NPL prudential backstop[3]

h. Treatment of public debt issued in the currency of another Member State

The temporary treatment of public debt issued in the currency of another Member State was introduced by Article 500a of the Regulations (EU) No 575/2013 (CRR) and extended by Regulation (EU) No 2024/1623. We suggest this transition from temporary to permanent to maintain the level playing field for all EU member states financial sectors. As the adoption of a single currency is not a process directly linked to the banks and the performance of the banking system, we believe that similar operational conditions should be applied through the European banking market to assure a level playing field and EU competitiveness.

The EBF recommendations are:

- To indefinitely prolong the treatment of exposures to the central governments and central banks of Member States – denominated and funded in the domestic currency of another Member State – consisting of 0% risk weight applied to the exposure values and a 100% limit for the institution's Tier 1 capital

7. Simplifying and aligning EU Digital regulation

The EU has introduced an extensive set of digital and cyber-related regulations in recent years. The cross-sectoral nature of digital finance—spanning banking and technology—adds further complexity, as rules issued by different Commission directorates, can lack coherence and duplicate obligations. Horizontal rules can fail to capture sector-specific nuances, while sectoral rules overlook the broader ecosystem, including enforcement and supervision.

To address this, we would welcome a review of the interplay between existing and upcoming digital regulations and the development of an Omnibus initiative to streamline and harmonize the framework. Enforcement must also evolve to cover all actors in the digital value chain, ensuring a level playing field and operational resilience.

The EBF recommendations are:

- Financial Data Access (FiDA): Narrow scope, ensure demand-driven rollout, exclude gatekeepers, and consider withdrawal if competitiveness risks persist.
- DORA and CRA: Align timelines with technical standards, rationalize overlapping reporting, and exempt financial entities subject to DORA or delay CRA implementation.

8. Removing fragmentation and barriers to integration

The Banking Union is one of the EU's major achievements, with the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM) strengthening financial stability and creating a level playing field for Eurozone banks.

Yet, the Banking Union remains incomplete. The absence of its third pillar and unresolved home-host issues continue to fragment the market, hinder cross-border consolidation, and obstruct the development of a true single capital market. Current requirements restricting the free movement of capital and liquidity within the Banking Union are a major barrier. SSM estimates show that the lack of liquidity waivers traps around €250 billion of high-quality

[3] Alternatively, the EBF could also recommend to increase the 1% net present value (NPV) loss threshold in the EBA's definition of Default (DoD) framework to a higher percentage.

liquid assets, while non-waived solo capital requirements inflate risk-weighted assets by roughly 25% compared to consolidated levels (approximating also to over €255 bn of capital). These inefficiencies underscore the need to treat the Banking Union as a single jurisdiction across all prudential components, including intragroup exposures, and to eliminate ring-fencing practices.

Although waivers to these solo requirements exist in the legislation (BRRD, CRR, CRD), they are in fact not used enough, in particular because of the systematic opposition of the national authorities of the host countries, who fear that the parent company will "sacrifice" a local subsidiary in the event of its failure to protect the rest of the group. As far as solvency is concerned, the CRR does not currently provide for the possibility of cross-border waivers, even within the Banking Union. In order to further automatically grant these waivers, and also to recognise the banking union in the G-SIIB scores, while taking into account the need to maintain a high level of trust between the parent company/subsidiaries and the home/host country, ways must be explored to simplify the conditions for granting monitoring waivers on an individual and sub-consolidated basis.

The EBF recommendations are:

- Keep on working to complete the Banking Union by initiating a structured dialogue with the banking sector to advance the recognition of the Banking Union as a single jurisdiction across all its prudential components (capital, liquidity, MREL) and making progress towards addressing the third pillar of the Banking Union.
- For the solvency ratio: to amend the CRR to allow the granting of individual exemptions for a subsidiary of a parent company in different Member States of the Banking Union.
- For the liquidity ratio: simplify in CRR the conditions for granting individual derogations within different Member States of the Banking Union