

EBF RESPONSE TO TARGETED CONSULTATION ON THE COMPETITIVENESS OF THE EU BANKING SECTOR

The European Banking Federation (EBF) welcomes the opportunity to contribute to the European Commission consultation on the Competitiveness of the Banking Sector. The EBF response represents the consolidated view from all EBF members. The EBF has prepared answers to the consultation questions below. A list of abbreviations may be found at the end of this document.

PROLOGUE

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

The time for Europe to catch up and close the gap with its major competitors is now. Prompt and decisive action is essential to ensure the implementation of key recommendations in the Draghi and Letta reports before 2030.

We note that the Commission's consultation presents a large series of potential actions towards these goals, some of which will require a long time for implementation. It is therefore essential to identify the changes that can increase European competitiveness as soon as possible and deliver tangible results from now to 2030. Paving the way towards further integration is key, but it should not turn attention away from the focus on short-term reforms.

The EU remains a predominantly bank based financial system, where banks are the main source of external financing for households and non-financial corporations, especially SMEs, which still face limited access to capital markets. At the same time, there is a strong correlation between economic growth (GDP growth) in Europe and the expansion of lending. Therefore, more growth requires further lending - for this to occur, banks' lending capacity must increase.

The biggest obstacle to increased lending capacity is the inefficient use of bank capital, an essential resource towards raising European competitiveness. European banks already meet the fully-loaded Basel 3.1 capital requirements - therefore, there is no issue of capital adequacy, but rather of capital efficiency. However, bank capital in EU remains trapped by overlapping requirements of numerous authorities at both the European and national levels. If lending capacity is to increase, it is imperative to stop - and even reverse - the compounding of capital requirements caused by this fragmentation of regulatory powers.

European banking regulation includes extensive gold-plating which, together with the use of supervisory and national discretions, adds up to 66% to the minimum requirements of the Basel standards. One clear example is the excessive number of tools under the envelope of macroprudential policy. Proposals to merge buffers in two buckets, one non-releasable and another releasable, could be a way to improve the use of the framework, but it would not result in meaningful reform if the size of the buffers remains untouched. Today, NDAs can require more than 10% of CET1 capital. This needs to be reduced dramatically for the sake of certainty and predictability, and to reduce fragmentation and gold-plating.

A further source of inefficiency is the allocation of capital to loans according to EU rules that are far from market and business-oriented criteria. EU decisions should incorporate the business perspective in line with Draghi recommendations, rather than reflect standalone supervisory perspectives that do not have a clear mandate on competitiveness.

To this end, it is important to debunk myths that blur the objective of competitiveness. One of them is "simplification without deregulation". EU regulation is massive and extremely complex. Certain parts are effective and useful, whereas others are duplicated, cumbersome, and inefficient. Legislators should preserve the effective parts of the regulation but should not hesitate to reform or undo the unnecessary parts, especially gold-plating. Addressing fragmentation that locks up liquidity and capital is also essential.

The successful implementation of reforms enhancing the competitiveness of the European banking sector will determine the success of broader EU competitiveness objectives. The EBF will continue engaging with policymakers in this unique opportunity to re-assess and boost both banks' and the EU's competitiveness in support of a stronger Europe.

1. Banking Competitiveness in the EU and globally

1.1 Contribution of the banking sector to the EU economy

- (1) How is the banking sector currently supporting economic growth in the EU, and to what extent (for example, by providing loans to households and businesses, supporting innovative sectors, and helping channel investments into capital markets (including for retail investors))? How could banks do more to boost productivity and economic growth, thereby supporting the priorities of the EU and accelerating the green, digital and social transitions? Please give concrete examples and evidence.**

The EU remains a predominantly bank based financial system (70-80%¹), where banks are the main source of external financing for households and non-financial corporations, especially SMEs, which still face limited access to capital markets.

¹ IMF, [Natural Bank Reliance](#)

Supported by public guarantee schemes, the banking system has maintained the flow of credit to the real economy during recent crises (COVID-19, energy shock).

Banks, both EU-based and those based in third countries, currently support economic growth by:

- Providing credit to households, sustaining residential investment and consumption as household balance sheets strengthen
- Financing corporates and SMEs, which rely primarily on bank lending for working capital, investment, innovation and export activity
- Supporting innovative and high-growth sectors, through specialised lending, venture debt instruments and cooperation with national and EU guarantee schemes
- Channelling savings into capital markets, acting as underwriters, arrangers and distributors of investment products, thereby contributing to the objectives of the SIU
- Financing the green and digital transitions, through green/mortgage loans, sustainability linked instruments and project finance for renewable energy, energy efficiency upgrades and digital infrastructures

EU banks are willing and able to further support productivity, competitiveness, and long term investment, provided that the regulatory and market environments enable efficient deployment of balance sheet capacity. Key areas include:

- **Scaling up green and transition finance**
Expanding energy efficiency lending and renewable infrastructure financing supported by stable and coherent prudential treatment. Supporting blended finance mechanisms, public guarantee funds which are able to reduce supervisory capital requirements, and the possibility to access to public databases on ESG information.
- **Boosting SME digitalisation and innovation financing**
Strengthening credit, advisory and ecosystem support for AI adoption, digital transformation and cybersecurity.
- **Mobilising household savings towards long term investment**
Developing simple, diversified retail investment products and reinforcing the connection between banks and capital markets, in line with the objectives of the SIU.
- **Enhancing social inclusion and financial resilience**
Promoting financial literacy/education initiatives and inclusive banking solutions to ensure that technological and green transitions remain socially sustainable.
- **Defence financing**
Ensuring that the EU defence industry has access to the scale and type of capital required to finance critical capabilities and to strengthen Europe's security architecture.

To maximise banks' contribution to EU competitiveness and strategic priorities, policy action should focus on the enabling factors, such as:

- Reducing cumulative regulatory and reporting burdens by eliminating duplications and disproportionate requirements, in line with the simplification agenda
- Preserving a stable, predictable prudential framework that avoids unnecessary increases in capital requirements unrelated to actual risk and addresses overlaps
- Ensuring effective proportionality of the regulatory framework
- Introducing a formal secondary objective of growth and competitiveness for supervisors.
- Moving towards a principles-based supervisory approach
- Completing the BU and advancing the CMU, in order to reduce market fragmentation and improve cross-border integration
- Removing structural disadvantages for EU banks to preserve a level playing field with non-bank competitors and non-EU jurisdictions
- Promoting the development of banking funding sources such as securitisations, through a reduction in regulatory compliance burden and penalties
- Allowing banks to access public databases

Furthermore, given the depth of financial ties between the EU and key third countries, such as the UK and Switzerland, financial institutions operate alongside one another to offer a broad range of high-quality financial services and products to EU-based business and consumers, ensuring level playing field and fair competition. Together, they play an important role in supporting each other's economies, upholding the core principles of the single market while safeguarding financial stability.

It is therefore important that, as the EU advances its regulatory reform agenda and develops its financial markets, it remains open to third-country based financial institutions so that EU market participants can continue to benefit from the contributions outlined above. Third countries are deeply committed to the EU's goal of building a framework that attracts external investments to support Europe's long-term competitiveness and the financing of its dual green and digital transitions.

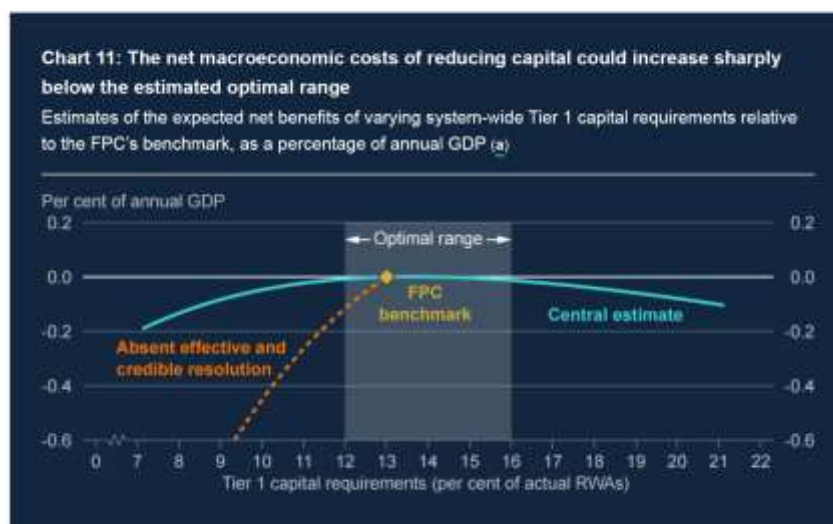
(2) Is current credit demand adequately met by banks and how is the demand and the capacity to meet it likely to evolve in the medium and long-term? Are you observing barriers affecting bank financing in support of the economy, including in areas identified as political priorities by the EU or Member States? Please elaborate by providing evidence and identifying economic sectors where access to credit could be improved.

There is a risk that some credit demand from smaller firms with more limited access to financing may remain unmet and increase over time, due to the strong EU trend towards standardisation of rules/processes.

Nevertheless, it is important to note that the current “nirvana” economic conditions, mainly due to the extraordinary liquidity following the COVID-19 pandemic, may/will not continue at the time the Commission’s proposals will be implemented. Europe has to be ready for times when liquidity and financing will again be scarce resources. To achieve this, the EU must take measures to become a more attractive jurisdiction to both EU and non-EU banks.

Complementary policies like the CMU will be beneficial but progress is not guaranteed and their effects may not sufficiently materialise in the next quinquennium (2026-2030), a critical time for Europe to keep up pace with its competitors. Draghi estimated the investment needs of Europe to be €4 trillion up to 2030.² In addition, according to ECB calculations, an additional €5.4 trillion of investment will be required for the period 2025-31, the lion’s share of which will have to be borne by private firms, investors, and households.³ The main financing source is and will continue being the European banking system.

Therefore, it is necessary to strike a balance between the capital requirements of banks and the availability of financing to the economy. The US is committed to release capital requirements⁴, notably the gold-plating over the minimum set in BCBS standards. The UK BoE has also reflected upon the level of capital in the banking system.⁵ Accordingly, the FPC has reduced the appropriate benchmark for the system-wide level of Tier-1 capital requirements to 13% of RWAs, equivalent to a CET1 ratio of 11%.



From a microeconomic standpoint, some types of lending representing vast areas of the European economy are under threat of rising financing costs and credit shortage in the next decade.

² [The Draghi Report on EU Competitiveness](#)

³ [Mind the gap: Europe’s Strategic Investment Needs and How to Support Them](#)

⁴ [Bank deregulation set to unlock \\$2.6tn of Wall Street lending capacity](#)

⁵ [UK Financial Policy Committee assessment of bank capital requirements](#)

According to the EBA Basel 3 monitoring report⁶, virtually all EU banks meet the fully loaded capital requirements. Therefore, there is not a problem of capital adequacy, but an issue of capital allocation to different exposures where prudential rules do not match the risk sensitive pricing models used by banks and expected by rational markets. This situation creates competitive distortions in global business at a time when competitiveness has escalated to the top of economic agendas. The following economic sectors and asset classes are put at a disadvantage:

1. Lending to large corporates, mid-caps and SMEs:

(a) the cost of loans to corporates is affected by the treatment of unrated corporates if/when the transitional arrangements expire; this concern also goes beyond the output floor and affects all SA banks.

(b) An additional hurdle for corporates' access to bank financing is posed by EU regulation and supervision, which disincentivises leveraged lending, thereby negatively impacting financing to sectors of strategic importance to the EU (defence and SIU-relevant industries).⁷

2. Low-risk mortgages will see their cost of capital multiplied if/when the transitional arrangements expire. This will significantly impact the EU economy, as opposed to the US, where low-risk mortgages are largely transferred out of the banking system to GSEs.

Other major economic impacts lie in the treatment of specialised lending, remarkably project finance, which supports the development of infrastructure necessary for the EU in the short-term, in areas like defence, green transition and technological innovation.

Trade finance is affected by the CCF framework, the treatment of credit insurance, and the treatment of unconditionally cancellable commitments. Trade finance exposures, including short tenor instruments, are burdened by overly conservative maturity assumptions and conversion factors, more details of which can be found in the response to Q60. The cost of hedging trade finance transactions could be increased due to risk weight increases for foreign exchange and commodity trading in FRTB, where the SA does not offer appropriate recognition of diversification and hedging, the latter being necessary considering that the US dollar remains the dominant currency for international trade. This could be improved by a better reflection of diversification benefits, as well as modifying correlation parameters and risk weights.

(3) For the following types of clients seeking financing, how would you assess the ability to access finance and the availability of financing options? What obstacles may limit the ability of banks to provide credit to these clients?

a. Retail Client

For most retail customers, access to banking services such as mortgages, consumer credit and personal loans is generally good. Competition remains strong, and digital channels have widened accessibility and streamlined loan

⁶ Further Tier 1 capital needs for the full implementation of the EU specific Basel III reform are minimal, the EBA Report finds

⁷ EBF White Paper on Leveraged Finance.

origination. Yet structural barriers persist. Divergent national consumer rules, insolvency regimes and credit-worthiness assessments limit cross-border portability of retail products, including loans and mortgages. Technical and operational frictions remain material: IBAN discrimination still takes place, and heterogeneous data- and API-standards hinder seamless digital onboarding and service delivery. Non-harmonised AML/KYC requirements cause lengthy and complex account-opening processes across borders. These factors reduce product availability and constrain the scale-up of innovative digital services for retail customers across the Single Market.

Possible constraints in this market segment are also linked to:

- Macroprudential measures (e.g., LTV/LTI/DSR caps), which may limit credit access;
- Rising construction and market value of real estate, which affect the capacity to borrow sustainably;
- Recent EBA Guidelines⁸ adding quantitative granularity criteria to the framework, that may result in significant increases in capital requirements for small and medium-sized banks' retail portfolios, and would entail operational burdens due to the new mechanism introduced;
- With regard to the channelling of savings (customer deposits) into capital markets, it should not be overlooked that the significantly expanded requirements (Retail Investment Strategy, MiFID, IDD) for customer advice and documentation in recent years have resulted in a very high cost burden, particularly in the retail banking segment

Banks' ability to support specific categories of households could be enhanced through targeted public guarantee schemes, or strengthening subsidies and public incentives schemes already in place. New and unknown public support instruments should be avoided in order to reduce costs and increase the effectiveness of providing support to households/consumers.

b. SME

SMEs rely predominantly on banks for external financing. Access is generally adequate for established firms with solid financials and collateral, but more challenging for young and innovative SMEs, micro enterprises, and/or firms operating in regions with weaker economic conditions.

Key obstacles include:

- Limited collaterals or shorter credit histories
- Fragmentation of national guarantees frameworks and insolvency regimes, which affects recovery values, pricing and the feasibility of long term lending'
- Lack of information on balance sheets and business plans which do not allow banks to assess the creditworthiness in an efficient way

These factors particularly constrain growth oriented, intangible intensive or transition related investments, even when business models are viable.⁹ Strengthening and harmonising public guarantee schemes, improving

⁸ [EBA Guidelines on proportionate retail diversification methods under Article 123\(1\) of Regulation \(EU\) No 575/2013 \(EBA/GL/2026/02\)](#)

⁹These include deep renovation, early-stage clean tech supply chains, and industrial decarbonization, where project risks and long payback periods call for de-risking tools such as guarantees, blended finance, stable policy signals, etc. to crowd in bank financing.

insolvency convergence, and ensuring a proportionate supervisory approach—especially for innovative, digital and green SMEs—would materially expand access to finance.

Also, certain aspects of the eligibility criteria for the application of the SME supporting factor could be simplified to reduce the operational burden and avoid acting as a barrier to apply the SF itself. The validation of the eligibility criteria (SME turnover) should only take place at the origination of the transaction, as it may become very burdensome for the SME to provide this information along the life of the loan. The compliance with this eligibility criteria for self-employed individuals should be removed. This requirement should be adapted in cases of bank indirect financing (ex. a car dealer does not ask this information to a self-employed individual purchasing a vehicle, preventing the SME SF from being applicable).

An extension of the SME SF to mid-caps, (defined as those with 750 employees and € 150 million in turnover), which share many characteristics with SMEs, including strong reliance on bank financing and limited access to capital markets, would also be beneficial. SMEs and mid-caps should also be exempted from the concept of “leveraged transactions” in the ECB Guidance of Leveraged Transactions and extend such exemption to mid-caps.

Furthermore, securitisation remains a key yet significantly underused tool in Europe, with annual issuance levels ten times lower than in the US. Revising the securitisation framework in an ambitious and appropriate manner would enable banks to provide additional lending capacity and transfer risk to investors, complementing the overly slow progress of the CMU.¹⁰

An additional major structural obstacle to lending in Europe is the fact that most EU corporates are unrated, especially SMEs and midcaps. The vast share of European corporate exposures is unrated by design and the expiry of the transitional CRR treatment (Article 465(3)) would substantially increase risk weights—from 65% to 100% for SA banks (equivalent to: from 72,5% of 65% to 72,5% of 100% for IRB banks) —on these exposures. This would mechanically raise capital requirements without any link to actual credit risk.

If these transitional provisions expire in 2032:

- Bank financing to unrated corporates will become more expensive;
- SMEs and midcaps will face reduced access to affordable credit;
- Corporates may be pushed toward less regulated, more expensive private credit providers, shifting risk outside the prudential perimeter;

Similar concerns on the applicable risk weights to unrated corporates are shared by banks applying the SA.

This would undermine EU objectives for industrial transformation, digitalisation, green investment and defence, which require predictable and affordable funding.

¹⁰ [EBF Perspective on New Securitisation Package](#)

c. Corporate (non-SME)

Large corporates generally enjoy broad and diversified access to financing: bank loans, syndicated facilities, bond markets, private placements and equity financing.

Constraints arise mainly for:

- Highly leveraged firms, where prudential limits and internal risk policies restrict further exposures;
- Sectors exposed to high transition or technological risk, especially in the absence of credible and verifiable transition plans;
- Cross border or multi-jurisdictional projects, where divergent insolvency, tax, collateral and reporting rules complicate bank lending;
- Often unclear and very strict supervisory rules that prevent the bank from providing credit support (ex. in the shipping and construction sector).

More predictable regulatory frameworks on transition finance, less penalisation in supervisory capital requirements, further development of the CMU, and lower structural fragmentation would facilitate access, especially for large cross border or capital-intensive projects.

For these reasons, we strongly support maintaining and extending the transitional treatment for unrated corporates beyond the current sunset date and applying it to the SA, as the underlying structural characteristics of EU corporate financing will not change, and the problem of unrated corporates is shared between SA and output floor banks. This is essential to avoid a non-risk-based cliff effect and protect Europe's competitiveness.

Other measures that would promote this financing would be making permanent the transitional arrangements of UCCs, as UCCs provide businesses with crucial flexible liquidity, thereby creating a safety net that encourages business operations, investment and trade.

Also, please refer to recommendations made in Q2 relating to trade and project finance.

(4) To what extent does market fragmentation affect consumers' and businesses' cross-border access to banking products and services? Please give examples, such as but not limited to IBAN discrimination and difficulties of businesses and individuals to open a bank account, lack of harmonisation of banking products, challenges linked to open finance data sharing. Please provide data if available.

Bank account opening and lending follow economic logic and benefit from healthy competition – there is no general market failure.

The difficulties on consumers' and businesses' cross-border access to banking products and services depend on, for instance:

- The lack of, or the impossibility to access credit databases on the positive or negative information on borrowers, which prevents banks to assess creditworthiness in efficient way;
- Different rules for foreclosures procedures in case of default events;

- Different languages which make contractual management costly;
- Capital and liquidity remain “trapped” in national subsidiaries due to limited cross-border waivers;
- Fragmentation in payment infrastructures and local requirements can also lead to delays compared to near-instant domestic settlement systems;
- Divergent data-sharing frameworks, as currently envisaged under FiDA, risk creating multiple non-interoperable systems across MSs;
- Divergent national implementations of AML and KYC requirements lead to lengthy onboarding processes, higher compliance costs and, in some cases, de-risking practices;
- A lack of product harmonisation driven by differences in insolvency regimes, tax frameworks, and supervisory practices hinders the development of truly pan-European banking products.

(5) To what extent does the EU economy benefit from a diversified banking sector? How would you further encourage the diversity of the EU banking sector landscape, with banks operating across different business models (universal, investment, savings, mortgage financing, cooperatives, digital banks, etc.)? Please elaborate whether and how banking sector diversity matters.

The EU economy benefits significantly from a diversified banking ecosystem¹¹, with institutions operating under different business models (universal, cooperative, savings, mortgage, investment, digital-only, etc.).

Diversity matters for at least three reasons:

1. Resilience and financial stability: different business models react differently to shocks. This heterogeneity reduces the risk that a single shock propagates uniformly through the system, enhancing overall resilience and continuity of financial services.
2. Better coverage of economic needs and regions: cooperative and savings banks, local and regional institutions, universal and specialised banks each serve different client bases and territories, from SMEs in rural areas to large corporates and global investors. This ensures that households, micro-enterprises, mid-caps, large corporate and public entities can find providers adapted to their size, sector and risk profile.
3. Competition, innovation and inclusion: the coexistence of traditional banks, specialised lenders and digital banks fosters competition and innovation in products, pricing and channels, while helping address financial inclusion (e.g. through local networks or fully digital access).

In summary, banking sector diversity is a structural asset for the EU: it supports stability, competition, financial inclusion and tailored financing for the real economy. A regulatory and supervisory framework that is integrated yet proportionate and suited to a variety of business models is essential to preserve and enhance this diversity in the service of EU competitiveness.

¹¹ This is also highlighted by the ESRB in its report: [ESRB, Towards a better regulatory framework; Reports of the Advisory Scientific Committee No 8 / June 2019](#)

However, preserving diversity should not mean maintaining fragmentation. The policy objective should be a genuinely integrated single market in which different types of banks can operate, compete, and scale effectively across borders. This requires proportionate regulation, combined with further progress on the BU, CMU, and the removal of barriers to cross-border activity that would further improve financial stability and strengthen Europe's ability to finance growth and investment within the EU. Better cross-border access to financial services means increased competition and better choice for final clients, more efficient allocation of household savings and investments, and more diversified funding sources for corporates. A completed BU also means consistent supervision and better crisis management, which would allow institutions to operate more efficiently across the EU market, create economies of scale, enhance innovation and strengthen the overall competitiveness of European financial institutions.

Finally, there is a need for the EU regulatory framework to better recognize the presence of EU banking groups in third countries, in order to preserve their competitiveness vis-a-vis non-EU banks. In order for the EU economy to fully benefit from the international operations of these groups, EU regulation and supervision should better take into consideration the specificities of the local markets that prevent EU banks from being able to compete on equal terms with their local peers.

(6) Do you consider that national promotional banks and public guarantee institutions provide a complementary contribution to the activities of commercial banks in financing the EU economy?

Yes, corporate financing should primarily be ensured by a sound and resilient banking system within a market-based framework. NPBIs, as well as public guarantee institutions provide a clearly complementary contribution to the activities of commercial banks in financing the EU economy, particularly where market failures or financing gaps exist, ensuring that projects which would otherwise remain underfinanced can proceed. They also support broader EU priorities, including social, regional and innovation-related projects, in addition to supporting the green and digital transitions.

In particular, they:

- share credit risk with commercial banks through guarantee schemes, thus enabling lending to higher-risk segments such as SMEs, start-ups, innovative firms and transition-related projects;
- extend maturities and improve financing conditions for long-term investments, including infrastructure, digitalisation and green transition projects;
- provide countercyclical support during economic downturns, helping to stabilise credit flows when private risk appetite declines, thereby strengthening overall economic resilience;
- catalyse private capital by crowding in commercial banks and institutional investors, rather than substituting them;
- play a key role in implementing regional projects and addressing local priorities, particularly where funding policy is a responsibility of the member state and regional specificities must be considered.

Public guarantee schemes, in particular, reduce capital absorption and expected loss for commercial banks, improving the risk-return profile of certain exposures and making financing economically viable where it would otherwise not be.

NPBIs and public guarantee institutions can therefore play a vital role in supporting banks' lending capacity. To maximise their effectiveness, access conditions for commercial banks should be based on simple, clear and predictable rules, with reduced administrative and operational costs. It is essential to avoid introducing new, overly complex or unfamiliar processes that could reduce efficiency, delay disbursements or undermine the timely delivery of financial services supported by these entities.

However, complementarity is most effective when interventions are well-targeted, proportionate and designed to avoid market distortions or crowding-out effects. Simple, targeted eligibility criteria and transparency at EU level enhance the overall efficiency of the system. At the same time, the EU must allow flexibility to national/regional promotional banks so that they can tailor funding to local needs. Strategic integration of NPBIs into EU funding architectures, including cooperation with the EIB, can further enhance the efficiency and coherence of the European funding ecosystem.

(7) To what extent would the EU economy benefit from the following changes in the banking landscape? Options: To a very large extent; to a large extent; neutral; to a small extent, not at all, no opinion.

- a. Cross-border bank consolidation **To a large extent**
- b. Domestic bank consolidation Neutral
- c. Banking services offered across the single market **To a large extent**
- d. Digitalised banking services Neutral
- e. Other (please indicate) – Completing the Banking Union and Accelerating the Capital Markets Union

Please Explain.

While undoubtedly desirable, achieving the single market for banks is a long-term and uncertain endeavour. Completion of the BU should not be seen as a precondition for adaptations of the prudential framework, resetting of supervisory policies and introduction of competitiveness and growth as secondary mandates for banking authorities. Therefore, targeted and more efficient levers should be triggered immediately to support EU banks' contribution to the EU economy. Only rapid burden-reduction measures can immediately fuel lending capacity and competitiveness. While such actions must be fast-tracked, it remains equally important to maintain momentum towards completing a fully-fledged BU.

(8) What are in your view the main risks faced by EU banks today?

EU banks hold a position of overall strength in terms of capital, liquidity and asset quality. However, a key structural challenge remains sustained profitability and long-term competitiveness. EU banks operate in a highly regulated and still fragmented market environment, while facing increasing competition from non-bank financial intermediaries and large global players. The cumulative effect of regulatory complexity and overlapping requirements weighs on cost structures, constrains economies of scale and limits internal capital generation. This, in turn,

reduces the capacity to invest sufficiently in technology, data, cybersecurity and human capital — all of which are essential to enhance productivity, remain globally competitive and effectively support the green and digital transitions.

(9) What are in your view the main risks stemming from EU banks today?

EU banks are not currently a primary source of systemic risk. Thanks to significantly strengthened capital positions, robust liquidity buffers, enhanced supervisory oversight and improved risk-management practices, they are in a position of resilience. Banks are part of the solution to economic necessities.

1.2 Competitiveness and competition in the EU banking sector

(10) In which of the following dimensions of competitiveness is the EU banking sector performing well? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. EU banks produce financial products at low cost and/or offer financial services at a low price
- b. International competitiveness: EU banks are able to maintain and increase their market shares in international markets
- c. Innovation competitiveness: EU banks are able to supply qualitative or innovative, original financial products or services
- d. Other (please indicate)

Please explain and indicate for the different business areas (wholesale and investment banking, retail banking, etc.)

Competitiveness should not be assessed solely in terms of competition for customers and market share. EU banks also compete with other sectors and international peers for investors and funding. Banks that are profitable and attractive to investors can secure funding more easily and at a lower cost, enabling them to finance the economy and offer competitive products. EU banks are innovative in many areas (ex. digital payments, onboarding, compliance/regtech, risk management, data analytics, accessibility of financial services to households and businesses, etc.). Strong competition in national markets and significant investments in technology have supported efficiency and service quality, particularly in retail banking and payments.

However, the overall pace and scale of innovation as well as the digital transformation remain constrained compared to leading international peers due to structural factors such as market fragmentation (which limits scaling), legacy IT complexity, and significant resources absorbed by compliance and reporting obligations.

For example, the current complex regulatory and supervisory framework (including ECB guides and expectations) make product launches slow and encourage risk aversion, so innovation tends to be incremental rather than bold. For instance, banks are obliged to allocate significant resources in responding to supervisory requests, managing adjustments in timelines, and engaging in preliminary inputs and follow-ups with supervisory teams. Such resources (in terms of both financial means and human capital) should be focused on business activities and

investments for making the bank more future-proof in a highly complex and digitalised ecosystem. Furthermore, lower profitability and fragmented European markets limit the ability to invest in and scale new products. As a result, the system is largely optimised for resilience, stability and compliance rather than rapid, breakthrough innovation.

Another important limitation to EU innovation is that investment in software is necessary for the innovation of EU banks. However, this is constrained by punitive prudential regulation on the treatment of software – a near-full deduction – while being considered an ordinary asset (risk-weight of 100%) in the US. This effectively means that software investments of EU banks require more than 10 times additional capital than those investments in the US [see Q29].

Strengthening harmonisation and supervisory convergence as well as real simplification of regulation while maintaining high prudential and consumer-protection standards, would help EU banks scale innovations more effectively across borders. Further progress towards a completed BU and a deeper CMU would therefore be key to strengthening the competitiveness of EU banks. Greater market integration would allow financial institutions to operate more efficiently across borders, mobilize savings more effectively and support investment and growth across the European economy.

(11) What are the main regulatory and non-regulatory factors that determine and drive the competitiveness of EU banks? Please specify the factors per market segment: savings, payments, retail banking, corporate banking, investment banking (including underwriting, brokerage, custody, settlement, market making, etc.)

Regulatory complexity, unpredictability of requirements and fragmentation of powers are at the core of banks' limits to achieving competitiveness. For more information, please refer to the answers in other questions of this consultation.

(12) How would you assess the current level of competition in the banking sector within the single market? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. EU banks face high levels of competition within their Member State of establishment **Fully agree**
- b. EU banks face high levels of competition in the EU market **Somewhat agree**
- c. EU banks face high levels of competition in global markets/ markets outside of the EU **Fully agree**
- d. Traditional banks are challenged by new developments in a number of product lines and areas (e.g. digital banks/FinTech in specific areas such as payments, tokenisation of assets, etc)
- e. Other (please indicate)

Please Explain

Competition in the EU banking sector is generally strong, particularly within national markets where a wide range of institutions compete across retail banking, payments and corporate banking activities. This has supported innovation, customer choice and the continued development of digital financial services.

EU Banks are keen to expand across EU borders in order to further scale up their businesses. However, longstanding gold-plating and fragmentation are a significant disincentive for such expansion.

EU banks also face strong competition in global markets from large international financial institutions operating in more integrated financial systems. At the same time, technological innovation and the emergence of digital banks and fintech firms are reshaping parts of the financial services landscape, particularly in payments and digital customer services. While competition from Fintechs, digital banks and new technologies is clearly increasing, it should be noted that many Fintechs primarily act as technology providers and partners for banks rather than direct competitors. However in some areas such as payments, foreign exchange, and basic banking services, they have proven to be a new, agile and technology-driven form of competition.

In this context, further progress towards a completed BU and a deeper CMU would strengthen the integration of financial markets, support cross-border competition and enable European banks to operate more effectively on a pan-European and global scale.

1.3 Banks and other financial institutions as enablers of capital markets

(13) According to many analysts, EU banks are persistently undervalued by investors when compared to international peers. If you agree with this assessment, what could explain this undervaluation? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Limited scale and inefficiency of EU capital markets (limited depth, insufficient liquidity, etc.) **Somewhat Disagree**
- b. Macro-economic environment (economic growth, inflation, fiscal situation, interest rates, demographics) **Somewhat agree**
- c. Limited growth and scaling up prospects due to market fragmentation and different national rules **Fully agree**
- d. Underinvestment in new technologies **Somewhat Disagree**
- e. Supervisory practices (e.g. potentially impacting the level of dividend distribution and share buybacks) **Fully agree**
- f. EU regulatory/ resolution frameworks (including international level playing field) **Fully agree**
- g. Internal factors (low risk appetite, bank governance/culture) **Somewhat Disagree**
- h. Uncertain or ineffective market exit for inefficient or distressed banks **No opinion**
- i. Other (please indicate)

Please Explain

Notwithstanding broader considerations about the EU's strategic imperative of fully developing and integrating its capital markets under the SIU agenda, the EBF finds that the valuation gap of EU banks' shares compared to international peers cannot be primarily attributed to structural market malfunctioning or the relative smaller size of the EU equity markets.

However, this assessment should not be interpreted as opposing the need to further integrate and deepen EU equity markets.

Rather, EBF emphasizes that such undervaluation must be largely attributed to the design and cumulative impact of the EU regulatory, supervisory and resolution frameworks on EU banks, as well as to considerations related to the international level playing field.

As recognised by the ECB¹², equity valuations of euro area banks have recently been supported by improved near-term profitability expectations. However, European banks' shares continue to trade at a discount in price-to-book terms compared to international peers, reflecting the more pronounced impact of regulatory capital requirements and the macroeconomic environment on income and profitability.

In particular, the cumulative impact of EU regulatory and supervisory gold-plating, leading to higher capital requirements and buffers, as well as supervisory practices that are often perceived as more intrusive and less predictable, contribute to increasing costs, ultimately constraining ROE. and contributing to a valuation discount.

By means of examples, the service component under the for operational risk (Article 314(5) CRR) prohibits netting service-related income and expenses, inflating capital requirements independently of actual risk. As the US will not implement this element, EU banks face a competitive disadvantage in services such as securities issuance, trading, clearing, asset management, custody and FX. Allowing such netting would better align capital requirements with underlying risk and help restore a level playing field.

Additional structural elements reinforce these pressures:

1. While the EU resolution framework is key for financial stability, it increases funding costs and affects investor risk perception, notably due to uncertainty around the application of resolution tools in stress scenarios.
2. The absence of a fully level international playing field—where the EU tends to implement rules more strictly or more rapidly than other jurisdictions such as the US—creates competitive disadvantages in key business areas.
3. Incomplete financial integration—particularly the unfinished BU and CMU—limits cross-border consolidation and prevents banks from fully realising scale efficiencies. This fragmentation constrains growth, investment capacity and competitiveness, contributing to the persistent valuation discount of EU banks.
4. Moreover, past constraints on capital distribution, such as restrictions on dividends and share buybacks during crises, have weighed on investor confidence.

From a capital markets standpoint, in its Simply Competitive Report, EBF also emphasizes the need of calibrating the reporting burden, especially for the banks offering clearing and related services, is implementing targeted amendments to EMIR and MiFIR frameworks to minimize duplication in the current requirements. The effort has been initiated by ESMA in 2025 (Call for Evidence on reducing

¹² ECB Financial Stability Review 2025

regulatory transaction reporting burden) yet requires further push in L1 to bring it to meaningful improvements for market participants.

In this context, proposals should be considered to simplify reporting. EBF Members are considering the following ideas: first, establishing a designated reporting counterparty to each transaction to change the setup from dual-sided to single-sided, preventing unnecessary duplicative reporting. Second, descoping ETDs from EMIR regime minimizes reporting burden without undermining the oversight as ETDs remain subject to CCP risk management. This would be in line with existing global standards and practices in non-EU jurisdictions. Third, as transactions originating from non-EEA branches and venues are already reported to local regulators, reporting them in the EU does add limited supervisory value, while disproportionately adding to the burden of the transaction reporting requirements.

EBF believes that a discussion should be held about addressing those points at Level 1, directly in the texts of EMIR and MiFIR, which would provide easily implementable quick wins that minimize the reporting duplication, but maintain appropriate supervisory oversight in the EU.

(14) Does the prudential framework adequately account for the activities and the complexity of intermediaries performing financial services other than core banking services? Are there any perceived undue limitations to such activities? Reference is made to financial services performed by investment firms, financial advisors, custodians, wealth managers, market makers or other liquidity providers that are not primarily or not at all engaging in deposit taking and granting loans.

There is a divergence in the regulatory treatment between banks and non-bank financial intermediaries, as the latter are often subject to different supervisory frameworks that reflect their distinct business models and risk profiles.

The current regulatory perimeter warrants review in light of evolving market structures. The current approach to defining what should be regulated needs to be reconsidered and potentially expanded to ensure it remains aligned with the nature of financial services being provided. The core logic of traditional banking regulation is based on the existence of deposits, which require strong safeguards and justify stringent prudential requirements.

Non-bank intermediaries are not primarily or not at all engaging in deposit taking, meaning the classic banking-centric regulatory rationale may need to be complemented by a broader, activity-based perspective.

As non-banks increasingly offer a wider range of financial services, including in some cases traditional bank-like services, it becomes essential to reassess who should be regulated and based on which risks, rather than relying solely on institutional classifications rooted in the deposit-taking model.

The guiding principle should be 'same service, same risk, same rules.'

(15) How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall

functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

Competition between banks and non-bank entities, including investment firms, FinTechs and in some segments BigTech, has increased across EU capital markets. While this dynamic can foster innovation, lower costs, improve user experience and expand customer choice, its impact depends on a regulatory and supervisory framework that ensures consistency and a level playing field. Without this, competition may create uneven conditions and shift risks outside the traditional banking perimeter.

Banks operate under comprehensive prudential, supervisory and resolution frameworks designed to safeguard financial stability and market integrity, while some non-bank entities providing comparable financial or ancillary services may be subject to lighter or more fragmented regimes. In this context, the principle of “same activity, same risk, same rules” remains essential. Where non-bank entities perform bank-like functions or generate comparable risks, including through critical ICT services, they should be subject to proportionate and equivalent regulatory and supervisory standards to prevent regulatory arbitrage and safeguard consumer protection, market integrity, financial stability and operational resilience.

Ensuring effective competition among FMIs remains important. While exhibiting characteristics of natural monopolies in the provision of core infrastructural services, FMI providers operate for-profit models and also offer commercial or ancillary value-added services entering in competition with other financial market participants. In this context, a clearer distinction between the core functions performed by capital market infrastructures and their commercial activities would be important. This will allow for effective competition and facilitate a level-playing-field (same activity, same risks, same rules).

In the recent Have-your-Say consultation on the recently published Market Infrastructure Package, the EBF highlighted concerns around market data aggregators and connectivity providers and the need of ensuring effective enforcement of the RCB principle and preventing practices such as cross-subsidisation or restrictive contractual terms. Similarly, competition among CSD should be strengthened through stronger transparency and comparability of CSD fees. Addressing, in the context on the MIP, such structural sources of asymmetry and barriers that may hinder market-driven competition will be essential to support the development of well-integrated and efficient capital markets.

Emerging infrastructures based on DLT may also influence future market structures. While the DLT pilot regime aims to foster innovation, complex operational requirements may limit participation. Ensuring business-model neutrality, proportionate requirements and scalability will be important to support competitive DLT-based infrastructures that integrate with the wider EU capital markets.

Finally, banks underline the importance of regulatory stability and proportionality. While initiatives such as the proposed 28th EU legal regime may support the further development of EU capital markets, the sector faces significant implementation pressure from the large number of legislative measures adopted in the previous cycle. In this context, legislative restraint and a focus on effective implementation of existing rules would support banks in continuing to contribute efficiently to the functioning of EU capital markets.

Overall, regulation should promote fair competition while safeguarding financial stability and market integrity through consistent treatment of comparable activities and risks, addressing structural inefficiencies in market infrastructure segments and supporting deeper integration of EU capital markets.

1.4 Cross-border activities in the EU banking sector

- (16) For retail banking as well as for wholesale and investment banking, would you agree with the following statement: 'The EU banking market is highly fragmented along national borders, domestic entities mainly cater for domestic clients, cross-border activity is subdued, and it is very difficult for clients to get banking services across the single market.'** *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*
- Retail Banking
 - Wholesale and investment banking

Please Explain

- (17) What are, in your view, the benefits and the costs associated with the current level of cross-border banking activities in the EU, and what would be the benefits and costs associated with further integration of banking activities in the EU? Please also include quantitative estimates if available.**

Cross-border banking plays a critical role in global financial integration, functioning as a key driver for economic development by facilitating the movement of capital, expanding the choice of products for investors, and enhancing the financial capacity across countries. Third-country institutions often face a fragmented set of national regimes governing cross-border services provision which increase regulatory complexity and limit the scalability of business across the EU. Greater clarity and consistency in regulatory approaches to cross-border activities would encourage the broader development of an open and competitive financial ecosystem.

At the same time, cross-border banking integration in the EU remains limited, with only a few regional clusters displaying higher levels of integration. Retail and SME banking markets remain largely national, while cross-border activity is more developed in private and wholesale banking.

Limited cross-border integration constrains economies of scale, as banks must operate largely on a country-by-country basis due to divergent legal, tax, consumer protection and supervisory frameworks. Uncertainty in the regulatory alignment of certain cross-border banking activities often requires iterative solution processes, which involve lengthy coordination rounds and adjustments over time. It also limits risk-sharing and the efficient allocation of capital and liquidity across MSs (capital traps through ring fencing). Furthermore, divergent national laws on "perfection of security" and differing rules/traditions on paper-based processes make cross-border trade (finance) expensive. There is also problem of cash management, resulting in fragmented liquidity. Corporates must maintain multiple local accounts to navigate national tax/reporting, leading to "trapped cash." Differing national "withholding tax" procedures (see Q37) and settlement cycles (CSDR) make cross-border asset holding cumbersome (Post-trade silos).

The existing structure reflects genuine national differences. Retail banking is closely linked to local legal systems, tax regimes and savings cultures, and consumer protection frameworks are tailored to domestic specificities (“soft information”). Local knowledge supports relationship-based lending, particularly for households and SMEs. From a financial stability perspective, predominantly domestic structures can also be easier to supervise and manage in times of stress (“firewalls”).

While the current level of integration supports some diversification benefits and facilitates cross-border corporate financing, SMEs remain comparatively excluded from these advantages. Further integration could strengthen resilience, improve scalability, and enhance banks’ capacity to finance growth at EU level.

At the same time, the enhancements brought about by deeper integration may also entail transition costs, increased supervisory complexity and potentially greater cross-border contagion risks. These risks would need to be mitigated through a robust regulatory, supervisory and resolution framework.

Policy efforts should focus on reducing unnecessary regulatory fragmentation and enabling cross-border activity where there is genuine economic demand, while recognising the structurally national character of much of retail and SME banking.

Third-country institutions often face a fragmented set of national regimes governing cross-border services provision which increase regulatory complexity and limit the scalability of business across the EU. Greater clarity and consistency in regulatory approaches to cross-border activities would encourage the broader development of an open and competitive financial ecosystem.

(18) What factors prevent EU banks from engaging in more cross-border activity within the EU or make cross-border activity more costly? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Divergent implementation of EU banking rules across Member States **Fully agree**
- b. Supervisory divergence/gold-plating by Member States/national supervisors **Fully agree**
- c. Requirements for allocation of capital and liquidity at local level **Fully agree**
- d. Non-harmonised macroprudential buffers **Somewhat agree**
- e. National discretion in intragroup large exposure limits **Fully agree**
- f. Incomplete banking union (lack of a European deposit insurance scheme, liquidity in resolution, etc.) **Neutral**
- g. Non-prudential barriers (insolvency, investor protection, company law, taxation) **Somewhat agree**
- h. Political barriers (government direct or indirect interference) **Fully agree**
- i. Complexity and length of mergers and acquisition supervisory authorisation procedures **Somewhat agree**
- j. Costs/risks of mergers and acquisitions **Somewhat agree**
- k. Absence of economies of scale from engaging in cross-border activities **Somewhat agree**
- l. Other (please indicate) **Fully agree**

Please Explain

Two factors may prevent EU banks from engaging in more cross-border activity within the EU or make cross-border activity more costly: the fragmentation of the EU regulation (which complexifies EU regulation, hinders the creation of a European integrated capital market, and is detrimental to the level playing field between European financial actors) and the non-sufficient EU supervisory convergence (which hinders the efficiency and the flexibility of the EU regulation). See Q10-13 and 16.

The European economy would benefit significantly from a fully integrated BU, yet the current prudential framework still creates substantial capital and liquidity traps that prevent cross-border banking groups from optimising their resources. Under the CRR, solo level capital and liquidity requirements continue to apply rigidly to subsidiaries located in different MSs (CRR Articles 6–8 for capital requirements and Article 412 for LCR waivers, see Q32).

Another aspect that should not be overlooked is that the complexity and length of regulatory approval procedures for mergers and acquisitions pose obstacles to cross-border activities. Extensive documentation requirements, differing national supervisory practices, and lengthy approval times increase uncertainty and reduce the feasibility of cross-border consolidation projects.

These capital and liquidity traps fragment the Single Market, increase the cost of funding, and prevent banks from operating with the same efficiency as their counterparts in the United States—where banking groups manage capital and liquidity on a genuinely consolidated basis across state borders. The resulting inefficiencies ultimately restrict banks’ ability to support households, SMEs, corporates and strategic investments across the EU.

To address these structural obstacles and restore the coherence of the BU, the prudential framework should be amended to fully enable group wide capital and liquidity optimisation:

- Introduce automatic cross border waivers in the CRR for capital (Articles 6–8) and liquidity (Article 412).
- Facilitate cross border consolidation by simplifying supervisory approval processes and reducing home/host frictions.
- Develop new mechanisms to reassure host authorities, including centralised liquidity management frameworks that preserve local confidence while enabling genuine group wide optimisation.

Such reforms would allow the BU to function as a single jurisdiction for prudential purposes, materially increase lending capacity, strengthen competitiveness and enable EU banks to better support investment needs across all MSs.

Moreover, several MS have introduced specific taxes on the banking sector (including bank levies, windfall profit taxes, and surcharges on corporate income tax) that go beyond the prudential and resolution framework harmonized at EU level. While the Union has established common mechanisms such as the SRF and harmonized prudential requirements, additional national taxes — in many cases designed unilaterally and without coordination — create an uneven playing field within the Single Market.

A European Parliament study of June 2025 on the taxation of the financial sector highlights that the heterogeneity of bank levies and windfall profit taxes across MSs contributes to fragmentation, increases compliance costs, and reduces incentives

for cross-border consolidation. In addition, differences in tax bases (assets, liabilities, net interest income, “excess” profits), rates, and duration (temporary or permanent) create structural competitive distortions for banks operating in multiple Member States.

The IMF (2024) notes that defining “excess profits” in the banking sector is particularly complex due to the cyclical nature of profitability. It also warns that revenues from such taxes are volatile and that these measures may affect banks’ ability to retain earnings and strengthen their capital buffers. Where national legislation further limits the possibility of passing these costs on through pricing, internal capital generation capacity may be directly affected. This creates prudential asymmetries between MSs and weakens the coherence of the Single Rulebook. From a competitiveness perspective, these national measures effectively constitute a form of regulatory and prudential “gold-plating.” They increase the overall cost of capital for certain European banks compared with both European and non-European competitors, and weaken EU banking groups’ ability to scale operations and allocate capital efficiently within the internal market. To enable banks to effectively support the EU's strategic goals, the following objectives should be prioritised:

- Avoid new taxes and levies on financial institutions and capital markets, such as FAT or windfall taxes, which risk distorting the level playing field and undermining banks' and markets' capacity to provide capital.
- Safeguard banks' core gatekeeping and funding functions by preventing tax burdens that reduce lending capacity and raise costs for EU citizens and businesses.
- Advance regulatory simplification and harmonisation to reduce fragmentation, lower compliance burdens, support cross-border operations, and deepen Single Market integration.
- Promote a coordinated review at EU level with the objective of progressively eliminating national banking taxes that exceed the harmonized European framework, thereby reducing fragmentation, improving capital allocation, and strengthening the competitiveness of the European banking sector.

Please specify to what other factor(s) you refer in your answer to question 18:

Each jurisdiction introduces additional compliance costs that are broadly non-linear. A bank entering a new member state must establish relationships with the local NCA, NRA, FIU, DPA, CPA and deposit guarantee scheme. Thus, if a bank were to endeavour to operate in all 27 EU member states, it would interact with approximately 250 or more distinct supervisory and regulatory bodies, spanning at least 8 EU-level supranational authorities and in excess of 200 national-level entities across categories including prudential supervision, resolution, anti-money laundering, data protection, consumer protection, deposit guarantee, macroprudential policy and securities markets regulation.

Furthermore, it must understand and comply with the local implementation of EU directives (which, being directives rather than directly applicable regulations, permit national variation), local options and national discretions under CRD V/CRR III, and the supervisory expectations. The EBA’s own supervisory disclosure data reveals significant variation in how MSs exercise the more than 160 options and national discretions available under EU banking legislation. The local allocation of capital and liquidity limits flexible resource allocation and reduces capital efficiency.

At the same time, non-EU competitors may benefit from less restrictive capital requirements, which can create competitive disadvantages for EU banks.

The practical consequence is that a truly pan-European bank must maintain compliance teams and legal expertise for each jurisdiction, multiplying overhead. The EBF has documented that the 2024 Banking Package alone spans approximately 1,000 pages and confers 139 mandates to the EBA. When this regulatory output is layered on top of divergent national transpositions, the cumulative burden becomes an effective barrier to cross-border expansion. However, economies of scale across central functions (e.g. IT infrastructure, risk management, control functions) are increasingly important given rising digitalisation and AI-related investment needs. Sub-scale operations in individual Mss typically exhibit structurally lower returns, limiting the economic viability of organic expansion and reinforcing the need for consolidation to achieve competitive cost-income ratios.

The Single Rulebook was conceived precisely to eliminate the regulatory fragmentation described above. In practice, however, it has been undermined by three factors: First, the continued use of directives alongside regulations means national transposition introduces variation. Second, the extensive use of options and national discretions within the CRD/CRR framework preserves host-state divergence. Third, the growing volume of Level 2 (EBA technical standards) and Level 3 (SSM supervisory expectations, EBA guidelines, Q&As) regulation creates an additional “soft law” layer that varies in its interpretation and application across jurisdictions. The complexity and duration of supervisory authorisation procedures for M&As, including extensive documentation requirements, varying national supervisory practices and long approval timelines, increase uncertainty and reduce the feasibility of cross-border consolidation.

While EU banks are generally well capitalised, increasing capital requirements driven by supervisory discretion and regulatory reforms reduce available headroom for both organic and inorganic growth. This may force banks to prioritise RWA optimisation over expansion, thereby constraining scaling strategies.

Non-prudential barriers that deter EU banks from undertaking cross-border activities within the EU, or that increase the cost of such activities, include: (i) corporate taxation, (ii) Anti-money laundering rules, (iii) Financial sector-specific taxes, (iv) VAT on financial services, (v) Withholding tax procedures

We provide detailed comments on items (i) and (iii) in this section, while more observations on items (ii), (iv) and (v) are set out under Q37.

Corporate taxation

Achieving the objective of competitiveness demands greater simplification of Europe’s fiscal framework. This means reducing unnecessary complexity in tax procedures, aligning and streamlining tax rules, and removing persistent tax barriers that fragment capital flows and impede investment. A simpler, more coherent tax environment will support deeper financial integration, expand investment, and unlock Europe’s full economic potential. In an increasingly fragile economic and geopolitical context, simplifying the EU’s corporate income tax framework is an urgent priority. Current rules impose disproportionate compliance burdens on EU businesses, undermining their global competitiveness.

In particular, the implementation of Pillar Two – the OECD framework enforcing a 15% global minimum tax for large multinationals – combined with existing EU measures such as the ATAD, has led to an increased administrative burden for EU businesses, and overlapping and duplicative corporate tax requirements.

This challenge is further compounded by developments at the OECD/Inclusive Framework level, which risk weakening the coherence and effectiveness of Pillar Two within the EU - most notably the agreement to grant a Side-by-Side safe harbour to US-headquartered groups.

The Inclusive Framework's growing flexibility also raises concerns that other jurisdictions may seek similar exclusions, calling into question the consistency and overall effectiveness of key mechanisms such as the IIR and the UTPR. While the Permanent Simplified ETR safe harbour represents a step in the right direction, the regime remains complex and continues to generate significant administrative burdens, particularly for past reporting periods.

In this evolving landscape, EU businesses risk being placed at a competitive disadvantage, as Europe appears to be the only major region fully internalising the costs of Pillar Two without corresponding benefits. This risk is further exacerbated by potential overlaps with existing measures, such as the ATAD Directive, increasing regulatory duplication.

To address these challenges, future EU tax initiatives should prioritise genuine simplification and coherence. Streamlining the Pillar Two framework is essential to reduce compliance costs and to ensure a more predictable, efficient, and business-friendly tax environment - key to preserving EU competitiveness and supporting strategic priorities, including the green and digital transitions and the strengthening of Europe's defence capabilities.

(19) Why have EU banks generally relied more on subsidiaries rather than branches and the free provision of services for their cross-border activities within the banking union and the single market? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Incompatibility with internal organisational strategy and budgets
- b. Preference for domestic markets
- c. Preference of Member States/national authorities for subsidiaries, as they bring more employment, tax revenues, supervisory control, etc (moral suasion)
- d. Client preferences (language, trademark recognition) Fully Agree
- e. Lack of trust in deposit guarantee schemes of the host Member States
- f. Group resolution strategy
- g. Non-prudential barriers like divergences in contract and civil laws, labour laws, product features, consumer protection rules, foreclosure rules, etc.
- h. Other operational benefits linked to the legal form of a branch vs. Subsidiary
- i. Other (please indicate)

Please Explain

The prevalence of subsidiaries over branches in cross-border banking reflects a combination of prudential, supervisory, host-country and strategic considerations. From a risk management perspective, subsidiaries are separate legal entities with their own balance sheet, governance, capital and liquidity. This structure provides a degree of risk isolation within the group, reducing perceived contagion risk and protecting the parent institution in the event of distress. The requirement for standalone capitalisation is the logical counterpart of this risk-containment function.

Subsidiaries also align more closely with host-country expectations. Host authorities often favour locally incorporated entities because they satisfy domestic requirements for capital and liquidity, fit within national insolvency and DGS frameworks, and are perceived as offering stronger depositor protection and financial stability, particularly in retail or systemically relevant activities.

In cases of expansion through acquisition, maintaining a local legal entity preserves brand recognition, client trust and established market positioning. Banking remains a trust-based business, and local identity can be commercially valuable.

By contrast, branches rely on the capital of the parent institution and may offer greater group-level flexibility and efficiency. However, the absence of legal separation implies full liability for the parent and less internal risk compartmentalisation.

(20) Could you provide a quantitative estimate of the additional requirements and costs (e.g. liquidity requirements, capital requirements, resolution or macroprudential requirements, operational costs in % of balance sheet, etc.) for a banking group that makes use of subsidiaries as compared to the same banking group relying on branches or freedom to provide services?

1.5 International level playing field

(21) What is your assessment of the level playing field in the European banking market, with regards to the presence of significant non-EU financial institutions?

Encouraging structured, two-way exchange of regulatory insights between the EU and other leading jurisdictions, particularly the UK, would be opportune. Regular dialogue on supervisory approaches, emerging risks, market developments and implementation experience would enable authorities to identify what works in each other's jurisdiction, learn from each, and deepen their cooperation and coordination on more forward-looking developments.

Although the EU's regulatory framework formally applies to all institutions operating within the Union, a fully level playing field does not exist. EU banks are confronted with an uneven regulatory landscape, comparatively higher compliance requirements, and structural disadvantages in scale and global footprint relative to some non-EU competitors.

Recent experience with the coordinated move to T+1 settlement between the UK and the EU illustrates the concrete benefits of this approach. Close technical cooperation allowed both jurisdictions to share expertise, address implementation challenges and deliver a mutually beneficial outcome that enhances market efficiency – to the benefit of the EU as a whole. This example demonstrates the value of structured regulatory collaboration and shows what can be achieved when the EU works closely with key third countries like the UK. Applying this approach to other areas, such as transaction reporting and defence financing, would further enhance the competitiveness of the EU banking sector. This is particularly important given the high degree of interconnectedness between the EU and financial services markets like the UK, where many firms operate across both jurisdictions.

Financial institutions based outside of the EU, including those in the EU's closest allies in this geopolitical landscape such as the UK and Switzerland, play an important role in financing European priorities. The EU has created a regime for foreign banks (Article 21c) in the CRD6 which was intended to guarantee a level playing field between EU and non-EU headquartered banks. However, the regime was proposed in a period when both the global environment and the EU's strategic priorities differed significantly from those of today. As a result of the new global landscape and the shift in EU priorities (defence, digital, climate and energy), it could be worthwhile for the EU to explore, without undermining the objectives of Article 21c, whether Art. 21c's scope (incl. on the exemptions intended to reduce the impact on institutional and professional clients), and the way it was formulated, contributes to the EU's strategic priorities which require significant financing, notably in defense.

An example for global regulatory asymmetry is the Prudent Valuation (PruVal) framework. This asymmetry weakens the competitive position of EU banks in providing trading, hedging and liquidity services to European clients, including corporates, pension funds and insurers. Also, the pro cyclical nature of PruVal means that, during periods of extreme market volatility, capital deductions can increase sharply, constraining the ability of EU banks to provide liquidity and risk hedging services to clients precisely when demand is highest, and making European markets less resilient through increased reliance on non-EU banks. Given the overlap with other prudential requirements, the legislator should consider eliminating PruVal or, at a minimum, allowing AVAs to be offset against deferred Day One Profit, i.e. disapplying EBA Q&A 2019_4458.

(22) According to many analysts, EU banks have lost market share in the provision of investment banking services to EU clients compared to non-EU banks. If you agree with this assessment, what are the reasons for this decline?

Compared to US banks, EU banks have relatively less access to deeper capital markets, for example through securitisation, which leads to a relatively lower risk weight density on the bank balance sheet of EU banks and less capacity to lend or engage in investment banking services. Investment banking competitiveness is closely tied to the depth and integration of financial markets. Strengthening the

EU's primary and secondary markets is essential to maintaining global competitiveness. In addition, the EU remains fragmented across legal, tax and insolvency regimes, limiting the development of a fully integrated capital market comparable to the US. The SIU should be designed to help close this gap.

In addition, the high level and complexity of the European capital buffer framework is an important factor with buffers in the EU being approximately, 1,3% higher than in the US (based on a 2023 study). Without action this gap is likely to further grow due to changes being made in other jurisdictions. In the UK , the FPC has reduced the appropriate benchmark for the system-wide level of T1 capital requirements to 13% of RWAs, equivalent to a CET1 ratio of around 11%. In the US there are number of changes, such as making permanent the changes to enhanced supplementary leverage ratio, the size of banks to which stricter governance and oversight rules are being applied and potentially a capital-neutral implementation of the final Basel 3 rules, including the FRTB.

The compliance burden in the EU is also to the detriment of wholesale banking activities, as also recently recognized in an ECB report on simplification. The simplification drive in the EU is very welcome.

Regulatory frameworks that limit innovation and scalability: New EU regulations, such as the AI Act, threaten to impose extensive compliance obligations that can slow down or hinder the deployment of AI use cases within EU banks, while competitors outside the EU often face fewer constraints and can adopt new technologies more quickly.

For investment banking, despite the trend of deglobalisation, international cooperation remains very important. International standards are a useful tool in creating an international playing field, as well as the bilateral regulatory dialogues that the EU is taking part in with an increasing number of jurisdictions. On the standards, international consistency is key and needs to follow EU's simplification efforts. A mandate of global simplification, stemming from international discussions at Basel level, would help harmonise and streamline elements of the Basel framework. The goal should be to maintain robust prudential standards while ensuring that the regulatory framework remains coherent, transparent, and aligned across jurisdictions. Some examples of lower competitiveness in investment banking include:

- US banks benefit from a large, integrated domestic capital market, enabling scale efficiencies, higher profitability, greater capital generation and stronger risk-bearing capacity;
- A lower average profitability of EU banks reduces their capacity to accumulate capital, invest in innovation, or compete in capital-intensive businesses

There is also a strong presence of non-EU institutions in several segments of the bloc, including equity and rates trading, prime brokerage, M&A advisory and

leveraged finance, non-EU institutions, notably US banks, hold significant market shares within the EU.

Regarding the regulatory dialogues, we would like to encourage further structured, two way exchange of regulatory insights between the EU and other leading jurisdictions. This would strengthen the competitiveness of the European banking sector, as it could help to reduce the regulatory burden when operating cross-border. Regular dialogue on supervisory approaches, emerging risks, market developments and implementation experience would enable authorities to identify what works in each other's jurisdiction, learn from each, and deepen their cooperation and coordination on more forward-looking developments.

(23) To what extent do the following difficulties faced by EU banks hinder their ability to compete globally? *To a very large extent; to a large extent; neutral; to a small extent, not at all, no opinion.*

- a. Divergent banking prudential rules applying to EU and non-EU banks impact international strategic choices by EU banks **To a very large extent**
- b. Supply side factors (e.g. cost competitiveness, innovation, depth of home market). **To a very large extent**
- c. EU supervisory practices affect expansion in other jurisdictions **To a very large extent**
- d. Other (please indicate)

Please Explain

In particular, data protection, banking secrecy and operational resilience requirements are significantly more stringent in the EU than for US banks. In addition, the current EU framework for complying with AMLA requirements is expected to create substantial challenges compared with the more homogeneous regulatory regimes in the U.S. and the UK.

Regarding a) Prudential rules have a direct and significant impact on the profitability and feasibility of the affected businesses. For example, the obligation to deduct software assets from own funds makes it much more costly and difficult for EU banks to invest in proprietary technology and innovation to compete on global markets than, for example, US banks (see Q29). The same is the case the NPL prudential backstop (CRR Art. 47a–47c) and irrevocable payment commitments to the SRF assessed by the ECB via the annual SREP (see Q24). As beforementioned (see Q21), the European rules regarding PruVal weaken the competitive position of EU banks in providing trading, hedging and liquidity services to European clients, including corporates, pension funds and insurers.

In addition, where the same overarching rules (whether they are prudential, reporting requirements, ESG obligations, consumer protection and supervisory guidance) apply to EU banks and non-EU banks, the numerous authorities in the EU usually tighten these further in the form of Level 2 and Level 3 regulation - to an extent and in a level of detail that is unmatched anywhere else in the world. National discretions and divergent implementation of EU rules limit economies of scale.

Regarding c) So far, the EU's supervisory approach, especially that of the ECB, has been characterised by formalism, disproportionate attention to detail and the dogmatic belief that capital is the solution to all supervisory fears. For example, the EU supervisors impose capital surcharges (P2R) not only for risks, but also for alleged qualitative deficiencies in banks' risk management and/or governance. It is, however, unclear how capital is supposed to remedy governance issues. On the contrary, higher capital requirements create costs for banks and therefore even reduce the funds that can be invested in a highly skilled workforce and sound risk management. US authorities, on the other hand, impose additional capital for quantitative aspects only. Also, EU supervisors have shown a certain tendency to interfere with bank business models. For example, this was particularly relevant in the case of banks' exposures to leveraged entities. Regarding resolution framework expectations, the MREL/TLAC requirements and resolution planning add structural funding costs compared to some international peers.

Regarding d) Differences in governance and remuneration rules may affect talent competitiveness in certain specialised segments.

- (24) To what extent do the rules on internal governance and remuneration policies of financial institutions create a competitive disadvantage for EU financial institutions vis-à-vis non-EU financial institutions? *To a very large extent; to a large extent; neutral; to a small extent, not at all, no opinion.***

Please Explain

The rules on internal governance and remuneration policies were strengthened after the 2008 financial crisis to promote sound risk management, financial stability and alignment with long-term performance. They have contributed to reinforcing the credibility, resilience and prudential discipline of EU financial institutions, particularly by addressing "too big to fail" concerns. These EU rules are generally the strictest and most extensive compared to the UK, US, Switzerland and Asia, making it harder to attract talent and leading to overall higher levels of fixed pay. This creates a great competitive disadvantage for financial institutions in the EU. This applies not only to financial institutions from third countries, but also to EU companies in other economic sectors that are not subject to comparable far-reaching requirements regarding the remuneration policies or internal governance. In this respect the UK could provide inspiration for a European review.

The bonus cap in the UK for non-control and control functions is one example of this. In October 2023, the UK regulators removed the bonus cap which applied to banks, building societies and PRA-designated investment firms. This included UK branches of third country firms. The main rationale for its scrapping according to the PRA is that the cap led to higher fixed salaries to compensate for lower bonuses. This meant that firms had less flexibility during downturns. The cap's removal allows a higher proportion of pay to be "at risk" and subject to performance, malus, and claw back. Rather than the EU reviewing whether the rules implemented and updated consistently throughout the last 16 years through Directives, Regulations, Commission Delegated Regulations, ITS and EBA/ESMA Guidelines have actually proven effective in achieving the desired goals, more requirements are constantly being developed. It is unduly costly for firms to implement these rules on an ongoing basis and to consistently review and implement new or updated rules. This

kind of complexity is unattractive to institutions and to talent that can choose to work for US, UK or Swiss banks, for example.

Taking the UK's remuneration policy statement from October 2025 as an example, the EU should seize the opportunity to rigorously cut down the rules to the necessary level.

Separate to the cap, in October 2025 the FCA and PRA increased the flexibility around senior banker pay, alongside changes to create better links between bonus awards and responsible risk-taking. In this respect, the amount of time that senior bankers must wait before receiving their full amount of bonus (termed as the bonus deferral period), was reduced from eight to four years. The regulators said the proposals bring the UK more closely in line with many other major jurisdictions.

The detailed governance requirements (notably regarding fit & proper assessments) entail significant administrative burdens, particularly for cooperative banks, which account for a large share of fit and proper approvals. They impose too high level of formalisation, both in terms of the structure of management bodies and the definition, documentation and traceability of individual responsibilities. These requirements are in addition to internal control and risk management obligations and lead to increased administrative and compliance burdens.

In the same vein, the EU multiple requirements in terms of governance documentation are often redundant with other information available at entity level in frame of their day-to-day management (job descriptions, internal Charts, ...)

(25) Do EU-headquartered banks and investment firms face regulatory constraints that hinder their competitiveness vis-à-vis non-EU financial firms? If yes, what are the key constraints?

Yes, European regulation is inadvertently hindering the ability of European companies to access certain markets, thus limiting their ability to conduct business overseas.

The EU regulatory framework is often more detailed and prescriptive than in some non-EU jurisdictions, resulting in higher compliance, reporting and supervisory costs. The cumulative impact of multi-layered EU rules (Level 1/2/3), extensive and sometimes overlapping reporting requirements, and detailed governance prescriptions increases operational burdens.

The contributions to the SRF are particularly problematic, as it is an EU-specific, pre-funded mechanism whose target level is interpreted dynamically at 1% of covered deposits, even though the SRF does not conceptually insure those deposits. The resulting perpetual contributions tie up around €80 billion that is not used productively and do not take into account actual risk, the quality of resolution planning, or compliance with MREL requirements. This creates a competitive disadvantage for EU banks. EU banks face an additional disadvantage: the EU framework allows banks to provide part of the contributions to the SRF via IPC, for the purposes of reducing the financial impact. However, the ECB requires banks to deduct IPC from their CET1. This reduces a large part of the advantage the co-legislators aimed to provide. Hence, this is also a further example of gold-plating.

This issue becomes even more significant for European banks operating in third countries employing a subsidiary model that is subject to both European and local regulations.

- **A number of examples showcase where European regulation fails to appropriately recognise Third Countries**
 1. **Equivalence of third country capital regulation.** Delays in this process, for example in Colombia, Peru and Uruguay, often due to lack of resources and transparency, imply that EU banks have to apply more penalizing requirements until this equivalence decision is made, such as for sovereign debt holdings or the cross-border financing of infrastructures.
 2. **Treatment of Monetizable DTAs in Europe.** Lack of recognition of the existence of monetizable DTAs from equivalent third countries, such as Brazil, and of the application of their more favourable local treatment.
 3. **Recognition of local market practices in distressed restructuring activities.** The existing thresholds to consider a restructuring as a default take into consideration the European reality but are not fit for Latin American markets, with a different economic reality and where higher thresholds should apply.
- **European banks' ability to conduct the business and grow in these countries is hampered by this restrictive approach.**
 - **Restricted Financial Ability.** Regulatory frameworks that penalize investments in third countries ultimately impair the provision of funding to local economies, which in many cases are developing countries and need capital to support sustainable growth.
 - **Diminished local competitiveness.** Applying European standards that are not specific to the local reality hampers the ability to be competitive versus local peers.
 - **Impaired ability to support European clients** investing or operating in these countries.
 - **Stricter EU and national remuneration requirements** compared to other financial centres create a competitive disadvantage vis-à-vis non-EU financial firms as geographically mobile talent can choose whether to work in the EU or elsewhere. Examples include bonus caps for non-control- and control functions, and the 12 months holding/retention period for upfront and deferred remuneration.
- **Politicians and regulators should acknowledge the benefits of European banks' presence in Third Countries**
 - **Diversification.** Bank cross-border investments contribute to diversification, enhancing their resilience and the stability of their earnings.
 - **Competitiveness.** Expanding into non-EU markets is crucial for maintaining the competitiveness of the European banking sector.
 - **Strategic importance** for the EU and for the Third Country.

(26) What factors are constraining the ability of EU banks to finance large-scale projects, including in the areas of digitalisation, climate transition and

defence, compared to their international peers? In particular, to what extent do differences in profitability, cost structures, balance-sheet capacity, risk-appetite, scale, or regulatory and market conditions explain any observed gaps?

EU banks are capable of financing large-scale projects, but structural and regulatory constraints limit their ability to take sizeable, riskier, or long-term positions compared with US and Asian peers. This gap reflects a combination of factors, including profitability, cost of capital, balance sheet constraints, risk appetite, and regulation.

Key constraints include:

- EU banks generally operate with lower average profitability and more limited capital generation capacity than some global peers. However, profitability and cost of equity have improved in recent years thus narrowing the gap between EU and US.
- Valuations have not fully caught up, as cost-income ratios remain structurally higher and banks prefer low-risk activities, share buybacks and dividends over long-term project finance.
- Expensive capital means banks favour short-term, standardised lending over large-scale transition financing with uncertain cash flows, limiting fully underwritten transactions.
- The prudential treatment of specialised lending, infrastructure finance and market-risk activities can be conservative, increasing capital consumption and limiting risk appetite.
- Limited depth in EU securitisation markets reduces opportunities for capital recycling and balance-sheet optimisation.
- The absence of a fully integrated CMU limits syndication capacity, investor depth and cross-border risk-sharing.
- Compared to some international competitors, EU banks face higher structural costs and slower productivity improvements, further reducing flexibility and risk-taking capacity.
- Divergent supervisory expectations and procedural complexity increase transaction costs and lengthen execution timelines.

Despite progress, the EU lacks sufficiently scaled and rapidly deployable public risk-sharing mechanisms, leaving many commercially viable transition projects outside banks' risk appetite due to immature technologies, uncertain revenues, or incomplete policy frameworks.

The EU implementation of Basel III increases RWAs, reducing banks' capacity for long-term financing, which is typically RWA-intensive. Higher RWAs raises CET1 capital requirements, directly constraining financing for large-scale projects. Discretionary supervisory capital add-ons further limit banks' ability to allocate capital toward growth.

EU budget and state aid rules also constrain governments' ability to de-risk strategic projects, resulting in a pipeline of bankable, high-quality projects remaining limited relative to investment needs, particularly for a just green transition.

Annual EU investment needs for green, digital, and defence transitions are estimated at around €1.2tn, with a public financing gap exceeding €100 bn, meaning current policy and guarantee frameworks remain incomplete. The SIU could help address these constraints.

Addressing these constraints does not require deregulation, but rather structural reforms aimed at strengthening the EU financial ecosystem:

- Deepening and accelerating the CMU;
- Revitalising EU securitisation and risk-transfer markets;
- Enhancing cross-border banking integration

Strengthening these foundations would enhance EU banks' capacity to support strategic investments and long-term growth while maintaining financial stability. These challenges also apply to climate transition projects, where policy uncertainty can slow progress as it creates dual transition risks: risks from measures enforcing the transition and risks for early investments if policies are subsequently reversed. For banks to take larger, longer-term positions, high regulatory and policy ,stable rules and consistent supervisory expectations are essential. Clear policy signals, price incentives, and effective risk mitigation mechanisms are critical to improving risk profiles and bankability. Renewed debates on key mechanisms such as the ETS increase uncertainty and are counterproductive.

As the required capital exceeds public funding capacity, structuring national plans to be bankable is crucial. This means defining tangible projects with transparent risk-return profiles to attract private investment. Scalable de-risking tools (e.g. blended finance, guarantee schemes, and originate-to-distribute models) are also key to improving bankability and mobilising private capital.

Finally, supervisory expectations that constrain risk appetite or additional capital requirements for climate risk may be counterproductive. The proposed SyRB for climate risks creating an uneven playing field and discouraging financing of high-emitting sectors that need to transition. The whole SyRB for any purpose should be removed from the regulatory framework.

For full response, click [here](#).

1.6 Digitalisation

(27) What are, in your view, the effects of digitalisation on the activities and business model of EU banks in the single market?

Digitalisation is significantly reshaping the business models, operating structures and activities of European banks.

Digital elements are being incorporated into all front-to-back processes of core banking services through cloud computing, AI-driven analytics, ICT systems, and

strategic partnerships with technology providers. This integration enables increased automation, personalisation of offerings and operational efficiency, while requiring growing investments.

Moreover, digitalisation is accelerating a shift from vertically integrated models toward digital-only and hybrid omnichannel models. Value creation is thus gradually rebalancing towards data, software and ecosystem integration, alongside a growing reliance on third-party ICT and shared infrastructures.

Customer relationships are being redesigned around a digital-first experience, as customers expect seamless onboarding, real-time account access, and frictionless payments. While this allows banks to better reach “unbanked” and “underbanked” segments, there is also a risk of creating “banking deserts”, particularly among older populations and individuals with low levels of digital literacy.

Digitalisation is also improving SME financing and treasury services through instant payments, data-driven underwriting (subject to safeguards), and programmable finance. New product categories and operating models are also being introduced, such as tokenisation of assets, DLT-enabled settlement, stablecoin/CBDC-related payment interfaces, and AI-enabled advisory and risk management.

In parallel, back-office operations and post-trade processes are undergoing a similar transformation, with increasing automation in payment processing, compliance, credit processes, and reporting.

Digitalisation is also reshaping the payment ecosystem, prompting banks to reassess their role therein and prepare for potential changes in deposit funding dynamics. This transformation requires major investment in common European digital infrastructures which directly affect payments, settlement, identity and intermediation functions. Ensuring interoperability between these initiatives and existing banking infrastructures is essential to avoid fragmentation and duplicative investments.

Market structure is also changing. The entry of new specialized (FinTech) or vertically integrated (BigTech) players - with rapid cross-border scale-up and/or operating outside the traditional EU supervisory perimeter - is increasing competitive pressures on traditional banks. This is increasingly unfolding within digital ecosystems, particularly in the context of Open Finance and platform-based models. While data - notably data quality - is becoming a strategic asset shaping credit decisions, fraud detection, personalisation, and risk management, existing asymmetries in access to data creates structural advantages for large technology platforms.

Despite that digitalisation is generating substantial efficiency gains, this transformation comes with new risk profiles. This includes an increased exposure to cyber, ICT, and fraud risks, third-party concentration risks, and complex dependencies on non-EU and non-bank actors. Addressing these risks requires robust governance, sound risk management, and strong operational resilience

across the supply chain, alongside continued investment in skills and change management.

Beyond operational transformation, digitalisation has been accompanied by the establishment of a complex regulatory environment, and the introduction of a vast array of horizontal (e.g., GDPR, Data Act, AI Act, DMA/DSA, eIDAS 2.0, CRA, CSA II, etc.) and financial sector (e.g., DORA, PSD2/PSR) legislations. Divergent interpretations across Member States and potential inconsistencies/overlaps between these frameworks generate legal uncertainty and operational complexity, requiring the mobilisation of considerable resources for reactive compliance, limiting bank's capacity to innovate and compete, as highlighted in the Draghi Report on EU Competitiveness.

Overall, while digitalisation is a vector of modernization, it is also a factor of competitive vulnerability if the European regulatory framework is not sufficiently proportionate and coherent.

Finally, its impact varies across banks depending on size and business model. Large systemic banks benefit from economies of scale in platform investments and cheaper capital market funding, but face challenges related to legacy IT complexity and high migration costs, and heightened cybersecurity exposure. Digital-native banks retain structural cost advantages and agility, enabling them to target high-margin niches and specific customer segments, but may face challenges with regulatory scaling costs and funding diversification in stressed markets. Mid-sized traditional banks face structural pressure, particularly in adapting to the pace of technological change and investment requirements, while managing legacy systems and operational complexity.

(28) In the context of the increasing digitalisation of financial services, what do you consider could enhance confidence of clients in digitally provided investment products and services, thereby influencing the dynamic of new business models?

In the context of the increased digitalisation of financial services, enhancing client confidence in digitally provided investment products and services relies on a combination of technological efficiency, high standards of transparency, safety and service quality, and regulatory robustness and coherence.

User experience plays a key role. The speed, ease of use, personalization (e.g. customized portfolio reports and alerts of significant portfolio valuation changes) and 24/7 access offered by digital mechanisms reinforces clients' control over their investments. To this end, investor protection safeguards must be fully implemented and enforced. It is important, for instance, that appropriateness assessments are carried out in all cases required by the Directive and its implementing rules, including ESMA guidelines, thus ensuring that the scope of execution-only services

offered by providers is not unduly extended beyond what foreseen by standing legislation.

Transparency remains a fundamental driver of clients' trust, particularly as regards costs, fees and risks. Confidence can be strengthened through clear and comparable disclosures, intuitive explanations of risks and costs, and easy access to human support when needed, especially for complex products.

Security is equally critical. Strong cybersecurity, visible safeguards for data protection, and reliable service continuity – supporting overall digital operational resilience - are critical, as trust can be rapidly undermined by outages, breaches or operational failures. Given these risks, rigorous oversight of the supply chain is essential - particularly regarding non-EU providers - to ensure compliance and resilience.

Closely linked is the growing importance of effective fraud prevention and detection. The rise of spoofing, deepfakes, and other forms of online fraud are increasing and calls for a comprehensive, cross-sector and multi-stakeholder approach. As fraud increasingly originates outside the strictly banking or payment layer, the effectiveness of bank-centric risk mitigation frameworks decreases. Therefore, preventive obligations should be proportionately shared across all relevant actors in the digital value chain – from platforms to financial institutions. A balanced allocation of responsibilities would improve consumer protection and reinforce trust in digital investment channels.

Product personalization and quality of advice are also key enablers of confidence. Clients expect investment services and products to be aligned with their individual profiles, objectives and risk appetites. The integration of AI into customer service platforms can enhance this by enabling greater personalization and cost efficiency, although this requires robust governance of algorithms, including explainability, auditability and safeguards against bias. Fostering trust also requires ensuring that digital financial services are designed in an ethical and transparent manner. In this regard, banks already have frameworks in place against the use of manipulative design practices (“dark patterns”) and instead develop user interfaces that support informed and rational decision-making.

Moreover, client confidence fundamentally depends on regulatory clarity and consistency across the Single Market. Divergent interpretations and overlaps between frameworks (e.g., between GDPR and the AI Act particularly regarding definitions, automated decision-making, transparency obligations and explainability requirements) can create legal uncertainty that undermines trust in digitally provided investment services. Greater alignment in supervisory practices and a more coherent implementation of regulatory frameworks would significantly strengthen client confidence.

A recognizable legal framework – such as SIAs - that is simple, transparent and based on standardized format is the cornerstone for increasing investor confidence.

Such framework should include fiscal advantages with “educative” purpose that encourages investors to invest in long-term and diversified products. Professional financial advisory delivered by financial institution – even by digital channel - must remain at the center of the SIU strategy as they offer unparalleled benefits for investors.

Finally, customer trust and adoption depend on the existence of a genuine level playing field between financial institutions and other providers of digital investment products and services (e.g., FinTechs and BigTech). Regulatory asymmetries that structurally disadvantage supervised institutions may weaken trust by encouraging regulatory arbitrage and uneven consumer protection standards. Ensuring consistent supervisory standards across the single market - as promoted by authorities such as the ECB - help by creating a level playing field and reassuring users that digital offerings meet the same prudential and conduct requirements as traditional ones.

(29) Are EU banks investing enough in digitalisation of their operations and services, including in comparison with their international peers and with other EU business sectors? Please explain, in particular in case the answer is ‘No’.

EU banks invest significantly in the digitalisation of their operations and services, and overall IT spending continues to rise. However, compared to global peers, investment levels are still not fully commensurate with the scale of transformation required/desired relative to profitability and market capitalisation.

A key limitation on EU bank's capacity to invest in transformative change stems from structural aspects of the EU framework. These include the proliferation of often duplicative legislative requirements, fragmented national implementation and interpretation of EU legislation, and a complex supervisory architecture combining national and European layers. An example is the overlap between the scope and objectives of DORA and the CRA, which requires financial institutions to manage the same risk in two different ways, increasing their compliance burden and duplicating costs without delivering proportional benefits. Together, these structural constraints and the absence of a mechanism for alignment within the regulatory framework create operational complexity and limit the ability to scale digital investments efficiently across the Single Market.

As a result, European banks devote significant resources to regulatory compliance, reporting obligations and ecosystem projects, which absorb a substantial share of financial, human and technological resources, slowing down investments in modernisation and strategic transformation.

Simplification, greater harmonisation, and consistent supervisory approaches would allow banks to deploy digital solutions more efficiently across borders,

supporting productivity gains and economies of scale, unlock additional investment capacity and support innovation.

Moreover, the influx of regulatory requirements is creating the basis for asymmetric competition vis-a-vis less-regulated competitors (ex. BigTechs). These players can offer financial services under lighter capital, prudential, and IT (supervision) constraints, which allows them to invest in more “offensive” forms of innovation aimed at redefining customer experience or developing new value propositions, vis-à-vis banks. Asymmetries in data access and control over digital interfaces, particularly in mobile payment ecosystems and platform-based environments, can reinforce the structural advantages of large online platforms, diluting the effective impact of banks’ digital investments.

Additional challenges relate to the high “run-the-bank” costs linked to maintaining and modernising complex legacy IT systems. These structural expenditures limit agility and reduce the share of budgets available for large-scale modernisation initiatives, such as cloud migration, data platforms and AI deployment. This also hinders EU-wide interoperability and slows down the adoption of new technologies. At the same time, banks are required to invest heavily in scaling up common European digital infrastructures as explained in Q27, which adds to overall investment pressure.

European banks also face a significant competitive disadvantage due to the EU’s requirement to deduct software assets from regulatory capital, unlike other major jurisdictions where software is not subject to capital deductions. This treatment reduces European banks’ financing capacity and creates a structural disincentive for investments in modern IT systems. A comparison with US banks reveals that the capital impact of this gold-plating on EU banks ranges from 2.5 – 8.3 times higher than on US banks.¹³

Software investments are essential for the digital transformation, adoption of new technologies, and for cyber resilience. The relief provided under the EBA RTS (2020/07) does not sufficiently address these obstacles. Software assets should be excluded from regulatory deduction requirements and treated as regular assets for capital purposes. This would support technological development, make these investments economical, and ensure that EU banks do not face an unfair competitive disadvantage relative to peers from other jurisdictions.

Finally, international peers active in non-EU markets often operate within more homogeneous, digitally advanced ecosystems with clearer regulatory frameworks and benefit from larger, more scalable markets. This enables faster innovation, more efficient deployment of technology, and stronger returns on digital investments.

¹³ For more information about the prudential treatment of software assets, please refer to the EBF paper on [Unfair Competition on Software Capital Treatments](#).

Overall, while EU banks continue to invest heavily in digitalisation, structural constraints, regulatory fragmentation and asymmetric competition limit the effectiveness and scale of these efforts, increasing the gap with international peers. In Europe, government investments and compensation mechanisms are not comparable to those in other regions (ex. China), and infrastructural and basic operating costs are higher than elsewhere (ex. US). Without further modernisation, investments, and progress in market integration and regulatory coherence, the competitiveness gap is expected to widen.

(30) Do you expect in the near future the emergence of significant new players in the provision of financial services within the EU, such as non-financial conglomerates, FinTechs, or BigTech companies? If yes, what would this mean for traditional banks? If yes, what would be the impact on households and businesses?

The emergence of new players – particularly FinTechs and BigTechs – in the EU financial services sector has already been a reality for several years and is expected to intensify further. This trend is likely to be reinforced by cross-functional AI adoption, particularly in areas such as embedded finance, digital wallets, digital assets markets, tokenised asset platforms, (instant) payment transactions, consumer credit, and asset management. For traditional banks, this evolution is reshaping competitive dynamics, increasing pressures on customer acquisition and retention, as well as value chains, particularly in areas such as payments, digital assets and data-driven services. At the same time, it reinforces the importance of partnerships and interoperability with technology service providers, as enablers of the digital transformation.

However, banks remain at the core of the financial system, not only because they are safe, reliable and well supervised, but also because their societal role extends far beyond the digital interface. They safeguard deposits, ensure financial stability, support households and businesses, manage risks throughout the economic cycle and underpin the functioning of the real economy. The challenge for banks, therefore, is not merely to emulate the speed and user experience of new digital competitors, but to combine this level of innovation with the trust, resilience and long-term commitment that only systemic institutions can provide. This prospect also increases the need for banks to accelerate their own transformation towards more open and modular architectures, platform-based operating models and Banking-as-a-Service propositions that allow them to remain central in digital value chains while leveraging the regulatory credibility and consumer trust that licensed institutions uniquely possess.

In the field of payments, for example, European banks are already leveraging on the Instant Payments Regulation to further develop home grown European mobile instant payment solutions and connect them to provide the same use cases as the digital euro across major European countries by 2027, as an alternative not only to

the dominance of international card schemes but also to the rise of new, non-European players like large online platforms.

That said, as heavily regulated entities, traditional banks face regulatory asymmetry compared to new players in the provision of financial services within the EU. While often providing similar services to end users, banks remain subject to more stringent prudential and digital obligations, whereas some new players operate under lighter or different regulatory regimes. This can create competitive imbalances and may influence the pace and direction of innovation. The emergence of new players is particularly visible in the digital assets space, where non-banks, BigTechs and others are increasingly active.

To avoid regulatory arbitrage, ensuring a level playing field is therefore essential. Entities providing equivalent financial services should be subject to comparable regulatory and supervisory requirements, regardless of their legal form or geographical origin. Particular attention should be paid to non-EU-based operators, which may benefit from different regulatory regimes and thus operate under less stringent requirements. This may create competitive distortions and increase the risk of regulatory arbitrage.

For households and businesses, the emergence of new players in the provision of financial services can deliver benefits, such as an improved user experience and greater service personalization at a lower cost. At the same time, however, this evolution comes with new (digital) risks, such as increased exposure to fraud risk and data manipulation, concerns around data use and consumer protection, operational resilience and data concentration, and potential systemic concentration risks linked to the growing role of a limited number of large digital platforms and critical infrastructures. Finally, some digital players benefit from extensive access to non-financial data (e.g. from e-commerce or social media platforms), which can be used to profile users and influence financial behaviour. This raises concerns in terms of transparency, informed consent and potential exploitation of behavioural biases.

Overall, while new players in the provision of financial services support innovation and efficiency in the Single Market, it also underscores the importance of ensuring a genuine level playing field, supported by effective and consistent enforcement of the regulatory framework together with the necessity to consider the growing importance of strategic independence

(31) How should the bank regulatory framework and supervisory practice adapt to the changes in the banking sector triggered by digitalisation?

1. Wait to regulate, monitor innovation first: given the fast pace of digitalization in the banking sector, regulators should monitor and support technological developments and private sector-led innovation before imposing early, prescriptive regulation. Premature intervention can disrupt innovation and hinder Europe's competitiveness (see the EU's AI Act). Regulations should also be aligned

with the broader EU strategic objectives of simplification, competitiveness, resilience, and strategic autonomy. Where such alignment is lacking, new legislative initiatives should be reconsidered and existing proposals withdrawn (e.g., FiDA).

2. Support PPPs and controlled experimentation: where projects display innovation potential (e.g., DLT Pilot Regime or the ECB's Pontes Project), authorities should foster collaboration between public and private actors. Developing European innovation sandboxes and pilot regimes allows controlled experimentation, enabling banks and technology providers to test solutions and sovereign infrastructures in a safe, monitored environment.

3. Technology-neutral, risk-based regulation: the regulatory framework and supervisory practices should adopt a technology-neutral and proportionate risk-based approach, striking a balance between innovation, risk management and operational resilience in the sector. This includes applying the "*same activity, same risks, same rules, same supervision*" principle to ensure that banks and non-bank entities performing comparable activities are subject to equivalent requirements and effective supervision. This also implies addressing structural asymmetries in data access, platform control and interface management.

Supervision should be adapted to the evolving risk landscape. Risks — such as fraud — are increasingly originating outside the traditional banking/payment layers, requiring coordinated and proportionate preventive obligations across the entire digital value chain. Similarly, the framework should be updated to address emerging risks linked to AI models, advanced data governance and model risk management.

Authorities should provide greater regulatory clarity and proportionate prudential treatment in emerging areas such as digital assets, tokenised instruments and stablecoins. Where justified, this could include non-punitive capital treatment, allowing banks to participate safely and competitively within the regulated perimeter while supporting innovation.

4. Align sectoral and horizontal laws: rather than creating new legislative and supervisory requirements, authorities should focus on aligning and simplifying existing requirements. Initiatives such as the Digital Omnibus and the Digital Fitness Check, which aim to reduce duplications and inconsistencies across legislations are crucial¹⁴. Where comprehensive sector-specific frameworks already exist, such as DORA for operational resilience, additional horizontal requirements should be avoided to prevent duplication and excessive compliance burdens.

5. Facilitate EU-wide digital ecosystems and interoperability: the creation of secure, competitive, and interoperable EU digital ecosystems is essential. Authorities should enforce competition rules and facilitate EU-wide interoperability with existing banking security and authentication mechanisms (including PSD2's

¹⁴ As part of its response to the Digital Fitness Check, the EBF carried out an assessment of 11 legal acts, identifying interplays, overlaps and priority areas where simplification, better coordination and effective enforcement are needed. Available [here](#).

SCA), proportionate technical requirements and sustainable economic incentives for intermediaries. Specific measures include:

- DMA: ensure full and effective enforcement of the DMA to remove technical and design frictions in mobile payments ecosystem and prevent dominant positions.
- eIDAS 2.0: fast-track the deployment of the EUDI as a common infrastructure in a way that ensures interoperability with existing infrastructures and banking security and authentication requirements, to strengthen trust without disrupting established well-functioning procedures.
- MiCAR/PSD3 alignment: ensure integration and consistency of MiCAR requirements for stablecoins with PSD3/PSR, to prevent overlaps and requirements that do not align with crypto operations (e.g., refunds that do not take gas fees into account).

In the area of payments, strategic infrastructure policies should prioritise the use of existing instant payment solutions when considering new public infrastructures that could weaken the current payment ecosystem, thereby supporting European sovereignty in payments.

Finally, the regulatory framework should support the competitiveness of EU banks in a global context. Differences with other jurisdictions, particularly in emerging areas such as digital finance, tokenisation and AI, may lead to a relocation of activities and reduced attractiveness of the EU market.

2. The Single Market and the Banking Union

2.1 The impact of prudential requirements on market integration

(32) What are the benefits and the limitations of the current regulatory framework in terms of capital and liquidity requirements allocation within a banking group? What are the main concerns with the possibility to manage capital and liquidity at group level?

Although the regulatory framework envisages consolidated supervision and group wide planning, in practice, the presence of regulatory and supervisory discretions often results in de facto ring fencing. The main example in this regard is the formal introduction the possibility of cross-border waivers and clarified certain coordination processes, and the exemption from intragroup exposure regimes, both preventing free circulation of capital and liquidity within a banking group. This was intended to better reflect the concept of the banking union—uniform supervision within the euro area.

In practice, however, this has hardly changed the situation: The decision remains at the discretion of the supervisor, and the ECB's restrictive guidelines (see ECB Guide on Options and Discretions) make practical application unlikely. Cross-border waiver applications require a coordinated approach by all relevant supervisors. All competent authorities of the involved countries must agree, among other things,

on the allocation of liquidity reserves, any local minimum ratios, and disclosure requirements. The ECB itself noted in 2025 that cross-border liquidity waivers have seen little to no use.¹⁵ This fragmentation limits efficiency, forces subsidiaries to hold excess local buffers, and undermines the economic rationale for operating as an integrated cross border group.

To solve this issue, the decision regarding granting the liquidity waiver should be left only to the ECB/SSM by streamlining the Article 21 joint-decision process or empowering the ECB to grant liquidity waivers across the BU without securing every host's assent.

Other targeted interventions might regard:

- Amending the conditions for the application of the capital waiver under Article 7(1), removing those that are impossible to demonstrate and tend to be applied in a too strict form (like the absence of possible legal impediments in the future) and more generally introducing a substantial automaticity of the waiver under Articles 7 and 8 within the BU, where certain conditions are met.
- Envisaging automatic application of the intragroup exposure exemption under Article 113(6) CRR under clear and objective conditions. To promote a more integrated prudential framework consistent with the objectives of the BU, the condition under point d), requiring that the counterparty is established in the same MS as the institution, should be deleted
- Envisaging automatic application of the exemption, set out in Article 400 of the CRR, of intragroup exposures from the 25% large exposure limit (set in Article 395 CRR), which is now subject to a national discretion to fully or partially allow such exemption (therefore leaving MSs the possibility to impose additional or divergent limits on exposures between group entities located in different jurisdictions).

Managing capital and liquidity at group level would improve resource allocation, support centralised funding models, and enhance financial stability through greater diversification.

(33) What are your views regarding the most efficient way of applying prudential requirements within EU cross-border banking groups? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Continue the current approach where prudential requirements are applied, as a rule, at both the consolidated level and at the level of every legal entity **Fully Disagree**
- b. Prudential requirements should only be applied at highest EU consolidated level of the banking group **Fully Agree**
- c. Ensure adequate prudential requirements at the level of legal entities, while ensuring more flexibility in centrally managing resources at group level, with commensurate safeguards for financial stability risks **Somewhat Agree**

¹⁵ Cross-border banking in the EU: from national silos to an integrated market, Patrick Montagner

d. Other (please indicate)

Please explain and, if possible, indicate if the most efficient way of applying prudential requirements differs per requirement (e.g. Liquidity Coverage Ratio, Net Stable Funding Ratio, capital, minimum requirement for own funds and eligible liabilities (MREL)).

BCBS standards only require compliance at the highest level of consolidation. By contrast, EU groups must comply with capital, liquidity and MREL constraints at solo, sub-consolidated and consolidated levels, generating duplicated buffers, inconsistent supervisory expectations, and significant trapped capital and liquidity, even though the BU already has a SSM and a SRB acting as unified authorities. This fragmentation prevents banks from optimising resources, reinforces ring-fencing by host regulators, increases compliance and reporting burdens, and undermines the logic of a harmonised prudential regime. This weakens competitiveness and lending capacity, contradicting the objective of treating the BU as a single jurisdiction.

As a result, the EU banking system has lost a lot of ground in the global banking scene in the last 20 years.¹⁶ In practice, this multilayered system traps around €250 billion of high-quality liquid assets and solo-level RWAs are around 25% larger than the amount of consolidated RWA attributable to those subsidiaries at the consolidated level therefore trapping roughly €225 billion of capital,¹⁷ reducing the ability of banking groups to deploy resources where they are most needed. To restore coherence and remove these capital and liquidity traps, prudential requirements should apply exclusively at the highest level of consolidation, supported by automatic or simplified waivers at lower levels. Europe should have bigger players in the global banking market to enhance European competitiveness.¹⁸

Capital requirements at legal entity level represent a disincentive to cross-border consolidation. While the Single Rulebook has harmonised many rules, the transposition of Basel 3 and Basel 3.1 to EU legislation has given way to significant fragmentation in the capital requirements through gold-plating and the use of BCBS discretions against EU bank consolidation. Firstly, there exist 32 National Designated Authorities NDAs across the EU, who have been empowered by EU gold-plating legislation to require a systemic risk buffer of up to 5% of CET1, apart from a BCBS discretionary counter-cyclical buffer of up to 2.5% of CET1 and an O-SII buffer that reaches 2.5% of CET1 in many cases. Altogether, any NDA can request holding more than 10% CET1 at local entity level. To create macroprudential space, appropriate solutions should be defined, not through the application of a positive neutral CCyB on top of existing

¹⁶ The following two sources illustrate the largest banks (by assets) in the world in 2008 and 2025, respectively: <https://www.economist.com/economic-and-financial-indicators/2008/07/31/the-worlds-biggest-banks>; <https://www.spglobal.com/market-intelligence/en/news-insights/articles/2025/4/the-worlds-largest-banks-by-assets-2025-88424232>

¹⁷ [Speech by Andrea Enria, Chair of the Supervisory Board of the ECB, at the Eurofi Financial Forum](#)

¹⁸ [The Future of European Competitiveness Part B: In Depth Analysis and Recommendations, September 2024](#)

capital requirements and buffers, but rather considering releasability of existing buffers (CCoB). Secondly, the EU transposition of Basel 3.1 regrettably did not take up the discretion offered by the Basel Committee to apply the output floor at consolidated level. This should be undone if the EU is serious about market integration and competitiveness.

Moreover, the whole MREL framework is a complex gold-plating construct in the EU that exacerbates the requirements at local level set by NRAs. MREL is the quintessential EU gold-plating measure: (1) it is gold-plating in scope, as it is required to hundreds of banks instead of the few required by the Basel TLAC standard; (2) it also applies gold-plating to the calibration which level is higher than the international TLAC standard; (3) it includes gold-plating EU buffers, and (4) it is calibrated over RWAs which are inflated by EU gold-plating capital add-ons. All this is subject to the discretion of NRAs at entity level and represents a significant hurdle to cross-border bank consolidation in the EU. The complexity of MREL should be replaced by requirements that meet the objective of ensuring sufficient own funds in a simple manner across all banks (see Q77). To restore BU coherence, internal MREL should be removed for subsidiaries inside the BU.

Furthermore, liquidity and funding requirements trap idle resources at entity level, making liquidity management inefficient compared with banking groups headquartered in the US or in the UK. This situation contravenes the unfettered movement of funds across the Union. Automatic liquidity waivers for LCR and NSFR within the BU should apply on an individual basis when an institution and its subsidiaries are supervised on a consolidated basis. Furthermore, a 0% risk weight treatment for intragroup exposures to subsidiaries located in another BU MS should be extended.

Moreover, when the banking groups operate in third-countries, adding currencies in the same ratios does not always reflect the liquidity risk faced by the entity and fragment liquidity. National authorities should be encouraged to make full use of the exemptions available under the large exposures regime to avoid unnecessary constraints on intra-group flows.

Solvency: The CRR should be amended so that subsidiaries located in different MS of the BU are automatically exempted from individual and sub-consolidated solvency requirements.

(34) What regulatory measures could facilitate or improve efficiency for cross-border EU banking groups? What safeguards would be necessary to preserve resilience and resolvability, and provide reassurance to all relevant Member States in case of distress/failure?

Cross-border banking groups operating within the BU would greatly benefit from a regulatory framework that enables the genuine functioning of a single jurisdiction for prudential purposes. Today, fragmentation persists because capital, liquidity, large exposures and MREL requirements continue to be applied at multiple levels

(solo, sub-consolidated, consolidated), preventing banks from deploying resources efficiently across MSs and impeding the finalisation of the BU.

Liquidity in resolution should be addressed, through the establishment of a liquidity backstop (see response to Q42). From the point of view of banks, existing safeguards to preserve resilience and resolvability are more than sufficient. Reassurance of (host) member states could be further enhanced if the Group Resolution Authority had an obligation to allocate available resources in an objective and neutral way between entities of the EU/BU within cross-border groups in resolution, and supervisors were empowered to trigger and enforce these agreements in stress situations.

2.2 Market Consolidation

(35) Do you consider that the EU economy benefits from the presence of large, cross-border banks active across the single market? [Yes/No/ No opinion]. Please Explain.

The EU economy benefits from the presence of large, cross-border banks active across the Single Market (see Q5).

Large groups rely on subsidiaries or branches to distribute their products and services across MSs, facilitating broader market access while complying with local legal and supervisory frameworks.

Significant economies of scale are only possible cross-border and are potentially required to enable and justify the necessary investments (risk management, ESG, digitalisation, etc.) to compete internationally. In principle, the EU customer would benefit from better pricing, more stable financial institutions, state of the art technology, etc. However, it crucially depends on the removal of market fragmentation and national barriers in support of the development of the Single Market.

For this reason, the sequencing of measures is particularly important: first, barriers need to be dismantled; only then will economically viable cross-border banking offerings emerge. For the reason of illustration, the example of “safe assets” may be considered:

For the European banking and capital markets, the availability of a common, large-scale European safe asset would be highly beneficial. The notion that this objective could be addressed solely through the issuance of joint bonds by euro area MSs is, apart from potential complexities arising from the legal framework, economically naïve. Common European debt requires an appropriate institutional framework for a more deeply integrated fiscal policy. In particular, any move towards joint European borrowing must necessarily be accompanied by further steps towards stronger fiscal integration, including revenue responsibility and effective control and oversight mechanisms. Absent such accompanying measures,

joint European debt would entail severe fiscal and economic distortions and misaligned incentives.

(36) The Draghi report argues that banks need scale to be competitive. Is market consolidation a good way forward to achieve scale in the banking industry? Which actions should be taken at EU level to facilitate EU banking groups wishing to operate cross-border to do so?

Yes. Market consolidation can contribute to achieving scale and strengthening competitiveness. Cross-border rules must be further harmonised and national gold-plating avoided. Strengthening supervisory convergence and reducing fragmentation would reinforce fair competition, facilitate cross-border operations and deepen EU financial markets both primary and secondary.

To make this possible, the EU should focus on removing the structural barriers that still fragment banking markets: completing the BU, reducing ring-fencing and strengthening the crisis-management and resolution frameworks. Consolidation is part of the answer, but only scale will translate into competitiveness if banks can operate across borders as truly integrated EU groups.

2.3 Non-prudential barriers to market integration

(37) What are the main non-prudential barriers that impede cross-border activities? Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.

- a. Divergent national tax treatment attached to certain banking products (mortgages, savings accounts, deposits) or banking operations (Value Added Tax, corporate and personal income taxation) **Fully agree**
- b. More generally, lack of unified banking product offering across EU or sub-regions, forcing product adaptation to each national market **Fully agree**
- c. Labour laws and contract laws hindering the servicing of EU bank clients in a Member State by a branch/entity located in another Member State. **Somewhat agree**
- d. Preference by local customers of local bank brands **Neutral**
- e. Divergent insolvency laws and collateral foreclosure rules **Somewhat agree**
- f. Consumer protection laws and client specific documentation **Fully agree**
- g. Divergent (non-prudential) reporting requirements **Somewhat agree**
- h. Language barriers **Neutral**
- i. Other (please indicate)

Please explain which actions should be taken to overcome these non-prudential barriers and improve the integration of banking markets in the EU.

National insolvency regimes create significant friction for cross-border activities by introducing procedural delays in recovery and resolution processes due to varying timelines, creditor priorities, and court systems across MSs; hindering efficient asset recovery and collateral enforcement, particularly for cross-border exposures where recognition of foreign proceedings remains inconsistent; and fragmenting

risk management, as divergent rules on bank resolution—such as bail-in tools or asset separation, discourage lending and investments across borders.

Means to achieve: uniform implementation of the BRRD and a completed BU resolution framework to reduce fragmentation, as reflected in their annual reports and EBA consultation responses emphasizing consistent cross-border application.

In addition, bank specific taxes result in increased costs for borrowers, either directly via increased fees or indirectly through less favorable lending and deposit terms. This may discourage retail investors and small businesses from accessing more sophisticated banking services or capital markets – which is counterintuitive to the EU’s objective to deepen capital markets and encourage investment (see Q18).

VAT on Financial Services

The current VAT regime as it applies to financial services creates significant issues of non-neutrality, particularly in B2B transactions as financial institutions are generally unable to recover input VAT on their purchases. Since most of their services are exempt, VAT incurred on inputs becomes a non-deductible “hidden” VAT cost. This results in cascading distortions across the broader economy. Key implications include:

- Loss of competitiveness for EU financial institutions: Hidden VAT costs reduce profit margins and increase end prices, resulting in an increasing loss of competitiveness for EU banks in the global marketplace and creating an unlevel playing field towards fintech and bigtech. Additionally, legal uncertainty and high compliance costs hinder cross-border operations and encourage the relocation of activities outside the EU.
- Fragmentation within the EU: Divergent national interpretations and implementations of VAT rules lead to legal uncertainty and regulatory inconsistency, creating barriers to the Single Market and spillover effects across MS’ fiscal regimes.
- In-house vs. outsourcing distortions: The VAT exemption discourages outsourcing, as third-party providers are required to charge VAT, costs that banks cannot reclaim. For instance, outsourced payment services are fully subject to VAT, allowing providers to deduct input tax, while banks performing the same services in-house cannot. This asymmetry distorts pricing and leads to inconsistent tax treatment for equivalent services.
- Disaggregation of financial services: The VAT regime treats financial services individually, breaking them down into separate transactions and applying VAT exemptions to each qualifying service separately, rather than considering the overall nature of the banking service. This approach, combined with the CJEU’s strict interpretation of VAT exemption rules, creates inefficiencies, especially when exemptions apply unevenly or when services are outsourced.

A fundamental review of VAT exemptions is urgently needed. Considering the impact of technology and complex transaction models, the VAT reform should provide for:

- A harmonised, optional “option to tax” regime applicable across the EU.
- Harmonised rules for cross-border VAT grouping and cost-sharing arrangements (optional for banks).
- Greater alignment of VAT recovery methods and reduction of national divergences.
- Codification of essential VAT mechanisms in directly applicable EU law to enhance clarity and uniformity.

Please specify what “other” barriers you refer to in your answer to Q37:

AML

European banks are key partners for public authorities in the fight against financial crime. They commit substantial human and technological resources to protecting citizens and the wider economy from organised crime, terrorism and illicit finance. As gatekeepers of the financial system, banks serve as a first line of defence, contributing directly to the integrity, stability and resilience of the financial sector and the legitimate economy. Globally, banks are estimated to spend over €100 billion annually on AML compliance, with around 10% of their workforce dedicated to these activities.

In practice, a considerable share of resources is absorbed by compliance routines that deliver limited operational impact, diverting resources from higher-value financial crime prevention. This not only reduces the effectiveness of anti-financial crime efforts, but also generates large volumes of low-quality data and false positives.

At the same time, criminal networks are constantly evolving. To keep pace, banks continue to invest heavily in advanced technologies, data analytics and specialised expertise.

However, these efforts cannot be fully effective without an efficient, proportionate and harmonised framework that effectively supports risk-based and intelligence-led approaches.

- Fragmentation of the AML framework remains a concern as long as MSs maintain differing interpretations of EU rules. A truly harmonised EU regulatory framework, including data protection rules, should therefore be ensured. In particular, MSs’ discretionary powers should be limited to instances where national specificities genuinely require differentiation, ensuring greater EU-wide consistency.
- Banks need an enabling environment that supports intelligence-led approaches, fosters the use of advanced technologies and the exchange of information through partnerships, allowing banks to better identify and address risks. This requires a framework that removes legal barriers and resolves remaining conflicts between AML and data protection rules, while fully respecting GDPR principles.
- Simplification should be pivotal in the way the AMLA develops Regulatory Technical Standards. The risk-based approach is a key FATF principle and a central element of the EU AML Package. It needs to be fully applied in practice when the new Rulebook and the new supervisory rules are implemented, in particular when applying customer due diligence measures and reporting suspicious activities. Ensuring that time, attention and resources are dedicated to areas of highest risk also involves de-prioritising activities that do not contribute to the fight against financial crime.

Withholding Tax Procedures and FASTER Regime

Current withholding procedures are complex, costly and inefficient, creating a major barrier to cross-border portfolio investment, cross-border securities issuance and to CMU and SIU. In many countries, withholding tax relief processes have worsened, leading to higher costs and long delays. Common burdens include: excessive, non-standardised documentation for each payment, source-country requirements for bespoke residence certificates, ineffective or absent refund procedures, opaque or impractical rules for Collective Investment Vehicles (contrary to OECD guidance), and the need to hire local counsel to support filings. Although intermediaries already hold accurate, regulated customer information, these obstacles often make relief impracticable. Investors therefore forgo entitled relief, suffering full withholding at the maximum rate.

Simplifying and standardising withholding tax procedures for cross-border portfolio investments has long been recognised as essential, at international and European levels, notably by the Giovannini Group (2001, 2003), the Commission's FISCO Expert Group, the Commission's T-BAG Expert Group, the OECD and the CMU High Level Forum (2020) and were the initial objectives of the adoption of the FASTER Directive.

However, the Directive has shifted from these initial objectives to a system mainly focusing on the prevention of tax abuse exploiting dividend stripping (cum-cum and cum-ex schemes), running counter to the objective of simplification and speed initially envisaged. While the Directive contains positive elements (common EU electronic tax residence certificate to document reliefs/refunds, usefully digitalising and accelerating relief procedures), the new rules remain incredibly complex, requiring significant due diligence and reporting from CFIs, placing overwhelming obligations on them and investors. It risks lengthening processes and ultimately excluding more investors from any harmonised, faster reclaim mechanism. It is also unclear whether the mere accumulation of large volumes of reporting data will deliver the intended compliance benefits, particularly given that key concepts remain undefined and that agreement on single, EU-wide definitions is uncertain.

The FASTER Directive requires careful reassessment to ensure it delivers genuine simplification for both investors and financial intermediaries. A thorough review and genuine harmonisation of compliance requirements for CFIs is essential to ensure that FASTER delivers real simplification of relief-at-source and/or quick refund procedures, with harmonised access and processes for both investors and CFIs. These measures could be integrated into the broader tax simplification and decluttering agenda endorsed by the Council in March 2025. The Commission is also urged to take full account of CFIs' organisational and technical constraints, as well as industry input, when adopting implementing acts. The focus should be on:

- Ensuring optionality of the Directive for financial intermediaries and of procedures for CFIs.
- Harmonising the template of registered owner declaration.
- Developing a genuine centralised EU portal for simplified CFI registration.
- Streamlining CFI reporting obligations.
- Calibrating CFI due diligence requirements.
- Establishing clear and fair liability rules.
- Clarifying key concepts and definitions.

If the Commission and MSs wish to focus on the safeguarding of withholding tax systems, they could consider certain direct mechanisms which would ensure economic certainty for investors.

2.4 Protection of Depositors

(38) To what extent would further strengthening the protection of depositors provide reassurance on the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money and therefore support the competitiveness and integration of banking markets? *To a very large extent; to a large extent; neutral; to a small extent, not at all, no opinion.* Please explain.

(39) Today, when a bank is in distress, deposit protection in the European Union is provided by:

- safeguarding depositors' access to their money if a bank is resolved with the use of banks own loss absorbing capacity, a resolution fund and/or a deposit guarantee fund, or;
- paying customers back with the use of deposit guarantee funds if a bank closes and is liquidated, or;
- safeguarding depositors' access to their money through financing of preventive and/or alternative measures by a DGS, where available.

In your view, could the system be simplified and made more effective by combining the deposit insurance and resolution functions within existing funds? Would there be any unintended consequences?

(40) In your view, when considering the scope of banks to be included in a possible new banking union-wide deposit insurance system, should this scope include... *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. ...all banks
- b. ...all banks which are active cross-border
- c. ...all banks under direct SSM/SRB remit
- d. ...only banks that wish to be included
- e. ...other

Please Explain

(41) In your view, a possible new banking union-wide deposit protection fund should... *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. ... be used to provide only liquidity support to national DGS
- b. ...replace national DGSs
- c. ...replace national DGSs for deposits in a subset of banks as identified in the previous question
- d. ...other

Please Explain

2.5 Liquidity in Resolution

(42) In your view, would a more transparent and predictable European mechanism ensuring the provision of liquidity in resolution to large banks

in distressed scenarios strengthen the effectiveness and credibility of the European crisis management framework? How could it affect the bank-sovereign nexus and the reliance on national taxpayer-funded resources in a crisis? [Yes/No] Please explain.

Arguably, the biggest difference between the EU banking system and those of other jurisdictions, e.g. the US or the UK, is the lack of a public liquidity backstop.

The ECB should formally take the role of providing a credible liquidity backstop, which remains the “missing piece” in the resolution framework. The introduction of instant payments has made it even more necessary to have a credible commitment mechanism at any given moment. Actually, the ECB has already stepped in to provide liquidity to the system when an unexpected crisis has hit the economy, as it happened after the upsurge of the COVID-19 pandemic with the extension of the TLTRO III program.

The combination of the sound recovery and resolution framework in the EU, including the privately funded SRF, with an ECB backstop via ELA, would confer the EU banking system further confidence which would be extended to the European economy. It would also bring about a unique opportunity to overcome the longstanding frustrated objectives of an integrated European banking system: it would tackle the resistance of host countries to the unfettered movement of capital and liquidity across national borders and it would justify a true simplification of the MREL framework.

Banks that have emerged from resolution are usually solvent, but are often temporarily illiquid due to having lost access to wholesale markets and facing deposit outflows. It is rarely realistic to expect private counterparties to rapidly resume lending to a recently resolved bank, particularly in an environment where confidence can deteriorate within hours. The relevant issues, the differences compared to other legal systems (in the UK, for instance, the BoE can provide liquidity directly to a resolved entity, while in the US the FDIC has a comparable role through its funding mechanisms) and possible solutions have been discussed for years. The general consensus is that the EU framework still lacks a credible, operational solution to ensure liquidity for banks undergoing resolution. It is time for action, not for repeated discussion of the problem.

(43) Do you consider that introducing a formal transparent mechanism to provide liquidity in resolution can provide reassurance on the stability and effectiveness of the crisis management framework and therefore support the integration of banking markets? If yes, what do you consider to be the desirable features of such mechanism?

An effective mechanism ensuring sufficient liquidity provision in resolution would fill in the existing gap. It is necessary to reassure stakeholders and market participants, to restore confidence in the institution in resolution, and to stabilise

the situation, as could be seen in the case of Credit Suisse. A liquidity backstop should also support the integration of banking markets since host authorities would be much less reluctant to grant cross-border liquidity waivers. Such mechanism should logically be granted by the ECB and it should be available to support institutions in resolution as well as their BU/EU subsidiary institutions, in addition to supporting the liquidity needs of DGSs.

2.6 Sovereign exposures and risk reduction

(44) To what extent do you consider the following factors as significant drivers for the 'home-bias' (i.e. banks' disproportionate exposures to their home sovereign)? Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.

- a. Application of prudential requirements at solo level **Fully agree**
- b. Other (prudential) rules
- c. Limited cross-border financial integration
- d. Role in market-making for home sovereign debt **Somewhat agree**
- e. Business model considerations (aligning assets with domestic activity) **Somewhat agree**
- f. Government pressures to invest in the local sovereign bond market **Neutral**
- g. Expectations of public support
- h. Investment in home sovereign debt perceived as safe and highly liquid asset **Fully agree**
- i. Insufficient access or supply of other governments' debt fitting the risk-appetite of the bank.
- j. Other (please specify)

Please Explain

We consider that the "home bias" in sovereign exposures is driven primarily by structural and market-based factors.

- First, limited cross-border financial integration remains a key driver. The absence of a fully integrated European safe asset, persistent legal and fiscal fragmentation, and incomplete BU and CMU constrain portfolio diversification incentives. In a fragmented system, banks tend to hold sovereign debt aligned with their domestic currency area, collateral frameworks and liquidity management practices. This also applies to sovereign bonds despite the depth and liquidity of their markets; indeed, the absence of a common European public bond is often cited as one of the reasons behind the limited international role of the euro as a reserve currency. Domestic sovereign debt is widely regarded as a safe and liquid asset, supported by its regulatory treatment. This reinforces the "bank-sovereign nexus" and sustains a structural home bias.
- Prudential framework: Euro area sovereign exposures benefit from a zero-risk weight, reducing capital requirements. In addition, the application of prudential requirements at solo level reinforces incentives to hold domestic sovereign debt to meet local regulatory constraints.

- Primary dealer function: Banks act as primary dealers in their domestic sovereign markets, supporting issuance and secondary market liquidity. This market-making role structurally results in higher holdings of home sovereign bonds on balance sheet. In this respect, it should be noted that country risk for a resident bank does not primarily stem from holding domestic sovereign bonds. A sovereign crisis would have a broad and significant impact on all resident economic sectors—towards which banks’ exposures are typically a multiple of their sovereign bond portfolio. Sovereign risk is therefore largely non-diversifiable for domestic banks. Paradoxically, investing in foreign sovereign bonds—even with higher ratings—may introduce additional risks (including currency, liquidity and redenomination risks) compared to investing in domestic sovereign debt.
- Business model alignment: Banks tend to align assets with domestic liabilities and operations. Domestic sovereign bonds provide a natural hedge and a source of high-quality liquid assets for managing local funding and payment needs. This makes it a natural component of liquidity management.

In summary, sovereign home bias largely reflects market structure, liquidity management needs, business model alignment and incomplete financial integration, rather than distortive incentives. Progress toward deeper integration, a stronger BU, the completion of CMU and more harmonised collateral and insolvency frameworks would naturally support greater diversification over time.

(45) Do you consider that the EU framework on the regulatory treatment of sovereign exposure should be improved? If yes, how should this be done, and how would it affect the holdings of sovereign debt by banks?

No. There should be no review or change on the regulatory treatment of sovereign exposures.

Despite the observations under Q44 and the existence of a home bias, there is no clear indication that this constitutes a financial stability concern. The current EU regulatory framework for sovereign exposures has proven effective in supporting both financial stability and market functioning, particularly during periods of elevated public financing needs.

Banks have already made tangible progress in managing and diversifying their sovereign exposures, even in the absence of regulatory changes. Domestic sovereign exposures have declined in relative terms, and the degree of home bias has moderated (from 53% domestic share on average in 2018 to 45% in 2025 according to the EBA Risk Assessment Report¹⁹). At the same time, banks have increased their holdings of other euro area and non-EMU sovereign debt. This suggests that risk awareness, supervisory scrutiny and market incentives have

¹⁹ Risk Assessment Report of the European Banking Authority, pg 23.

already contributed to a gradual and market-driven adjustment. Any potential policy considerations should acknowledge the progress already achieved and avoid abrupt changes that could disrupt sovereign debt markets or weaken banks' role in absorbing public debt, particularly in an environment of elevated refinancing needs and reduced central bank presence.

In this context, the issue of sovereign home bias should not be conflated with the current debate on competitiveness. As past discussions have shown, structural adjustments in this area are complex and gradual by nature, and are unlikely to offer short-term solutions within the scope of the competitiveness agenda.

If at all, further clarification and harmonisation are needed regarding the treatment of entities considered equivalent to central governments under CRR Articles 115 and 116 (EBA List). Divergent national practices, as well as the lack of clarity on supranational and EU multinational entities, create inconsistencies and potential competitive distortions. Expanding and streamlining the EBA List, alongside more transparent inclusion processes, would support consistent prudential treatment and reduce operational frictions across the Single Market.

(46) Exposures to Member States' central governments, or third country jurisdictions assessed as equivalent, when denominated and funded in domestic currency, receive a 0% risk weight under the Capital Requirements Regulation, as provided for by the international standards. Such 0% risk weight applies regardless of credit rating, exempts the sovereign bonds from large exposure requirements, and classifies them as high-quality liquid assets. However, this treatment does not apply to sovereign exposures denominated in Euro issued by non-Euro Area Member States. Should that treatment be expanded to sovereign exposures issued by non-Euro Area Member States and denominated in Euro and how would this affect the holdings of sovereign debt by banks? Please elaborate

The temporary treatment of public debt issued in the currency of another MS was introduced by Article 500a of Regulations (E) 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.

Therefore, we recommend indefinitely prolong the treatment of exposures to the central governments and central banks of MSs – denominated and funded in the domestic currency of another MSs – consisting of 0% risk weight applied to the exposure values and a 100% limit for the institution's Tier 1 Capital.

3. Complexity and Effectiveness of the Regulatory Framework

3.1 General assessment

(47) How would you evaluate the current regulatory framework for banking in terms of:

Low, Somewhat Low, Medium, Somewhat High, High, No Opinion

- a. ... effectiveness (the extent to which the framework achieved its objectives) High
- b. ... proportionality (the extent to which the objectives of the framework are achieved at minimal cost) Somewhat Low
- c. ...EU added value (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone) Low
- d. ...relevance (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone) *Somewhat Low*
- e. ...coherence (extent to which a policy/intervention is internally consistent and externally consistent with other EU policies) *Low*

Please Explain

The tremendous effort made by EU policymakers and banks to build up the Single Rulebook is somewhat marred by the obstinate will of national authorities to retain powers. In fact, national authorities have broader powers and many more tools to impose requirements on banks than before the Single Rulebook was conceived. In business terms, any national authority can require up to 10.5% CET1 capital requirement (SyRB, CCyB and O-SII buffer) to any bank in its jurisdiction. Such is the magnitude of fragmentation in Europe. On top of this, the longstanding resistance of host countries to accept liquidity and capital waivers does not let the EU regulation effectively achieve market integration.

It is not a legacy problem pending to be resolved, but an issue that is continuously getting worse. For instance, the Basel Committee offered a discretion to apply the output floor at consolidated level yet Europe allowed MSs to apply it at local level. Article 458 CRR is the height of fragmented powers, combining pure gold-plating with overlapping requirements. Another example, as this note is drafted, is the EBA consultation about the use of the SyRB for climate change, which goes against the spirit of the recently adopted omnibus and is contrary to the simplification objective.

In order to make the Single Rulebook effective, it is necessary to dramatically reduce the powers of national authorities. We understand that the Commission as promoter of market integration will have to seriously negotiate such reduction of bank requirement powers with MSs.

(48) A certain degree of complexity is necessary to achieve the desired regulatory objectives, while recognising the degree of sophistication and diversity of the EU banking sector. How do you rank the comparative level

of undue complexity in the following parts of the framework? *Low, Somewhat Low, Medium, Somewhat High, High, No Opinion*

- a. ...the overall framework Somewhat **High**
- b. ...the minimum capital requirements (Pillar 1) **Somewhat High**
- c. ...the supervisory measures (Pillar 2) **High**
- d. ...the macroprudential requirements **High**
- e. ...the resolution requirements **High**
- f. Other

Please Explain.

The framework appears overall very complex and burdensome to be read, understood and implemented. The assessment is substantially consistent across the frameworks because of the overlap of many layers of regulation (also including non-binding texts such as supervisory expectations and Q&A) and of authorities, the continued piling up of additional elements over time (without proper consistency checks and impact assessments considering the interplay with existing rules), and, last but not least, the interlinkages among the frameworks and the overlapping stacks and buffers across Pillar 1, Pillar 2R/G, and macroprudential layers.

With specific regard to the macroprudential framework, complexity stems from aspects, such as the presence of a number of different buffers, that are applied differently by authorities, also due to the absence, especially for certain cases (ex. SyRB), of a clear mechanism and guidance about the circumstances under which they can be activated and calibrated, and of clear distinction between the risk addressed by each buffer (with consequent overlaps, for example, between Art 458 of the CRR, capital buffers, and the output floor introduced in CRR3). Also, the absence of clear rules about the conditions and timing under which buffers may be released and reinstated contribute to the complexity and unpredictability of the framework.

Supervisory measures (Pillar 2)

As part of the implementation of the SREP process, EU banks are bound to respond to various supervisory data collections that cause significant administrative burden and hinder their efforts towards competitiveness vis-à-vis their non-European peers. Such undue complexity (e.g. by multiple incremental requests linked to P2R) goes beyond the international Basel standards and could be eased, if ECB could ensure the utilisation of existing information, as far as possible, leveraging on data already provided. Streamlining Pillar 2 supervisory measures and avoiding overlaps would significantly facilitate banks' interaction with the supervisor, without jeopardising resilience. In this regard, enhanced automation and standardisation in the data collection process would provide clarity and would improve both the delivery time and the data quality of the reporting.

Currently, there is little clarity regarding the methodology employed by the supervisors in risk assessment and score calculation, as well as the methodology to derive the P2R from the score. While recognizing the importance of supervisory judgement, it has to be highlighted that enhanced transparency on methodologies

and outcomes of supervisory activities would be very beneficial to effective supervisory dialogue; clarity and predictability of P2R requirement are necessary for banks to better understand of Supervisors' assessment of risks and correct prioritization of issues.

Resolution requirements

For resolution planning purposes, greater alignment between the SRB and home and host authorities would be desirable to avoid duplication in regulatory reporting and the preparation of resolution dry runs. This is particularly relevant where overlapping dry runs are coordinated by the SRB while being simultaneously requested or overseen by authorities in non-BU MSs.

The requirements that institutions must comply with under the resolution regime are extensive and highly complex. First and foremost are the requirements of the BRRD and SRMR, which were most recently amended by the CMDI review. Added to this are the Level 2 and Level 3 measures. The resolution regime, which is already complex due to the aforementioned requirements, is complicated by the extensive expectations of the resolution authorities, in particular the SRB, regarding the resolvability of institutions. These expectations are effectively regulatory in nature. The trend has been towards further complicating the rules rather than reducing complexity.

The mere size of the legislation describes the complexity: CRR is 897 pages, CRD is 224 pages, BRRD is 205 pages, DGSD is 39 pages and level 1 regulation is complemented by more than 100 additional standards, guidelines and technical reporting instructions covering tens of thousands of pages, further complemented by national regulation.

(49) Which type of instrument adds the most undue complexity to these parts of the frameworks? *Low, Somewhat Low, Medium, Somewhat High, High, No Opinion.*

- a. International standards (Basel, FSB) **Low**
- b. Level 1 EU legislation (i.e. regulation/directives) **Somewhat High**
- c. Level 2 EU legislation (i.e. technical standards) **High**
- d. Level 3 EU measures (i.e. EBA guidelines, Q&As, etc.) **High**
- e. Supervisory guidance/practices **High**
- f. Implementation differences of EU legislation at national level **Somewhat High**
- g. Interaction with other national legislation **Medium**
- h. Interaction with other EU legislation **Somewhat High**
- i. Other

Please Explain.

The initial intention of the European Commission was the transposition of Basel III standards into CRR and CRD in a simple manner. The complex implementation of

the Lamfalussy process has subsequently led to extensive complexity and gold plating over the Basel standard.

We note that certain provisions within the Level 1 text introduce unnecessary complexity and yield only modest improvements in resilience. Specifically, requirements such as the output floor, property value adjustments, and the NPE backstop impose considerable demands in terms of implementation and ongoing monitoring.

While international standards are necessary — and already quite complex — Europe should critically reassess and recalibrate the way the Lamfalussy process is applied. Recent academic analysis points to a gradual erosion of the original Lamfalussy hierarchy, as highly technical provisions increasingly appear already at Level 1, while Level 2 measures and Level 3 guidance expand in scope and practical impact, blurring the distinction between legislation, technical implementation and supervisory convergence. The instruments that add the most undue complexity are Regulatory and Implementing Technical Standards at Level 2 and, even more so, the extensive use of soft-law instruments at Level 3.

Level 2 standards frequently go beyond mere technical specification and introduce detailed, prescriptive requirements that effectively expand Level 1 legislation. Level 3 instruments (e.g. EBA Guidelines), although formally non-binding, have de facto normative effect and significantly increase regulatory density without clear legal accountability or effective judicial review. At the same time, the way they are interpreted by competent authorities often seems to encourage a specific type of business model, leaving practically very little space for market/country idiosyncratic issues and risk-based policies. While calls for additional Level 3 guidance are often driven by a desire for clarity, this approach is short-sighted. Over time, the accumulation of de facto binding interpretations contributes to rigidity, legal uncertainty and structural complexity.

In this regard, EBA Q&As raise particular concerns. Unlike EBA Guidelines, Q&As are not based on a Level 1 mandate, are developed without public consultation, impact assessment or feedback, and are not subject to a “comply or explain” framework. Despite this, supervisors (notably the ECB) often treat them as binding, effectively creating quasi-regulatory requirements. Q&As can therefore materially affect prudential treatment and competitiveness (as described above).

Furthermore, supervisory guidance/practices add another level of regulatory complexity and reduce flexibility in banks’ risk management processes. While such texts are not formally binding, it is noted that ECB expects banks to abide by their provisions and imposes supervisory measures in case of non-compliance. Such an approach leads to banks themselves often opting for the stricter option, in order to avoid having numerous follow-ups with the supervisor. Moreover, gold-plating stemming from Level 3 legislation, provides the opportunity to national supervisors to add complexity or more stringent requirements, at the stage of the implementation at member state level.

The EU must reduce the number and scope of Level 2 mandates to genuine technical specifications and conduct a thorough review of existing Level 2 and Level 3 products with regard to necessity, consistency and proportionality. For the future, both proportionality and competitiveness should be guiding principles, possible anchored in the mandates of the ESAs. At Level 3, the role of supervisory

convergence tools should be clearly limited within a well-defined legal framework, and accountability mechanisms must be strengthened.

In addition to the options provided to be ranked, another type of instrument that adds most undue complexity for EU international banking groups is the interaction of the EU regulation with third countries regulation. The lack of international consensus on certain issues (such as ESG risk regulation) undermines the strength and credibility of international standards, while also adding further complexity in contexts where local regulations already exist.

(50) Would you support less complexity in the bank regulatory framework even if this means... *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. less risk sensitivity within risk-weighted requirements
- b. ...increase in capital requirements
- c. ...less consideration for EU specificities
- d. ...less consideration for national specificities
- e. ...higher contributions to safety nets (DGS and resolution funds)
- f. ...less resilience/ financial stability

Please Explain.

Simplification can be achieved without compromising risk sensitivity and financial stability. An effective banking regulatory framework should achieve multiple objectives simultaneously, namely, it should be less complex, risk sensitive, and capital-efficient.

Furthermore, capital requirements for EU banks are already high and should not be increased further. Additional increases could constrain banks' ability to finance the real economy and risk weakening the competitiveness of the European banking sector compared with peers in other major jurisdictions. This could ultimately also undermine the EU's capacity to support key strategic priorities, including the economy's digital and green transitions, as well as address growing defence-related financing needs.

Instead, policymakers should prioritise simplification of the existing framework. Complexity could be reduced by tackling fragmentation/ limiting national specificities and by reassessing particularly complex elements of the regime, such as the output floor, detailed property valuation rules, and the prudential backstop for NPEs. Streamlining these aspects could reduce operational burdens without materially compromising financial stability.

Moreover, streamlining the framework will not necessarily reduce risk-sensitivity. The numerous restrictions and the focus on standardisation in the current regulatory and supervisory approach limit risk-sensitivity. On the contrary, less detailed and prescriptive rules would even allow banks to adopt yet more sophisticated and risk-sensitive measures, especially when it comes to the regulation and supervision of internal models.

However, the answers to this question fully depend on the details and trade-offs of the specific changes that will be made to the framework. This question is therefore difficult to answer ex ante.

(51) The Single Rulebook for banking is based on both directives and regulations. Unlike regulations, directives must be transposed into national law, which can lead to different applicable legal framework applicable across Member States. In your view, which provisions currently set out in directives, such as the Capital Requirements Directive (CRD), the Bank Recovery and Resolution Directive (BRRD) or the Deposit Guarantee Scheme Directive (DGSD), would be more effectively established through directly applicable regulations, and for what reasons, if any?

The real problem to tackle is national discretion and excessive power granted to MSs – mainly in the macroprudential framework, but also in the micro-prudential and resolution regulatory frameworks.

In general, we consider that provisions in CRD, BRRD and DGSD that are most sensitive to cross-border consistency should be set out in directly applicable regulations in order to strengthen maximum harmonisation and reduce regulatory fragmentation. Unlike directives, which require national transposition and therefore depend on the timing, quality, and interpretation of domestic implementation measures, regulations ensure immediate legal certainty, consistency, and harmonization throughout the EU.

Moreover, the use of regulations rather than directives contributes significantly to the consolidation of the single market and to the competitiveness of European companies, which would not need to navigate differing national implementations of the same EU objective. This legal consistency enhances predictability, facilitates cross-border activity, and allows companies to scale more efficiently throughout the Union. By ensuring a level playing field and minimizing regulatory discrepancies, regulations create conditions that enable European firms to compete more effectively both within the EU and globally.

In particular:

- CRD (Article 74 and related governance provisions): Key internal governance requirements for institutions subject to consolidated supervision should allow explicit recognition of group-level solutions. Divergent national implementation and additional local requirements create duplication and legal uncertainty for cross-border groups.
- Fit and proper assessments and authorisation procedures (CRD): Greater harmonisation, including presumption of mutual recognition based on the consolidating supervisor's assessment and aligned timelines, would reduce duplication and administrative burden.
- BRRD core resolution triggers and cooperation mechanisms: Further harmonisation through regulation would enhance predictability and reduce divergent national practices affecting cross-border groups.
- DGSD key design features (funding targets, payout rules): Direct applicability would strengthen depositor confidence and support retail market integration

In conclusion, a targeted conversion focused on areas where divergence undermines integration — combined with reinforcement of maximum harmonisation — would improve legal certainty, reduce additional national requirements and enhance competitiveness.

Gold plating, government interventions, and enforcement

(52) Do you have concrete examples of gold-plating of EU rules via transposition of EU directives, national options and discretions? If so, please list them here.

The most significant cases of gold plating occur at an EU level above the framework outlined by Basel. As a result, capital planning in European banks is a conundrum. At a time when the EU economy is facing increasing financing needs for the green transition, the digital transformation and the competitiveness of EU businesses at global level, it is imperative to avoid trapping bank resources vastly in excess of the global minimum requirements applied by peer world regions or going beyond the Level 1 rules agreed by EU co-legislators.

Seven relevant examples, details of which may be found in the EBF gold-plating case study paper are²⁰:

1. Macroprudential framework for banks
2. EU MREL requirement vs. international TLAC standard
3. Double counting of capital requirements in Pillar 1 and Pillar 2
4. Gold-plating on Prudent Valuation framework
5. Off-balance sheet items and UCCs
6. Operational Risk – Business Indicator
7. Potential changes to the valuation of non-CET1 instruments

Additional Examples include:

1. NPL backstop
 2. IRRBB/CSRBB frameworks
 3. Leveraged Finance expectations
 4. ESG Prudential Framework
- (among others)

Specific national examples of gold-plating of EU Rules:

Germany:

- O-SII buffer implementation across MS'
- Prospectus Regulation
- Market Abuse Regulation

Latvia

- Selective ban on advertisement of consumer credit
- Mandatory establishment of physical bank branches for large retail banks

²⁰ Details of these cases can be found throughout responses in this consultation, and in the EBF paper: [Regulatory Capital Efficiency for EU Competitiveness](#)

Norway:

- The use of the SyRB
- IRB Risk Weight Floor for residential mortgages
- Supervisory Practices regarding IRB Models

Spain

- Allocation of Mortgage costs

For more information on these and other national cases of gold-plating, please refer to the consultation responses of the relevant national banking associations.

(53) Do you have concrete examples of excessive government intervention in business decisions of banks? If so, please list them here.

- Extraordinary taxes / sector-wide levies designed as temporary revenue-raising measures (ex: “windfall taxes”), directly affecting profitability, organic capital generation capacity and the cost of intermediation, as in Spain (2022) and Italy (2023), Latvia (2024).
- Administrative caps or restrictions on prices/fees (ex: limits on interest rates, fees or commercial terms) that reduce the ability to price risk appropriately and increase pressure on margins.
- Intervention in distribution policies (dividends, buybacks, coupons) for reasons that are not strictly prudential, or pressure to retain “domestic” capital for national considerations, affecting group capital planning.
- Political constraints on structural decisions: pressure or restrictions on branch closures/workforce adjustments, or requirements to maintain a certain territorial “presence”, even where digitalisation and operational efficiency would support changes.

In general terms, there has not been excessive government intervention in banks’ financial decisions. However, in recent times, we have observed a growing trend towards a highly politicised environment in which the banking sector is being used as a tool in broader conflicts.

(54) How would you assess the level of enforcement of EU banking rules? How can this be improved?

Enforcement is reasonably robust, but not sufficiently uniform. The combination of directives requiring national transposition, national discretions, L2/L3 proliferation, and differences in supervisory practices result in asymmetric enforcement, which in turn drives fragmentation and higher compliance costs.

However, when it comes to examples such as GDPR, Data Privacy and AML, the respective national authorities draft their own guidelines/interpretations that heavily differ across countries.

How to improve:

- More harmonisation and less discretion in areas where divergence is not justified (i.e.: same risk, same requirement).

- L1/2/3 discipline: L1 should contain the essential policy choices and tightly constrain mandates to L2; L2 and L3 should be used more sparingly and strictly within mandate, avoiding situations where technical standards or guidance reintroduce complexity or create “additional” requirements.

Moreover, it is imperative that total capital requirements for banks do not exceed an appropriate level. There must be a qualitative assessment of the adequacy and appropriateness of the overall level of capital requirements and buffers imposed on EU banks, as well as coordination of national macroprudential measures. The ESRB should be given greater capacity to identify, monitor, and assess systemic risks across the entire EU financial system. There is a need to strengthen the cooperation between supervisors, macroprudential authorities, and resolution authorities to avoid inconsistencies and overlapping capital requirements. A more harmonized application and holistic approach is needed across the EU.

Furthermore, the enforcement of EU banking rules suffers from a structural imbalance between the ECB's normative and decision-making power and the procedural protections available to supervised entities. This imbalance does not result from the institutional architecture of the SSM but rather from the manner in which the ECB envisages its powers under TFEU and SSMR.

First, most binding prudential decisions adopted by the ECB, particularly SREP decisions, create in-practice application of soft law instruments such as EBA guidelines, Q&As, supervisory policy stances, guides, and the ECB's own press communications. These instruments are rarely explicitly designated as the legal basis for P2R but are often referred to by the ECB during the phase preceding the adoption of the SREP decision, functioning as applicable rules. However, these instruments suffer from a very limited reviewability generating a due process deficit: (i) once adopted the P2R decisions can be challenged but the non-suspensive character of a request for annulment against a SREP decision deters any challenge, especially since (ii) the CJEU limits to its minimum level its judicial review carrying out a purely formal control.

Second, the escalation ladder as a mechanism of covert constraint reinforces the lack of balance. While the ECB presents its framework as a proportionate and flexible tool, in practice the escalation ladder does not create space for genuine supervisory dialogue. Once a recommendation is issued, the bank faces a binary choice: comply or face a binding P2 decision, as the ECB's supervisory measures page illustrates, acknowledging that a recommendation may be converted into a binding requirement if “previous engagements have been unsuccessful” — but remaining silent on how banks may meaningfully challenge the supervisory assessment on which the recommendation rests. The pre-decisional phase operates as coercion in substance. Banks comply with recommendations not because they accept their legal basis, but because non-compliance triggers a binding P2 decision, with significant reputational and capital consequences. The non-binding nature of the recommendation is a legal fiction that masks its practical compulsory force. The use of operational acts illustrates the blurring of binding and non-binding, especially since the 2024 Supervisory Manual defines them as “supervisory measures” lacking a specific legal form. In addition, operational acts may include prudential expectations, statements and other non-binding/non-enforceable acts, and may be followed by a binding decision of identical or similar content. The operational act is thus positioned not as an alternative to a binding measure, but as the step immediately preceding one — a step that paradoxically falls outside the formal decision-making process and therefore outside the right to be heard.

Combined to the current SREP methodology, all these elements make supervision slide toward covert regulation: the SREP becomes an instrument of behavioural standardisation, grounded in relative adequacy rather than an independent appraisal of individual risk profiles.

Third, the ECB's own compilation of the legal framework for banking supervision — Volume I — presents the Statute of the ESCB alongside the SSM Regulation and the SSM Framework Regulation as one of "the fundamentals of the SSM." This framing overstates what Article 25 of the Statute, a provision of primarily institutional scope, can sustain. The exclusive legal basis of the SSM is Article 127(6) TFUE, a conferral of specific supervisory tasks that is distinct from the ECB's monetary policy powers and the associated institutional independence. Presenting ESCB independence as a foundation for supervisory authority conflates two regimes that the SSM Regulation expressly keeps apart and carries a troubling implication: that the ECB's supervisory decisions, grounded in an independence derived from monetary policy, are shielded from the kind of scrutiny that other binding administrative EU acts normally attract.

Relevant Authorities

(55) How would you evaluate the various authorities responsible for banks in terms of:

Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.

- a. effectiveness (the extent to which authorities identify weaknesses and address them)
 - i. Supervisory authority
Fully agree: supervisors continuously identify weaknesses and set out plans to address them. They err on the side of caution, which raises questions about efficiency if they spot alleged weaknesses that do not materialise in practice.
 - ii. Macroprudential authority
Somewhat disagree: The identification of weaknesses by NDAs does not follow any clear pattern and the magnitude of the measures is inconsistent. This is the result of extensive powers granted by the legislation, complicated and overlapping tools and lack of coordination between authorities.
 - iii. Resolution authority
Neutral: there is little experience to evaluate the effectiveness of resolution authorities to identify weaknesses.
- b. ... risk-based (the extent to which authorities focus on the most material risks in a proportional way)
 - i. Supervisory authority
Somewhat disagree: supervisors follow a procedural model whereby compliance with detailed rules prevails over risk-based assessment. Nevertheless, the SSM has published a program for Next Level Supervision which places more focus on material risks. This looks promising. As changes are confirmed over time, the level of risk-based supervision shall improve.

- ii. Macroprudential authority
Fully disagree: The use that macroprudential authorities make of the tools at hand does not seem to follow a proportionate scheme based on risk materiality.
- iii. Resolution authority
Somewhat disagree: the SRB is collecting an increasing volume of reporting which does not seem to follow risk-based criteria.
- c. ... efficiency (extent to which authorities are reacting timely and are outcome focused)
 - i. Supervisory authority
Somewhat disagree: the SSM has increased its cost by 16% per annum from 2014 to 2024 or around 334% in total. At the same time, NCAs have not reduced costs, and have in many cases increased them.
 - ii. Macroprudential authority
Fully disagree: the state of having multiple NDAs across Europe with little coordination and disproportionate powers is, as a baseline, inefficient.
 - iii. Resolution authority
Somewhat disagree: Resolution authorities are requesting more and more reporting from banks, which requires a vast amount of resources. Much of the plethora of details collected by the SRB and the NRAs will be useless even in the case of resolution of an institution. Experience tells that resolution cases are conducted without using the majority of the details that the SRB takes so much time to collect and the banks to provide. There is need to streamline the recovery and resolution reporting and the SRB resources.
- d. Other

Please Explain

Please note that the assessment of "efficiency" has been done on the use of resources to meet the tasks the authorities are accountable for.

(56) How would you rate the degree of accountability of various authorities responsible for banks? *Low, Somewhat Low, Medium, Somewhat High, High, No Opinion*

- a. Supervisory authority
- b. Macroprudential authority
- c. Resolution authority

The degree of accountability is:

- a. **Somewhat Low** for the Supervisory Authority

The quarterly appearances of the SSM Chair at the Parliament are mere exchanges of information with very little chance to challenge the general approaches adopted by the supervisor and no possibility to examine the way supervision is conducted across hundreds of credit institutions in greater detail.

- b. **Low** for Macroprudential authorities
- c. **Somewhat Low** for the Resolution Authority

The periodic appearances of the SRB Chair at the Parliament are mere exchanges of information with very little chance to challenge the general approaches adopted by the supervisor and no possibility to examine the way supervision is conducted across hundreds of credit institutions in more detail.

A particular concern is the increased use of supervisory expectations by the SSM which in practice are more relevant than legislation for supervised banks. These supervisory expectations are developed out of the legislative process and may, in certain cases, even distort the balances agreed by co-legislators. These tools play an important role in supervisory practice, but their cumulative impact on capital requirements and operational constraints is often difficult to anticipate from the legal framework alone. For institutions, this creates uncertainty regarding the effective prudential requirements that will ultimately apply. This concern is reinforced by the fact that many influential supervisory actions — including moral suasion, findings, or communications by JSTs and IRTs — take the form of soft-law instruments that do not produce binding legal effects and therefore often fall outside the scope of judicial review. As a result, a structural accountability gap may arise, as impactful supervisory practices are not always subject to effective oversight.

Overly restrictive interventions that hamper banks' competitiveness and economic growth hardly result in any consequences for the authorities. As such, the current, existing accountability mechanisms do not incentivise authorities to adopt a balanced and risk-based approach. We believe this is a key reason for the ever more detailed and prescriptive rules-based approach to supervision in Europe.

The expectation that transferring central supervisory tasks to the ECB would reduce the costs of national authorities has not been confirmed to date. On the contrary, the resources of many NCAs are believed to have grown over the same period. Against this background, the ECB's accountability to the EU Parliament and the Council should be further strengthened, particularly with regard to the principle of economic efficiency.

The accountability framework surrounding ECB supervision could be strengthened in several respects. First, greater transparency of core supervisory methodologies would help ensure that institutions and markets can better understand how supervisory assessments translate into concrete supervisory measures. Second, supervisory expectations and similar instruments should remain clearly anchored in existing legislation. Third, accountability mechanisms should also ensure that supervisory soft-law instruments — such as guides, guidelines or "Dear CEO" letters — remain subject to appropriate scrutiny, including with regard to their compatibility with the legislative framework and broader policy objectives such as EU competitiveness. Fourth, reporting and scrutiny at EU level could focus more explicitly on the cumulative effects of supervisory practices, not only on individual supervisory decisions. Finally, review mechanisms within the SSM architecture

could be strengthened in order to provide more effective procedural safeguards where supervisory interpretations materially affect institutions.

Moreover, accountability should always be accompanied by responsibility. All authorities should develop ex-ante impact assessments and cost-benefit analyses of supervisory policies and measures. This includes, in particular, balancing trade-offs between (alleged) improvement to banks' resilience and negative effects on economic growth.

Such adjustments would not weaken supervision. On the contrary, strengthening transparency, accountability and legal certainty would reinforce the legitimacy and predictability of the European supervisory framework and help ensure that supervisory practice remains firmly anchored in the legislative framework established by the co-legislators.

Intellectual property rights

(57) Has your institution granted loans where intellectual property (IP) rights (patents, trademarks, designs) were accepted as: stand-alone collateral or collateral only in addition to tangible assets? Please indicate the approximate share of total SME/scale-up lending for each category.

Institutions usually do not accept IP rights as stand-alone collateral and do not consider them effective risk or capital mitigants due to valuation uncertainty and limited recovery markets. This is primarily due to the difficulty of valuing IP and the absence of a liquid secondary market.

IP may occasionally be taken as supplementary collateral alongside tangible assets, mainly in restructuring or highly structured/non-recourse transactions. Trademark pledges are more common than patents, but risk treatment is the same.

However, this could change in the medium term, given that intellectual property is increasingly recognised as a key asset for high-growth companies.

For intangible assets to be recognised as collateral, the regulatory conditions would need careful review and the relevant texts amended. Specifically:

- Under the current CRR framework, intangible assets are not recognised under either the Standardised Approach or the F-IRB Approach. The CRR would therefore need to be revised to make intellectual property (IP) rights eligible.

However, this alone would not be sufficient. Even if such assets became eligible (i.e. were no longer automatically excluded), meeting all eligibility criteria would remain challenging. For instance, Article 199(6), which already raises issues for physical assets, would be particularly difficult—if not impossible—to satisfy in the case of intangible assets.

57.1 If intellectual property rights are not used as stand-alone collateral, please indicate the main reasons. *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Regulatory capital treatment *Fully agree*
- b. Valuation uncertainty *Fully agree*
- c. Legal enforceability concerns *Fully agree*
- d. Internal risk policies *Somewhat Disagree*
- e. Lack of risk-mitigation instruments *Fully agree*
- f. Other (please specify) *Fully agree*

Please Explain

As IP is not easy to value, the main limitation is that it is not recognized as eligible collateral for regulatory capital purposes and therefore does not provide capital relief or risk mitigation.

Also, see our answer to question 57.

(58) Which of the following EU-level measures would materially increase your institution’s willingness to lend against intellectual property assets? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Public guarantees covering part of IP-backed loans *Fully agree*
- b. IP collateral protection insurance supported by public schemes *Fully agree*
- c. EU-level standardised IP valuation methodologies *Fully agree*
- d. Securitisation frameworks for IP-backed loan portfolios *Neutral*
- e. No measure would materially change our current approach *Somewhat agree*

Please Explain

In the case of IP collateral protection insurance supported by public schemes, this would be difficult to model. For securitization frameworks for IP-backed loan portfolios, they would be less reliable as they would depend on investor appetite, which may fluctuate over time.

Moreover, see our answer to question 57. It is unlikely that regulatory measures will resolve the current uncertainty surrounding the valuation of IPs.

3.2 Prudential Framework

(59) What are the areas that create undue complexity in the prudential framework, if any? What are the ways to reduce undue complexity in the prudential framework without leading to deregulation and undermining financial stability?

Undue complexity within the prudential framework stems from, among other things, the distribution of power across multiple authorities, as referenced in many responses throughout this consultation document. Complexity is also reinforced by the increasing number of supervisory bodies and regulatory layers involved in the

EU banking framework, which often leads to overlapping requirements, duplicated information requests and inconsistent supervisory expectations. Reducing undue complexity is key to boosting EU competitiveness.

We observe that the concept of “deregulation” appears to be misused in the ongoing discussions surrounding simplification and competitiveness. To be clear, there is no doubt that parts of the current regulatory framework that are functioning well should be maintained. In addition, supervisory practices should take greater account of the global level playing field. As recognised in the European Commission’s 2025 Competitiveness Compass, regulatory and supervisory burden can hinder the ability of EU banks to support economic growth and investment. Incorporating EU competitiveness and growth as a secondary objective of banking supervision would help ensure that supervisory actions do not inadvertently reduce the capacity of EU banks to compete internationally or finance the real economy.

However, fragmentation across authorities and the resulting duplication, excessive gold-plating, and excessive use of discretionary tools should be removed from the regulatory framework in order to truly simplify areas that have become too complex. Moreover, a key source of complexity is the limited coordination between supervisory authorities at both EU and national levels. Banks are increasingly subject to multiple supervisory bodies — including the SSM, SRB, NCAs, NRAs, NDAs, DPAs and, in the near future, AMLA — often requesting similar information through different templates and formats. For banks operating internationally, this burden is further compounded by requests from third-country host supervisors.

The international dimension to fragmentation should be tackled. Simplification efforts at EU level should be accompanied by a parallel commitment to international consistency. Competent authorities who are BCBS members should support discussions on streamlining and harmonising elements of the Basel framework, and have a mandate to actively support global simplification, with the objective of preserving strong prudential standards while ensuring that the regulatory architecture remains coherent, transparent, and globally aligned.

Simplification can be achieved without compromising risk sensitivity and financial stability. An effective banking regulatory framework can, and should, achieve objectives of simplicity, risk sensitivity, and capital-efficiency simultaneously.

Concrete examples of undue complexity abound, the following being some (among many):

- Output floor
- NPL/NPE prudential backstop
- Property valuation linked to “sustainability” over the life of the loan
- Due diligence on external ratings
- Overlapping stacks/buffers across P1, P2R/G, macroprudential layers
- EU specific gold-plating, especially in capital deductions
- EU-specific buffers, especially SyRB, CCyB

- Increased use of supervisory expectations and interpretive guides
- Multilayered rulemaking process
- Reporting and Disclosures

More information on many of these topics may be found in the various answers to other consultation questions.

Risk Sensitivity

(60) Does the prudential framework balance sufficiently risk sensitivity and complexity? If not, how should this disequilibrium be addressed?

The current EU prudential framework does not sufficiently balance risk sensitivity and complexity. In several areas, the framework combines high complexity with low or distorted risk sensitivity, resulting in capital inflation that does not reflect actual economic risks. This imbalance undermines financing capacity, competitiveness and coherence with international standards. Several examples illustrate this structural disequilibrium.

In general, the framework does not strike the right balance between risk-sensitivity and complexity when taking into account risk mitigating factors. In our opinion, there is a lot of room for more risk-sensitivity without a significant increase in complexity or even accompanied by a reduction in complexity. For instance, the eligibility criteria for collateral in the IRB approach are very detailed, bureaucratic and, in parts, overly restrictive. This applies in particular to object finance. Less prescriptive and complex eligibility criteria would even increase risk-sensitivity in this area. The standardised approach does not take into account physical collateral at all. This is not risk-adequate and creates wrong incentives for banks' underwriting standards. A non-complex solution like a simple, fixed risk-weight reduction factor (e.g. calibrated based on the effect of such collateral in the foundation IRB approach) would improve the framework.

Further, concrete examples are:

First, the PVA is a clear case where complexity is not matched by risk relevance. The EU's PVA regime is significantly more conservative than international practice, generating large CET1 deductions across buffers and inflating capital requirements without meaningful gains in risk coverage. EBF recommends making the revised PVA capital neutral for all banks, or removing the EU PVA requirement to align with international practice.

Second, trade finance exposures, including short tenor instruments, are burdened by overly conservative maturity assumptions and conversion factors. Although trade finance has exceptionally low default rates (0.14% exposure weighted), EBF asks:

- Make CRR Art. 495d permanent so UCC CCF remains at 0% or at 10% in those cases where the factors constraining banks' ability to cancel the UCC are observed;
- Postpone EBA RTS;
- Refine definitions to avoid misclassification (remove "generally less than one year" in CRR article 4) ;
- Extend 20% CCF to all performance/technical guarantees;
- Improve LGD calibration (insurers/factoring) and extend the infrastructure factor to trade transactions.

Moreover, trade finance is negatively affected by the treatment of credit insurance following CRR3. The applicable LGD of 45% in the foundation approach is excessive, because in many cases the uninsured corporate LGD is lower than 45%, not reflecting superior collateral quality or credit enhancement structures. This does not reflect the reality of the risk and unduly penalises insured exposures. Furthermore, empirical loss experience for credit insurance backed exposures over the past 15 years is near zero²¹ as insurers enjoy senior status and dual recourse.²²

Third, specialised lending and LDPs, such as renewable energy projects, infrastructure, digitalisation assets, aircraft and defence related infrastructure, are treated with rigid slotting approaches and conservative floors that fail to reflect stable, contracted long term cash flows. Specialised lending models are penalised by methodologies unsuited for LDPs, including "uniform weighting floors" and the absence of modelling guidance proportionate to real world risk. The CRR should therefore introduce updated modelling guidance, recalibrate slotting categories, and allow IRB approaches better tailored to LDPs, particularly those critical to the EU's climate, digital and industrial transitions.

Fourth, the NPL backstop has outlived its initial purpose. Designed to address legacy NPL stocks after the sovereign crisis, it now imposes unnecessary capital inflation in an environment where EU NPL ratios have fallen to historically low and stable levels (around 1.9%). The EBF recommends repealing the NPL backstop, as it now blocks funds that could support economic growth.

Fifth, the FRTB trading book boundary is very prescriptive, in part inconsistent and involves bureaucratic supervisory approval processes. In our view, the current, principle-based rule (referring to the trading intent) is a much less complex solution that also allows for more appropriate instrument classification and thus a more risk-adequate treatment.

²¹ [ICC Banking Commission, ICC Trade Register Report 2018](#) which documents exposure-weighted expected losses for trade finance in the range of 0.01% - 0.07% and recovery rates of approx. 96% for ECA backed export finance

²² EBA Guidelines on Credit Risk Mitigation techniques (EBA/GL/2014/10) which recognise unfunded credit protection such as guarantees and insurance as eligible risk mitigants, and require that legally enforceable, senior protections with effective recourse be reflected in loss severity assessments.

Sixth, EBA's draft standards rely on rigid accounting definitions for calculating the OR capital charge 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, they limit the flexibility explicitly foresee 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. Also, it would be necessary to exclude insurance fees from the Business Indicator where the financial conglomerate acts as risk taker, to avoid a duplication of requirements at the level of the financial conglomerates.

Additionally, it would be necessary to recognize and encourage institutions to enter into insurance policies that cover OR by recognizing such policies as risk mitigants of capital for OR.

Taken together, these examples demonstrate a prudential framework that is both overly complex and insufficiently risk sensitive. Complexity does not necessarily deliver prudence; on the contrary, it can obscure supervisory priorities, create overlapping constraints and reduce banks' financing capacity for strategic investments.

To restore balance, the EU should introduce a comprehensive CRR recalibration package targeting the areas where complexity is highest and risk sensitivity weakest:

- Make PVA capital neutral or remove the EU specific overlay.
- Make trade finance transitional measures permanent (Art. 495d), keep UCC CCF at 0% and correct maturity assumptions and at 10% in those cases where the factors constraining banks' ability to cancel the UCC are observed.
- Revise specialised lending and LDP treatment, including modelling guidance and slotting calibration.
- Eliminate the software CET1 deduction (Art. 36(1)(b)).
- Repeal the NPL backstop.
- Complement these reforms with simplification of backstops (output floor vs. leverage ratio), which today duplicate constraints and create further distortions.
- Make the transitional arrangements for the business ILDC permanent in operational risk.

(61) Does the prudential framework strike the right balance between risk-weighted requirements and backstops (output floor, leverage ratio) or Pillar 2 requirements? [Yes/No/No opinion] Please Explain.

The EU framework does not strike the right balance between risk weighted requirements, the two backstops, and Pillar 2. In practice, it accumulates constraints that pursue similar prudential aims, eroding risk sensitivity, inflating capital, and adding operational complexity without commensurate stability benefits. Overlapping layers—Pillar 1 RWAs (already conservative), the

simultaneous operation of the output floor and the leverage ratio, and extensive Pillar 2 overlays—produce duplications and capital traps that reduce banks’ capacity to finance Europe’s priorities.

A first imbalance stems from duplication between Pillar 1 and Pillar 2. Model risk, for instance, is constrained by the Basel 3.1 output floor at Pillar 1 while being re addressed by P2R, effectively double counting the same risk. This has been recognised by the ECB since 2019.²³ It time that the regulator and the supervisors take action to eliminate the duplications.

A second imbalance comes from running two non-risk-based backstops in parallel. The output floor mechanically raises RWAs toward 72.5% of the standardised amount, while the leverage ratio constrains total exposures irrespective of risk. The combined effect adds complexity and distorts incentives: the leverage ratio penalises very low risk and system critical exposures (ex: central bank reserves and matched book repos), while the output floor neutralises internal model risk sensitivity even for demonstrably low risk mortgage and unrated corporate portfolios. Maintaining two simultaneous backstops therefore inflates capital and suppresses balance sheet capacity without demonstrable prudential value beyond a single well calibrated safety net.

A rebalance should start with clear separation of roles and elimination of double counting. Risk should be captured primarily in Pillar 1 RWAs, calibrated to be genuinely risk sensitive and internationally consistent; Pillar 2 should address only bank specific or genuinely unaddressed risks, with transparent, predictable methodologies. The EBF explicitly calls for removing duplicated risks between Pillar 1 and Pillar 2 and freezing the output floor while making transitional arrangements permanent for low risk mortgages, unrated corporates and client risk hedging (also extending to the SA) —so that backstops do not override well functioning internal models. This would prevent Pillar 2 from being used as a de facto blanket surcharge and would restore the intended complementarity between the pillars.

On the backstops, a coherent option is to retain the leverage ratio as the simple, transparent backstop while excluding central bank reserves and matched book repos from the exposure measure.

Finally, a balanced framework also requires capital stack simplification so buffers are usable and coherent. EBF recommends removing the SyRB, harmonising and capping the O-SII buffer and introducing a clearer, releasable buffer architecture, accompanied by a genuine holistic assessment of total capital to avoid inadvertent inflation across layers. Such streamlining reduces complexity and improves predictability in capital planning, strengthening the link between risk and capital without sacrificing resilience.

²³ “As supervisors, we can work to prevent any unwarranted consequences of Basel III for bank-specific Pillar 2 requirements. For example, model risks will in future be addressed under Pillar 1. We need to ensure there are no overlapping charges in Pillar 2.” (Andrea Enria, former SSM Chair – keynote speech of 12 December 2019).

Leverage Ratio

(62) Do you think that the leverage ratio framework would need improvement? If yes, do you have any suggestions as to how to improve the leverage ratio framework?

Yes, the LR framework needs improvement. It contains inconsistencies and incentives that could have a negative impact on financial stability. It can also prevent banks from performing their core tasks. We suggest exempting central bank reserves and matched-book repos.

The risk-based prudential framework is characterised by a conservative calibration and includes numerous backstops (fixed key parameters and floors, restricted use of bank internal models and supervisory add-ons, limited and conservative collateral recognition, etc.). Hence, it generally results in a systematic overcapitalisation of banks.

In any case, the risk-based and non-risk-based framework should not be mixed. For instance, the LR P2R should be dropped, as it implies supervisory discretion and dedicated processes. This is inconsistent with the concept of a non-risk-based backstop, leads to additional complexity and therefore creates unnecessary administrative burden for both banks and supervisors.

The risk-based framework's positive correlation between the level of risk and capital requirements creates positive incentives for bank's risk-taking behaviour. According to the non-risk-based LR, every asset (with very few exceptions) attracts the same capital requirement. As such, the LR in turn bears the incentive to engage in riskier business.

Moreover, the LR can potentially hinder banks from performing key tasks such as deposit taking or capital and liquidity allocation, and may thus hamper EU households' and corporates' access to core financial services. First and foremost, as soon as it becomes binding, the bank is forced to refuse additional deposits. This could have a detrimental impact on customers and their trust in the financial system.

Another key economic function of banks is to allocate capital and liquidity within the economy. An efficient and low-risk way to do so is the repo market. Banks often act as intermediaries without bearing the risk themselves, i.e. they engage in repo transactions and, at the same time, a reverse repo transactions referencing the same collateral.

Therefore, from an economic point of view, the LR is a questionable metric. It is important that it remains a backstop that prevents banks from building up excessive leverage instead of a requirement that impedes banks core tasks.

To this end, the LR should be a simple backstop (as is also the view of the Basel Committee). In that light, the LR should not consist of multiple parts but should be calibrated to a certain percentage that covers excessive risks not covered under the risk-weighted framework. The LR should not be overengineered with multiple stacks or difficult calculations. At the same time, certain business models (e.g. promotional banks) may warrant targeted and well-defined relief measures. No MDA trigger should apply to LR, as non-compliance with the regulatory ratio would always meet the appropriate response from markets and investors. At the same time, greater international alignment in the calculation of the exposure measure would help reduce distortions and ensure a level playing field.

In addition, the treatment of derivatives needs to be revised. For derivatives, the exposure calculation begins with the accounting value (replacement cost) and subsequently includes a CCR add-on, without fully recognizing the mitigating effects of initial margin or compensation mechanisms. Even in client clearing activities where margins are recognized, the SACCR multiplier does not adequately reflect collateral that genuinely secures the exposure, leading to an overly conservative charge.

Pillar 2 capital components

(63) Do you think the Pillar 2 Requirement needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Requirement?

Yes, regulation and supervisory implementation regarding P2R can be improved.

A key aspect is represented by the transparency in the calculation of the requirements. Regulation should explicitly state that banks should be given a clear view of the link between the score assigned under the SREP process and the underlying material risk drivers, and between such score and the determination of the P2R. Transparency supports several aspects of sound risk management. First, it strengthens banks' understanding of the risks not covered under Pillar 1. Second, it allows banks to assess potential measures to reduce these risks. Third, it enables banks to consider whether they should mitigate the identified risks or whether it is more appropriate to hold capital against them. Fourth, it can make capital needs more predictable for banks. Fifth, public disclosure of information on P2R can enhance market discipline by giving investors and other market participants more complete information about banks' risks and overall capital requirements.

Currently, there is little clarity regarding the methodology employed by the Supervisors in risk assessment and score calculation, as well as the methodology to derive the P2R from the score. Methodologies for P2R calibration can differ materially across supervisory teams or countries, making outcomes less predictable for banks, investors and analysts. This reduces comparability and raises uncertainty around the drivers of supervisory decisions. While recognizing the importance of supervisory judgement, it must be highlighted that enhanced transparency on methodologies and outcomes of supervisory activities would be very beneficial to effective supervisory dialogue; clarity and predictability of P2R are necessary for

banks for better understanding of Supervisors' assessment of risks and correct prioritisation of issues. P2R should be better delineated from other capital layers, ensuring it targets only institution-specific risks without duplicating Pillar 1 or macroprudential buffers, double-counting the same risks and contributing to excessive complexity.

Clarity regarding the determination of the P2R is also necessary to properly address the issue of double counting between P2R and the risks covered by the output floor (after its introduction). In this regard, the draft EBA Guidelines seem to only consider the neutralisation of the impact of the output floor on the part of the P2R that would be linked to "model deficiencies," and do not sufficiently address other possible components of the P2R covering risks, not otherwise captured by Pillar 1, which the output floor is intended to mitigate. Transparency on the P2R components is therefore necessary to identify such overlapping requirements as well as possible overlapping with macroprudential buffers (ex: CCyB, O-SII). The mechanical increase in the P2R amount due to the increase in unfloored RWA under CRR3 should also be explicitly addressed.

As regards Pillar 2 risks, an area that deserves attention is the IRRBB framework. The EU IRRBB framework is significantly more stringent than the Basel. Indeed, additional elements are present in the EU – introduced without a proper impact assessment – that do not find correspondence in other jurisdictions and are not prescribed by the BCBS standards, in particular the so-called SOT under the NII perspective, de facto significantly raise the cost and complexity of IRRBB management for EU banks.

The broader scope of the assessment of the CSRBB also poses significant issues and methodological challenges to EU banks. It is essential to avoid further tightening (ex: the changes in the supervisory shocks recently decided by the BCBS) that would widen further the competitive gap faced by European banks, without sound economic justification.

(64) Do you think the Pillar 2 Guidance needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Guidance?

P2G is an element of the capital stack that is aimed at creating additional capital availability to absorb potential losses resulting from stress scenarios and is therefore linked to the outcome of the stress test. As such, it structurally overlaps with macroprudential measures with the same objective, specifically the CCyB, SyRB, and capital conservation buffer.

A structural overlap occurs between P2G and the CCyB, given that the latter is expected to be released during downturns, which would be the case in stressed situations (like the stress test scenario). The CCyB should in principle be offset from the P2G. In this context, greater clarity on the calibration methodology of P2G, particularly its relationship with stress test capital depletion, would improve institutions' ability to plan capital trajectories and enhance comparability across jurisdictions.

In addition, clarification of the expected usability and rebuilding of P2G in stress conditions is warranted, as market perceptions sometimes treat P2G as a quasi-binding requirement, thereby reducing its intended flexibility. Clear supervisory communication on its nature, purpose and usability would support confidence in the countercyclical functioning of the capital framework.

In light of the above, a review intended to remove the overlapping aspects of macroprudential tools with the P2G is warranted in the context of the general review of the macroprudential framework, which is expected to clarify the role and conditions for the application of the various buffers (and other measures) and address or remove overlaps, including with micro-prudential tools, like the P2G.

Notwithstanding the outcomes of that review, the P2G framework needs to be redesigned in the context of CRR III/output floor. For example, for EBA ST at present assumes a starting point under today's regime and imposes a mandatory end-state under the future output floor. During this transition, banks move from internal models to the output floor, yet impacts, capital add-ons, and erosion effects are already calculated on the basis of the Output Floor — even though it will only apply in several years and is not relevant under the current internal-model regime. This effectively creates a synthetic supervisory framework that does not yet exist. P2G should be calculated strictly on the basis of the regime currently in force.

Management buffer

(65) What determines the level of the management buffer? How much does the management buffer weigh in the overall capital set aside by banks? Do you think there are unwarranted pressures to set such a buffer, if yes do you have any suggestions that would help reduce undue external incentives to set management buffers?

The size of the management buffer is determined by a series of factors including internal risk appetite levels, expectations from stakeholders and a degree of uncertainty of future capital requirements. The latter is the most important reason for EU banks to hold much larger management buffers than their peers of other jurisdictions. As a purely internal and non-regulatory concept, it reflects an institution's own risk appetite, capital planning strategy and assessment of the headroom needed to operate comfortably above regulatory minimum requirements. However, in practice, a dichotomy has emerged between the theoretical purpose of the buffer and the supervisory/market reality, leading to a situation where the management buffer is de facto normalized.

The comparisons between the capital requirement in the EU and other jurisdictions only represent the current requirement but they miss the potential future increase by discretionary decisions of authorities. In the EU, there are 32 national designated authorities that can set discretionary CET1 capital requirements for a bank more than 10% of RWAs (5% SyRB, 2.5% CCyB and 3% O-SII buffer). The ESRB can only top up such decisions. The corresponding supervisor also imposes

P2R and P2G buffers and although the SSM has stabilised P2R in the last years, it is additional to the NDAs buffers. In this context, supervisory processes and market expectations contribute to making the management buffer quasi-mandatory, as institutions anticipate potential increases in requirements. Against this background, capital planning is challenging: institutions are reluctant to operate close to minimum thresholds due to concerns about supervisory decisions and reactions that can erode the buffer in the future, market perception, rating agency assessments or funding costs. These concerns force banks to hold sizeable margins over the minimum requirement.

The GARP study on capital add-ons is a reality check.²⁴ At the end of 2021, the EU banking system had a CET1 ratio of 15.4% on a fully-loaded basis, significantly above its international peers. The resilience achieved was broadly recognised by policymakers and supervisors alike, leading to the belief that capital requirements would stay stable in the future. Yet, capital requirements have continued to increase since then. A closer look indicates that the bulk of the increase is due to gold-plating and discretionary decisions. For the sample of banks in the GARP study (15 banking groups headquartered in 7 countries and with subsidiaries all over Europe representing 66% of EU banking assets), additional CET1 requirements amounted to €102 billion in the period 2022-2024. Such capital could have supported €1.5 trillion of lending to the EU economy.

The wide management buffer reflects the unpredictability of capital requirements in the EU, as shown above. The BoE has recognised that making capital requirements and buffers more predictable should help firms plan and allow them to maintain lower management buffers.²⁵ The EU should follow. This can be done through the removal of gold-plating tools like the SyRB, the reduction of discretionary buffers like the O-SII, which should be capped at 0.75%, and the stop to the increases suffered from the so-called "positive neutral," would bring about more certainty to future capital planning in EU banks and their investors. More broadly, reducing this uncertainty would also help ensure that the management buffer remains a genuinely internal tool rather than a quasi-binding constraint driven by unpredictability of supervisory²⁶ decisions.

Non-performing loans

(66) Are, in your view, the various elements of the framework aimed at reducing NPLs working as intended? If you answer 'No', please specify the potential areas of improvement. [Yes/No/No Opinion] Please explain and if deemed relevant, provide suggestions to improve the framework.

²⁴ https://www.ebf.eu/ebf-media-centre/updates/new_study_stresses_urgent_need_for_regulatory_capital_efficiency/

²⁵ [UK Financial Policy Committee assessment of bank capital requirements](#)

²⁶ The term "supervisory" comprises the many supervisors that EU banks are subject to including the SSM in the Eurozone but, most importantly, the NCAs and the NDAs

Since 2017, the EU regulatory framework on default management has expanded significantly, in some areas going beyond the standards set by the BCBS. The objective of regulators and supervisors was to encourage all banks to adopt active management of their default portfolios and to clean up their balance sheets by reducing their stock of non-performing loans.

Since 2015, the average NPL ratio of European banks reduced significantly and is below 2%. To promote simplification, the impact that these various texts have had on operational management should be assessed and adjustments should be considered. Three regulations deserve particular attention:

1. NPL backstop (CRR, Article 47c)

Beyond a certain vintage, a 100% coverage of exposures is required. Where accounting provisions do not meet this expectation, institutions must apply a deduction from their prudential own funds. For corporate loans, this mechanism can undermine negotiations between the borrower and its creditors, and prevent an optimal exit solution from default.

This prudential backstop is also disconnected from economic reality for mortgage backed real estate loans. By forcing accelerated deductions irrespective of recoverable collateral value, the backstop increases capital costs for secured portfolios and discourages forbearance measures that could return loans to performing status, contrary to EU housing and renovation agendas.

With IFRS 9 provisioning and its expected loss philosophy (in contrast to the IAS 39 Incurred-Loss approach where losses were booked “too little too late”) already in place, a Pillar 1 backstop is no longer necessary and may be counterproductive. Its repeal would maintain prudence through supervisory means while reducing overlap and restoring proportionality. This would restore banks’ financing capacity and ensure that distressed borrowers can be supported through timely and appropriate restructuring measures.

In addition, the NPL backstop is a classic example of EU gold-plating as it does not exist under Basel, nor has it been implemented in any other jurisdiction. Hence, it puts European banks at a significant competitive disadvantages.

2. EBA Guidelines on management of non-performing and forborne exposures

The Guidelines, published in the context of the IRB Repair programme, specify the rules for calculating historical loss rates. In particular:

The loss rate (LGD) is calculated by comparing the exposure amount at the date of default with the actual recovery cash flows, discounted back to the date of default. The DF, arbitrarily set at “risk free rate (Euribor) + 5%”, is well above the interest rate charged on most corporate loans. This leads to an overestimation of historical losses, as illustrated by the case of a loan for which debt service continues to be paid during the period of default. For real estate loans where banks support borrowers rather than enforcing collateral, and more generally for all financings

where banks favour debt restructuring over enforcement, historical losses will therefore be significantly overstated.

Where the bank nevertheless has to take possession of collateral and dispose of it (ex: corporate and specialised lending), the EBA requires that only the value at repossession be recognised. Any subsequent capital gains achieved by holding the asset (ex: real estate) until market conditions improve are not recognised. This treatment can distort collateral management by creating an incentive for rapid disposal, to the detriment of an orderly and value-maximising sale process.

These provisions increase actual and/or measured losses and are therefore reflected in higher capital requirements. It is important that the EBA assess their consequences and, where appropriate, consider targeted adjustments.

To ensure greater flexibility in banks' management of NPEs and to avoid unnecessary capital strain, EBF requests the removal of the NPL backstop. Eliminating this backstop would allow institutions to rely on more risk sensitive, supervisory-led approaches better aligned with actual recovery expectations and evolving economic conditions.

3. EBA Guidelines on the Definition of Default

In addition, the current 1% NPV threshold is negligible, obliging banks to mark any client experiencing the slightest temporary problem in receivables that could eventually delay the payment of a credit instalment as default, therefore establishing a loop of bad registers and limiting access to credit. The use of a certain margin of forbearance within reasonable limits could maintain viable clients with a long and profitable relationship with their banks.

Own funds instruments

(67) Do you see any issues with the current rules on own funds instruments (CET1, AT1, Tier 2)?

The overarching goal is to strengthen the competitiveness of European banks. With regard to own funds instruments, we currently see no potential for changes in the requirements to contribute to this. On the contrary, changes in the area of own funds instruments would lead to years of high regulatory uncertainty and market distortions. This would significantly burden the competitiveness of banks.

We reject proposals such as those made by the ECB²⁷ (Recommendation #2), which would ultimately lead to stricter requirements for AT1 instruments and Tier 2 instruments. On the one hand, the changes would mean deviations from international standards. On the other hand, we do not share the concerns regarding the soundness or functionality of the instruments. AT1 instruments in particular strengthen loss absorption capacity and, due to their subordinated position, protect senior creditors and depositors. The approach taken by the Swiss supervisory

²⁷ [Simplification of the European prudential regulatory, supervisory and reporting framework](#)

authorities cannot be taken as a blueprint for European supervisory authorities, which have clearly distanced themselves from this approach.²⁸

Overall, we consider the current level of CET1 requirements in the system to be sufficient to maintain financial stability. The current CET1 ratio of European banks is 16.2% (Q1 2025).²⁹ A complete replacement of AT1 and T2 instruments would mean that European banks would have to increase their CET1 by more than EUR 400 billion.³⁰ This would restrict lending capacity, significantly reduce returns on capital, reduce the investor base and reduce flexibility in capital management.

67.1 If you see issues with AT1 instruments, what measures would you recommend for improving the functioning of AT1 instruments? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Increasing conversion trigger **Fully disagree**
- b. Imposing conversion instead of write-down **Fully disagree**
- c. Facilitate coupon cancellation by making them more automatic and common **Fully disagree**
- d. Review minimum distributable amount (MDA) triggers
- e. Other (please specify)

Please explain

See question 67.

AT1s as they currently stand are well functioning and are useful instruments in banks' capital structure. The AT1 market is efficient and established. There is no reason for change: AT1 must be preserved in the going-concern capital structure and their characteristics must not be modified.

In addition, there should be no increases in MDA triggers. The industry would support a simplification of the MDA framework by limiting the number of MDA triggers across the capital stack (no MDA triggers on the MREL / TLAC stack and on the leverage stack).

Output floor

(68) What are your views on the following considerations regarding the EU implementation of the output floor? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. The current rules introduced by CRR3 achieve the right balance - no need to revise the output floor framework **Fully Disagree**
- b. Some or all of the transitional derogations related to the output floor should be prolonged **Fully Agree**
- c. Some or all of the transitional derogations related to the output floor should be made permanent **Somewhat Agree**
- d. The output floor should only apply at consolidated level **Fully Agree**

²⁸ [EU regulators distance themselves from Credit Suisse bond writedowns | Single Resolution Board](#)

²⁹ [EBA RDB 2025 Q1](#)

³⁰ [EBA RDB 2025 Q1](#)

- e. The calibration of the output floor (72.5%) should be increased **Fully Disagree**
- f. The calibration of the output floor (72.5%) should be made more risk-sensitive **Fully Agree**
- g. The calibration of the output floor (72.5%) should be reduced **Somewhat Agree**
- h. Other (please specify) **Fully Agree**

Please Explain

The standardised approach output floor disproportionately affects European banks, which generally rely on on-balance sheet lending rather than fee-based business models. This contrasts with the US, where banks make greater use of fee-based strategies and transfer of mortgages to GSEs-, resulting in a comparatively lower impact of the floor. Consequently, capital increases required under the output floor are higher in the EU. During the Basel IV negotiations, the EBF advocated a lower calibration of the output floor.

To reduce the negative impacts of the output floor, the European Commission, after careful deliberation, introduced several arrangements that address European specificities. Making them permanent would be an easy and yet highly effective measure that comes at no significant cost.

Although the level has now been set at 72.5%, it remains crucial for the EU to safeguard banks' capacity to lend to the real economy, especially to finance real estate and corporates. Therefore, the transitional arrangements for qualifying low-risk mortgages and unrated corporates are of particular importance. In order to maximise their positive impact on the EU economy, they should not only be made permanent, and but also extended to the SA. In addition, the level playing field should be improved by removing the MS option for applying the low-risk mortgage treatment.

3.3 Macroprudential Framework

(69) In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks **Fully Agree**
- b. The calibration of macroprudential buffers **Fully Agree**
- c. The calibration of other macroprudential tools **Fully Agree**
- d. The heterogeneous application of some tools like Other Systemically Important (O-SII) buffers across the EU **Agree**
- e. The current reciprocity arrangements **Neutral**
- f. The decentralised macroprudential governance framework and prominent role of national macroprudential authorities in setting measures. **No opinion**
- g. Other

Please explain

a.

The macroprudential framework includes 5 risk-weighted capital buffers. The addition of a CCyB PNR, SyRB, and the widespread use of the O-SII buffer have introduced significant gold-plating in the EU beyond international standards and other jurisdictions in the use of discretionary requirements,³¹ creating an uneven playing field and deterring investment (refer to Q64,65,80). An efficient and simpler macroprudential regime should eliminate unnecessary buffers and ensure coordination between micro and macro-prudential authorities, while avoiding excessive or duplicative capital requirements.

b.

CCyB: The introduction of a positive neutral CCyB in some jurisdictions, despite a lack of legally established EU-wide neutral rate, has detracted a massive amount of credit from the EU economy from 2022 to 2024 (see GARP report). The industry rejects PNR within the CCyB framework. Instead, existing capital components such as the CCoB must be used.

G-SII buffer: The Eurozone supervisory and resolution frameworks should be recognised and translated into a specific exemption for intra-Eurozone exposures in the cross-jurisdictional score.

c.

Borrower based measures should not be regulated by the EU and no additional measures should be defined. They should remain a part of an individual bank's risk strategy and management.

d.

The EU has made extensive use of the OSII buffer for over 170 banks, including with amounts in excess of EU banks' G-SII requirements. It has been implemented by NCAs and varies widely across MSs, meaning that one institution may be subject to different buffer rates in different countries. This heterogeneous application generates uncertainty and dissuades investors. In terms of level playing field, the EU imposes O-SII buffers to small banks with less than euro 30 billion assets with a calibration equivalent to the G-SIB buffer of Bank of America (2%) or even JP Morgan (2.5%). This runs counter to the goals of common EU standards, the single market, and the BU. It also distorts the use of macroprudential tools across jurisdictions deteriorating credibility. If maintained, more binding EU rules and guidance on OSII calibration are necessary. Capping the O-SII at 0.75% would have a series of advantages:

- It would eliminate the current incongruity that EU O-SIIs are calibrated above G-SIBs. In principle, the maximum buffer level of an O-SII should be below the minimum of a G-SIB.

³¹ The O-SII buffer is required to more than 170 banks in the EU, none in the US, and less than 5 banks in the UK, Canada and Japan.

- It would contribute to harmonisation and reduce fragmentation, while still allowing NDAs set O-SII buffers without damaging European competitiveness and integration.

In addition, the EBF recommends to review the identification of the O-SII buffer to eliminate duplication between O-SII and G-SII buffers.

Finally, as the OSII buffer aims to reduce the probability of failure of systemic institutions, the assessment should consider the Group's Resolution Model to estimate the OSII buffer based on the consolidation perimeters used in the resolution strategy. Otherwise, inconsistencies may emerge between the consolidation perimeter used to calculate the OSII buffer and the one used to calculate MREL.

e.

When assessing materiality, authorities aggregate exposures of the domestic subsidiary and those direct exposures from other foreign subsidiaries. This means the same exposure can be counted twice, artificially inflating the materiality metric. This can push institutions over the materiality threshold even when neither domestic nor foreign exposures alone would justify reciprocity, thereby leading to disproportionate or misaligned macroprudential measures.

f.

The MDA mechanism contains calibrated restrictions on banks that dip into their combined buffer requirements while maintaining their intermediation functions. However, national authorities communicate additional discretionary measures – many of which are stricter than the MDA restrictions. Thus, banks may consider requirements as de facto minimum capital levels, and could prioritize maintaining capital positions over supplying credit, making the MDA mechanism ineffective and amplifying economic cycles. To ensure that the buffer framework works as intended, restrictions above those stipulated by MDA should only be permitted if a breach of buffer requirements has persisted for a sufficiently long time, for example three years. Authorities should provide clear timelines for the reversal of buffer requirement reductions, as was done by the Norwegian Central Bank in 2020. This would provide certainty and allow banks to use released capital as intended. The approach of the BoE is a good example that strengthens the credibility of the framework.³²

(70) How can the macroprudential buffer framework be streamlined, while at the same time preserving resilience and the ability of responsible authorities to address systemic risks? Which buffers could be merged and what should be their role?

³² <https://www.bankofengland.co.uk/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements>

We do not consider the ECB's proposal to combine only the SyRB and the CCyB into a releasable capital buffer to be sufficient. Limiting ourselves to these two buffers prevents us from making full use of the existing capital buffer capacity. Therefore, see our proposal described in Q69. As mentioned previously, the SyRB should be deleted as a macroprudential layer and therefore the guidelines on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply as well. This is particularly justified as the SyRB is a purely gold-plating European instrument, which creates an unlevel playing field and risks duplicating risks already addressed under P1 and P2, as well as through other buffers.

Furthermore, the industry rejects a new positive neutral rate within the countercyclical capital buffer framework. Instead, existing capital components such as the capital conservation buffer must be made releasable.

It would be necessary to ensure that the ECB's proposal is not just a new nameplate, with everything remaining unchanged behind it. The simple allocation of the existing buffers to the 2 buckets proposed by the ECB (releasable and non-releasable) does not contribute to simplification by itself. Only the removal of the SyRB, the cap to the O-SII buffer and the stop to the PNB really meet the objectives of simplification and integration.

Furthermore, the industry rejects a new positive neutral rate within the countercyclical capital buffer framework. Instead, existing capital components such as the capital conservation buffer must be made releasable.

(71) What are your views regarding the need for a buffer for tackling sectoral risks? Is there a need to maintain a sectoral buffer specifically for real-estate exposures to ensure a more targeted application? [Yes/No/No Opinion] Please explain.

Buffers for sectoral risks should be abandoned for all asset classes where double counting is methodologically allowed and/or in cases of EU gold plating. This means the SyRB and article 458 should be removed from EU law altogether (gold plating), MSs should refrain from applying additional restrictions that have prudential relevance, and the application of the CCyB should only be allowed for non-real estate systemic risks to avoid duplication (gold plating).

Furthermore we reject the sectoral buffer for ESG related risks as now foreseen in CRD VI. It remains unclear to us how environmental risks can be converted into capital requirements within buffers. ESG-related risks are already covered by other requirements (P2G, P2R, procedural requirements). Overall, we consider the extension to ESG risks to be a theoretical exercise playing against the objectives of simplification and competitiveness

(72) What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. The methodology for the identification of O-SIIs should be revised to ensure an enhanced cross-country consistency while considering national specificities. **Fully Agree**
- b. The O-SII buffer should be calibrated following a more harmonised methodology which ensures a better correlation of systemic importance with a defined range for the level of the buffer rate **Fully Agree**
- c. Maintain the current state of play regarding the O-SII buffer calibration while enhancing transparency and accountability (including through public disclosure) regarding the calibration methodology and its application. **Fully Disagree**
- d. Other (please specify)

Please Explain

An important measure would be to design the O-SII buffer in such a way that it is harmonised with and proportionate to other capital requirements. The O-SII buffer has been implemented in European countries according to national methods and currently varies widely from member state to member state. The same institution may be subject to a different buffer in one country than in another EU country – a situation that runs counter to the goal of a harmonised internal market. In addition, the O-SII buffer may be higher than the G-SII buffer. With the current maximum limit rule, this leads to distortions in international comparison. Therefore, a cap on the O-SII buffer at 0.75% of risk-weighted assets (the smallest G-SII buffer rate being 1%) would resolve such incongruity.

Moreover, the current O-SII framework poses an issue, as it considers the entire group perimeter for the purpose of identifying the O-SII buffer, which is the same scope used for G-SII identification. This approach creates overlaps between the two regimes. Therefore, the O-SII consolidation scope should be reviewed to avoid duplication with the G-SII scope, particularly in the case of international banking groups with presence in third countries.

(73) Is the current share of releasable buffers (countercyclical buffer and the systemic risk buffer) in the total combined buffer requirement adequate, so as to ensure that sufficient resources can be released in a downturn to support lending to the economy? *[Yes/No/No Opinion]* Please explain.

The releasable portion of the combined buffer requirement should be increased without increasing the combined buffer requirement, taking the following aspects into account:

- A recent study by GARP³³ shows that the discretionary requirements in the EU have increased significantly in the last years, including a substantial growth in macroprudential buffers. As a result, EU banks' lending capacity is constrained at a time when it is mostly needed to finance the opportunities for EU industries to become more competitive.
- The macroprudential review should aim at simplifying the framework without any increase the overall current level of requirements, as European banks are adequately capitalised. A holistic approach should be taken towards this review, by considering the functions of the whole capital stack to avoid any double counting of risks.
- The number of buffers should be reduced by eliminating the SyRB as it is a clear case of European gold-plating with a very ample definition and a heterogeneous application, creating an unlevel playing field for Europe

Based on the above and taking into account the fact that every buffer serves to cover losses in times of crisis, as expressly stipulated in the Basel framework and CRD IV, the releasable portion of the buffer should be increased while significantly simplifying the framework. To make buffers releasable some further aspects – also based on the findings from the coronavirus pandemic – need to be improved:

- **Releasability**

For buffers to be effectively releasable, it is essential banks have upfront clarity about the reinstatement of buffers. This clarity pertains to the conditions that need to be met before reinstatement, and the pace at which buffers are to be built up after reinstatement. Without either of these elements, banks' capital management functions will not be able to assess the buffers as effectively released and consequently there will be no benefit to the provision of credit. Here, the EU could and should do more to clarify and harmonise the buildup of capital buffers after their release.

- **Level playing field**

On the CCyB, the EBF notes a buildup of this buffer over the past years in the EU. Against this backdrop and to achieve the level playing field, the EBF recommends disallowing the PN CCyB. Furthermore, there should be better methodological alignment in setting buffers. This can either be accomplished by maintaining the national designated authorities, or by migrating to a European single designated authority. In both cases, the EBF is of the opinion the authority/authorities should have a secondary mandate to assess the impact on competitiveness of the decisions made.

- **Temporary suspension of the backstop**

³³ https://www.ebf.eu/ebf-media-centre/updates/new_study_stresses_urgent_need_for_regulatory_capital_efficiency/

For capital buffers to be effectively utilised, a supervisory decision on releasing the buffers should simultaneously ensure that supervisors have the discretion to temporarily suspend the LR as a backstop in times of exceptional circumstances (such as the coronavirus pandemic) – otherwise, the intended buffer relief would be limited.

(74) How could the risk-weight toolkit under Article 458 CRR be fine-tuned? Would its role change in the context of a streamlined buffer framework?

As highlighted in Q71, the most practical way to simplify the framework and eliminate gold-plating over the BCBS international standards would be to remove article 458 and with it, all the problems of national overinterpretation described below.

Article 458 of the CRR already contains several important safeguards to ensure that measures are only implemented when they are warranted by developments in systemic risk. National authorities may tighten risk weights only when they identify “changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy” (Article 458(2)(a)–(b)). Authorities must also demonstrate that alternative macroprudential tools “would be less suitable and effective to deal with those risks” (Article 458(2)(c)). Furthermore, increases in risk-weight requirements are subject to quantitative limits unless specific EU approval is granted (Article 458(10)).

Despite these safeguards, national authorities have introduced gold-plating measures that do not comply with these conditions, even in cases where the EBA has explicitly advised against them— see for example EBA’s opinion on increased risk weight floor in Norway. This illustrates a weakness in the current framework: EU-level institutions lack sufficient authority to reject national measures that are inconsistent with the criteria in Article 458.

Under the current regulation, the Commission may only reject a draft national measure “if there is robust, strong and detailed evidence that the measure will have a negative impact on the internal market that outweighs the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified” (Article 458(4)). In addition, the Council may only reject the measure if it determines that one or more of four specific substantive conditions are not met, and only after the Commission has taken the exceptional step of proposing rejection. This two-step structure reinforces that Article 458 sets a very high bar for any EU-level intervention. It limits the EU’s capacity to ensure that Article 458 is applied consistently, proportionately, and in line with its intended purpose.

Strengthening EU-level oversight would be particularly important in light of the Basel III objective to preserve and reinforce the risk sensitivity of capital requirements. Binding risk-weight floors undermine this objective by weakening the link between underlying risk and regulatory capital. When risk weights are

restricted from falling below a fixed level, regardless of actual risk, banks may allocate credit toward riskier borrowers in exchange for higher returns without facing commensurately higher capital charges. This distortion reduces incentives for sound risk management and may ultimately increase risk rather than mitigate it.

A more robust EU review mechanism—allowing for rejection of national measures that do not meet the requirements of Article 458—would help ensure that the risk-weight toolkit is applied consistently and remains aligned with the principles of risk sensitivity and proportionality. With a more streamlined buffer framework, the targeted and exceptional nature of Article 458 measures becomes even more important, reinforcing the need for stronger EU-level safeguards to prevent inappropriate or overlapping use of risk-weight tools.

3.4 Crisis Management Framework

(75) Are there areas that create undue complexity in the crisis management framework and if yes, how could this undue complexity be reduced without undermining financial stability?

Examples are plentiful, beginning with the number of authorities potentially intervening in crisis management with overlapping areas of responsibilities (national supervision and resolution authorities, SSM, SRB, EBA) and a multitude of level 1, 2 and 3 texts. As crisis management would require a global approach from supervision, to prevention, to recovery, and to possible resolution or liquidation, ideally one single authority should oversee a given bank or group, either at national level or at European one, subject to geographic footprint and relative systemic importance. Texts should be thoroughly reviewed, fostering principle-based and risk-based approaches tailored to (type of) banks and their specific business model rather than prescriptive and utterly granular ones. The recent flurry of new guidance's issued or being consulted by the SRB is a clear example of extreme complexity derived from level 1 and 2 texts. The guidance on Expectation on Valuation Capabilities is a typical example. There are around 400 required data points, to be provided at asset or liability item level. The list of information must be maintained up to date in a permanent data room. In addition, a playbook for all internal valuation models is needed. A scenario that would require such extensive preparation is unrealistic.

Some specific examples of complexity:

- The scope of the reporting that resolution groups are required to submit — and which relates to Article 55.2(a) of the BRRD — is extremely demanding. It is believed that the scope of application should not include all entities within a resolution group. The reported liabilities of financial subsidiaries would not be subject to bail in in a resolution scenario and, therefore, there is no justification for including them within this scope. Recapitalisation is only applicable at the point of entry (i.e., the resolution entity). As a result, the information

requirements for these entities would impose a significant workload on MPE groups. Moreover, it should be noted that liability information is already reported through the LDR, which would lead to overlaps between requirements.

- Additionally, it is considered that the obligation to report all liabilities governed by third country laws, together with their classification, could be excessively burdensome for international entities and would not be aligned with the principle of proportionality applicable to the intended purpose — a principle that the European Commission itself emphasises.

MREL

(76) Are the current rules related to the determination of MREL targets effective, efficient, clear and predictable?

The answer is clearly no. They add complexity to complexity as they are based on a complex going-concern capital stack that almost doubles subject to adjustments at the discretion of resolution authorities based on policies, some of which are undisclosed. The adjustments, grounds for which should be clearly described, make the determination of MREL targets less predictable. The SRB presented the possibility of the resolution authority to adjust the MCC downward, based on progress towards resolvability in its newest MREL policy. This is a much-welcomed adjustment. However, it remains unclear on which grounds the SRB considers the progress to be satisfactory/not satisfactory.

Some examples to review:

- Review the treatment of intragroup MREL exposures for MPE groups. Although this regime was incorporated into Regulation EU/2022/2036 for the TLAC requirement, we believe that the treatment of these types of intragroup exposures for the purposes of calculating MREL (through an add on) creates inefficiencies and misalignments, and could result in a distorted picture of the risk profile of MPE entities. Therefore, in order to improve comparability between entities with different business models, support more effective risk management, and reduce timing mismatches, it is necessary to ensure a symmetrical treatment in which these types of exposures are handled under a deduction regime.
- Review the treatment of pass-through promotional loans when determining the MREL. This practice meets with considerable legal and promotional policy concerns. Promotional loans are granted for non-competitive purposes, on a non-profit basis, in support of public policy objectives of the EU, the central government or a regional/local authority of a MS. We therefore call for an exclusion from MREL to avoid penalizing the pass-through function and risking reduced availability and higher costs of financing key projects, particularly for the green and digital transition.
- Combined strategies: The combination of resolution tools should be reflected in a lower recapitalisation amount as part of the MREL target calibration (for example, for large banks using a combination of internal recapitalisation and a transfer tool). The post resolution business model of the group would likely

differ from the pre resolution model. If, during a resolution process it is feasible to sell autonomous business lines, clearly separated legal divisions, or assets that can be disposed of or carved out without significant operational disruption (such as identifiable loan portfolios, independently operating affiliates, or segregable technological platforms), the resulting reduction in RWAs should be reflected as lower recapitalisation needs in the external MREL formula. Such a sale should be carried out with relative speed. Several banks under the SRB's remit have already prepared their Separability Analysis Reports, and therefore should have identified potential Transfer Perimeters. Furthermore, the market confidence buffer, which increases the MCC, should be adjustable. In the context of a sale executed through the transfer tool during market exit, liquidity and funding provision would be assumed by the purchaser; therefore, the MCC may not be required to the same extent.

- The market confidence charge is misguided and should be removed. It is a misconception to expect that market confidence may be regained thanks to immediately available capital buffers, when in reality it takes time and requires essentially effective and credible restructuring.
- Additional considerations:
 - Recent banking crises have shown that the four traditional resolution tools may not be effective on a standalone basis to resolve a failing bank. The next step should be to continue developing combined resolution strategies, providing authorities with greater flexibility and allowing resolution approaches to be tailored to the specific circumstances and business model of each institution.
 - Banks have been working on the operability of the internal recapitalisation tool. Combined resolution strategies should be made operational.
 - The review of the BRRD should ensure that combined strategies are explicitly recognised in primary legislation.
 - The type of strategy should be defined on a bank by bank basis. For instance, for large banks, a combination of a bail in tool and a sale of business tool could be considered.
 - A review of MREL calibration should take combined strategies into account, adapting MREL requirements to the greater optionality in terms of available resolution tools.
 - The implementation of a combined resolution strategy should be gradual, recognising that banks are already dedicating significant resources and time to operationalising the internal recapitalisation strategy.

(77) How can the determination of MREL targets be rendered less complex, while preserving the resilience of the system? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Better align MREL to TLAC, by making the calibration more automatic, predictable and transparent, and subject to less discretions by resolution authorities

- b. Better align MREL to TLAC by allowing MREL to be complied with more subordinated instruments
- c. Make the MREL framework for medium-sized and smaller banks more proportionate
- d. Introduce a minimum debt requirement where MREL should be complied with non-CET1 instruments
- e. Other (please specify)

Please explain.

Replace MREL with a TLAC + TLOF Framework:

The proposal entails a structural redesign of the EU gone-concern regime through the replacement of the MREL with a framework centred exclusively on the internationally agreed TLAC standard, complemented by the existing 8% TLOF subordination requirement. Under this approach, TLAC would become the sole risk-based loss-absorbing requirement applicable to all EU resolution entities, not only G-SIIs. The current MREL components — including the LAA, RCA, and the MCC — would be removed. This would eliminate the parallel calibration of TLAC and MREL and end the automatic mechanical linkage whereby increases in going-concern capital requirements inflate the gone-concern stack through RCA adjustments.

From a non-risk-based perspective, the leverage-based MREL requirement would be replaced by a TLOF-based subordinated requirement applicable to all relevant institutions. The 8% TLOF floor would continue to serve as the minimum subordination threshold, including as a condition for access to the SRF. In addition, MDA triggers embedded in the gone-concern stack would be removed entirely. Distribution constraints would apply solely within the going-concern capital framework. The objective of this model is to create a single, internationally aligned resolution capital regime, reduce structural over-calibration, eliminate duplicative stacking, and improve transparency and predictability in resolution planning.

A concrete calibration is required for a final assessment. Any revision consider the following points:

- Ensuring that the new requirements do not exceed the current requirements for subordination (TLAC/MREL depending on the bank)
- Ensuring that the current allowance may continue to be applied
- Abolishing MDA, as explained above
- Ensuring that the new measures are achieved at significant cost savings, to truly contribute towards competitiveness.

Prior permission regime

(78) Do you consider that the prior permission regimes for the redemption and replacement of MREL resources should be simplified? [Yes/No/No Opinion] Please explain.

Detailed requirements for prior approval for the reduction of own funds and eligible liabilities are set by the delegated regulation (EU) 241/2014. We understand that

the supervisor must carefully review before consenting to a material reduction of own funds, and necessary information must be provided for this purpose.

Ideally, redemption and replacement permissions should be only necessary in case a bank is close to breaching MREL targets. This would be the easiest way to achieve true simplification. If this is not feasible, the suggestions below would constitute a step in the right direction:

A key issue is that the process does not sufficiently distinguish between actions that genuinely affect a bank's resolvability and those that are simply part of normal liability management. However, many applications, especially market-making applications in own instruments, involve relatively small amounts compared to capital stock, often significantly exceeding minimum requirements or the continuation of a general prior approval (market-making applications) without affecting capital stock, as this is already deducted from admissible capital.

Moreover, the current regime can make the framework less predictable. Because permissions depend on individual assessments and may vary across authorities, institutions face uncertainty about the timing and conditions for approval (uncertainty can discourage proactive liability management). A more streamlined, harmonised, and transparent process would support smoother market functioning and more efficient management of MREL stacks. Relief for institutions and the ECB would be achieved if the scope and currency of the information to be submitted differentiated based on the amount of reduction in own funds or MREL, and for "non-significant volumes," documentation and stress calculations could be entirely omitted. Further, the maximum authorisation times should be reduced by far below 3 months, considering e.g. the fast-track process introduced by ECB which requires only 2 weeks for authorisation.

Non-significance would still need to be defined. We suggest the following thresholds:

- Simple solution: e.g., less than 0.5% of CET1/Tier1/TC/MREL or
- Risk-oriented: less than 3% of "Excess CET1" exceeding the effective minimum requirements MDA threshold.

Furthermore, to enhance market predictability and operational efficiency, it is proposed to facilitate the consolidation of redemption requests for instruments at their first call date. This would be achieved through an annual allowance mechanism, whereby early redemptions of callable SP or SNP instruments at their first call date would not necessitate individual prior regulatory approval. Certain conditions would apply to this mechanism: i) the aggregate amount must remain within a defined annual limit (10% of the institution's MREL stock), ii) a 30-day notice period must be observed, and iii) the redemptions must not result in a reduction of MREL resources.

Finally, the industry welcomes the SRB's recent announcement signaling the intention to adopt a fast track process for the approval of prior permissions of MREL instruments, and looks forward to its implementation.

Use of safety nets

(79) What is your view on the rules allowing to use resolution funds to support a resolution action, in particular the minimum bail-in of 8% of the total liabilities of own funds of the distressed bank? Are they proportionate and give sufficient flexibility to handle bank failures adequately? Do they create level playing field issues vis-à-vis other jurisdictions?

3.5 Interactions across parts of the framework

(80) In your view, which of the areas below create inefficiencies and undue complexity in the interactions across the prudential, macroprudential and crisis management parts of the framework? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

- a. Overlapping requirements addressing the same or similar risks (P2R/P2G/certain macroprudential buffers) *Fully Agree*
- b. Limited buffer usability resulting from double counting CET1 both in macroprudential buffers and in other minimum requirements (leverage ratio, MREL)
- c. Multiplicity of MDA restrictions with varying triggers stemming from prudential and resolution frameworks
- d. Cross-framework governance and coordination issues and data sharing.
- e. Other (please specify)

Please explain

The interaction across these parts of the framework is hindered by several sources of inefficiency and undue complexity. First, overlapping mandates and only partially delineated responsibilities between authorities contribute to coordination challenges and inconsistent expectations for institutions. Prudential authorities focus on specific soundness, macroprudential bodies target system-wide risks, and resolution authorities prepare for failure management. These missions intersect around financial stability, sometimes without sufficiently clear boundaries or escalation protocols. This slows and fragments decision making particularly under stress.

Additionally, there is limited coherence and alignment of the various policy tools used across the three pillars. Micro prudential requirements, macroprudential buffers like the CCyB or the SyRB, and resolution requirements such as MREL or TLAC were not conceived as parts of a single integrated construct. They therefore impose cumulative constraints that interact in unintended ways. The long standing debate on buffer usability illustrates how prudential and macroprudential objectives may conflict with loss absorption expectations in resolution. This misalignment complicates institutions' capital planning and may reduce flexibility precisely when it is most needed.

Inefficiency is also found in the fragmentation of data flows, reporting templates and analytical approaches. Supervisors, macroprudential bodies and resolution authorities often request similar but not identical datasets, based on different assumptions, timelines or formats. This leads to duplication, delays and reporting burdens for institutions. In times of stress, inconsistent information or difficulties in ensuring timely data exchange between authorities can significantly impair coordinated action or early identification of contagion channels.

Governance structures and coordination mechanisms also contribute to complexity. At both national and European levels, numerous cross authority processes have been established to ensure cooperation, but they themselves become cumbersome. This slows down responses, especially when rapid coordination between supervisory, macroprudential and resolution entities is crucial.

Regulatory layering constitutes an additional source of inefficiency. While each layer has strengthened resilience in its own domain, the cumulative result is a patchwork of rules, transitional arrangements and national discretions that is difficult to navigate. For institutions, this accumulation increases compliance costs and complicates strategic planning. For authorities, it creates inconsistencies and gaps that require constant interpretation and adjustments.

Finally, stress testing frameworks remain insufficiently integrated across the three pillars, and thus fail to produce a unified assessment of resilience. The lack of integration also limits authorities' ability to form a common view of vulnerabilities and potential amplifiers in a crisis.

Addressing these areas would help create a more coherent and operationally effective interaction between prudential, macroprudential and crisis management frameworks.

(81) How could the governance in the macroprudential framework be improved to achieve a more consistent application of macroprudential tools across the EU?

(82) What ways could be envisaged to reduce undue complexity in the interactions across the three parts of the framework, including in relation to the capital stack and governance arrangements between the authorities in charge of the prudential, macroprudential and crisis management rules, without undermining financial stability?

To remedy the inefficiencies and undue complexity identified across prudential, macroprudential and crisis management frameworks, the EBF proposes an ambitious and coherent simplification agenda. It first calls for a rebalancing of the regulatory process, with clearer hierarchy between Levels 1, 2 and 3, fewer excessive technical mandates, and a reduction in EU and national gold plating. The EBF also recommends embedding competitiveness and growth objectives

into the mandates of the European Commission, the ESAs and the SSM, so that financial stability and the banking sector's capacity to finance the economy are pursued jointly.

Furthermore, we recommend removing overlaps between Pillar 1 and Pillar 2, reassessing growing complexity stemming from CRR3/CRD6, and ensuring supervisory expectations do not generate duplicative or unwarranted capital charges. In parallel, the EBF calls for a streamlined macroprudential framework, reducing the number of buffers, eliminating EU specific gold plating such as the SyRB and capping O-SII buffers at 0.75%, and improving coordination between micro and macroprudential authorities to avoid cumulative constraints.

In crisis management, we urge a simplification of resolution planning and testing, with more proportionate expectations and clearer guidance. MREL should be recalibrated to align with international standards and avoid excessively high requirements that weaken banks' competitiveness and increase their reliance on non-EU funding markets.

Finally, we stress the need for a fully integrated reporting architecture, based on the principles "define once, report once," with enhanced coordination and data sharing between authorities to eliminate duplicative requests and release banks resources' in support of the real economy.

(83) How could the governance arrangements across the three parts of the frameworks be improved, having in mind the objective of ensuring the adequacy of requirements applying to individual banks and avoiding overlaps?

It is imperative to reduce the magnitude of the macroprudential powers which are at the intersection between the three parts. The following actions should be undertaken without delay: Firstly, the elimination of the SyRB and the cap to the O-SII buffer at 0.75% will reduce the risk of overlapping requirements. Secondly, there is need to conduct an examination of the procyclicality of the framework including the use of the CCyB, the downturn assumptions in risk models and the stress testing. Thirdly, there is need to disentangle the links between different elements of the framework, including the following: (1) the MREL is affected by any discretionary increase of RWA, (2) the buffers including those that are gold-plating or discretionary (SyRB, O-SII and CCyB) grow as a result of any supervisory discretion over RWA, (3) gold-plating measures like the NPL backstop push up the level of buffers across the entire framework, (4) P2R overlaps with the output floor as acknowledged by the ECB years ago, yet the issue remains unresolved.

3.6 Proportionality

(84) Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks? *Fully agree, Somewhat agree, Neutral, Somewhat Disagree, Fully disagree, No opinion.*

Please explain

We note that the question is formulated in a way to strictly link proportionality to the size of the banks, which we reject. Instead, we want to emphasize that proportionality is core to risk-based banking supervision and should be based on the nature, scale and complexity of institutions and their risks.

Introducing proportionality across supervisory rules is essential to enable broader participation of banks, especially in syndicated financing structures. Simplifying and making the regulatory framework more proportionate, alongside the digitalisation of market infrastructures, would enhance market functioning, reduce barriers, and strengthen the integration of European capital markets.

We suggest the following approach:

1) Clarifying the concept of proportionality

We believe that to be competitive, Europe needs a new competitive regulatory approach through risk-benefit assessment and a better implementation of the proportionality principle as set in the EU Treaty Article 5(4). As clarified by the Commission itself, under this principle, EU measures:

- must be suitable to achieve the desired end;
- must be necessary to achieve the desired end; and
- must not impose a burden on the individual that is excessive in relation to the objective sought to be achieved.

The banking regulatory framework should be assessed against these criteria, verifying that measures in force/being drafted are actually needed and are appropriately calibrated, not exceeding what is necessary to achieve the result. With regard to banking regulation, generally speaking, application of the proportionality principle would imply that rules are only introduced (and maintained) if necessary to achieve financial stability, and that their intensity is commensurate to the risks that they are intended to tackle, for all banks and with regard to various business models. Appropriate graduation of rules and supervision is therefore warranted to ensure that they do not pose a disproportionate burden on a bank in light of actual risk (connected to its size, complexity, and its business model or to other idiosyncratic aspects relevant to that risk, which might also be the case for large banks).

2) Making use of the current legal and regulatory flexibilities

In our view, improving proportionality first means using all means of flexibility already embedded in the Level 1 text and in supervisory guidance, and hard-wiring them into processes, classifications and reporting so that “same rules” do not translate into “same burden” for very different institutions.

Examples:

- Map all CRR options where proportionality is explicitly referenced (ex.: reporting in Article 99, disclosure, use of simpler standardised approaches instead of models) and adopt them consistently for SNCIs.

- Where the EU legislator has introduced transitional or preferential treatments (real estate, output floor phase-in, some trading book elements), actively apply them to avoid cliff effects.

3) Embedding proportionality in new rulemaking and impact assessments

Examples:

For each new CRR/CRR III mandate (e.g. ESG risk disclosures under Article 449a, new credit and operational risk rules), require an explicit “proportionality chapter” assessing effects on banks of different size, business models and relevant variables and proposing tailored solutions.

Adjust the process to ensure – also by means of adequate time - active involvement of SNCIs in consultations and targeted hearings, so that technical standards and guidelines are informed by their operational realities.

4) Enhancing the risk-based approach in the supervisory culture

Examples:

- For each EU country, communicate on which proportionality options/waivers a country has activated, and how they have calibrated SREP categorisation and small-bank regimes.
- Train supervisors to apply proportionality consistently, avoiding gold plating.

(85) Do you consider that the introduction of a dedicated regulatory and supervisory regime for small banks would be warranted in the EU? In your response, please assess in particular how such a regime could meaningfully improve proportionality and efficiency, without undermining financial stability, depositor protection, or the level playing field within the EU.

There are diverging views on the question of proportionality amongst EBF members.

Some members support the introduction of a specific framework for low-risk banks, with targeted changes and extensions. An EU specific framework for low-risk banks will strengthen the EU Single Market by preserving its financial diversity. Low-risk banks can be characterised by small business models and limited size. They are usually small, regionally anchored institutions that make an important contribution to financing SMEs and supporting local economies. At the same time, experience shows that the EU regulatory framework - primarily designed for internationally active banks - often imposes disproportionate requirements on such institutions (notably on reporting and governance).

Participation in such a framework should be voluntary (opt in). At the same time, it must be ensured that the supervisory authority has the final say on whether a bank meets the criteria and is suitable for inclusion. Ongoing supervisory assessments would ensure that only institutions with a consistently low risk profile are covered—and that institutions must exit the framework if their business model or risk profile changes. Overall, this framework would safeguard financial stability.

International examples, such as those in the UK, Switzerland or the US, demonstrate that such an approach is workable. The core idea could be to grant targeted regulatory relief in return for higher capital requirements or other safeguards.

Other views believe that the fundamental principle underlying simplification is "Same activities, same rules" to avoid a perception of fragility and preserve trust. Increased proportionality, conceived as a stacking of specific regimes, risks deepening the fragmentation of the European banking market and slowing down financial integration. Conversely, a proportionality approach based on the simplification of the common framework, applicable to all actors on the basis of common and harmonised risk-based criteria, would reduce the regulatory burden while enhancing the coherence, competitiveness and depth of the European banking market.

Many beneficial prudential measures for smaller institutions are already embedded in CRR3. A useful step forward would be to consolidate these provisions within a dedicated section, in order to enhance their visibility and coherence.

It is essential regulators and banks should jointly assess, as a first step, whether proposed simplifications could apply across the board benefiting both large and small institutions. Only once this analysis has been completed should the case for targeted measures specific to low risk profile institutions be considered.

(86) Should there be, in your view, a more consistent and proportionate set of requirements across the prudential, macroprudential and crisis management rules for smaller banks? [Yes/No/No opinion] If your reply is Yes, please explain how such set of requirements should be framed.

As outlined above, EBF members have diverging views on questions related to proportionality.

Members in favour of proportionality have identified the following Level 1 areas where proportionality references are existing but where a "one size fits all" still applies in many jurisdictions.

- Reporting / data collections: EBA and ECB acknowledge that differentiated reporting and materiality thresholds are legitimate ways to apply

proportionality, especially for cooperative and smaller local banks, yet national implementations often remain quasi-uniform.

- Governance and remuneration: CRD level 1 language permits scaling of remuneration structures, committees, risk management and internal control architectures to the nature and complexity of the institution, but in practice LSIs frequently face “G SIB style” expectations (e.g. on committee structures, deferrals, malus) that go beyond what is strictly needed to meet the level 1 standard. We would recommend a systematic scaling of governance expectations (board committees, internal control functions) and remuneration rules to business model and size, making explicit use of the proportionality wording in CRD.
- Apart from level 1 area, we have identified that the area of on-site inspections (EU-level SSM/ECB inspections & national supervisory law) is improvable. We recommend enhancing the risk-based planning of the inspections and tailoring the frequency and intensity of the engagements, with better differentiation of scope and depth, and integration of ongoing supervision teams to avoid duplication of work on the same topic for the same bank.

On the other hand, the opposite views consider that the areas of improvements mentioned above, could also be extended to large institutions. Indeed, a truly harmonised Single Rulebook is a central lever to reduce the fragmentation of the European banking market and strengthen financial integration. By ensuring the uniform application of prudential, governance and reporting rules to all institutions operating in the Union, it improves the readability of the regulatory framework, secures the level playing field and strengthens the comparability of banks in the eyes of investors, supervisors and markets. Conversely, the coexistence of differentiated regimes, national options and proportionality exemptions increases segmentation, creates distortions of competition and increases compliance costs, in particular for cross-border groups.

(87) Should the definition of small and non-complex institutions be amended? If so, should the EUR 5 billion total assets size threshold be increased? By how much? Should size be the only relevant factor or which additional elements could be introduced to better tailor requirements to their risk profiles and operational realities?

For the members in favour of the examples and measures outlined above, the following additional points are worth discussing:

- Increasing the size threshold: Raise the current threshold of EUR 5 billion to reflect balance-sheet inflation, nominal growth, and the regulatory layering that has occurred since the SNCI regime was introduced. Alternatively, introduce a dual test combining an absolute size threshold with a ratio of total assets to national GDP resp. in relation to the size of the national banking market, inspired by some of the SSM “significance” metrics, in order to better capture the institution’s relative importance for the local economy.

- Relaxing certain exclusion criteria: Clarify that belonging to a significant SSM group, in itself, should not automatically exclude a small subsidiary with a local business model and low complexity. Further differentiate the notion of “trading activities”: allow a certain volume of simple trading book, hedging or domestic market-making activities without losing SNCI status, provided that thresholds expressed as a percentage of total assets or own funds are respected. Introduce an explicit criterion related to the nature of risks and not only to their aggregate level, in line with proposals made in the debate on proportionality methodologies.
- Appropriate consideration of specific situations in MS: When determining the SNCI criteria, the different situations of the MSs must be adequately considered, that is, in a risk-appropriate manner to better tailor requirements to the risk profiles and operational reality of institutions from MSs.
- In order to solve the issue of level playing field, the same proportionality rules should apply to all banks operating in the same country, irrespective of whether they are independent or belong to an EU banking group.

The other view rejects the proposals above and answer “no” to all questions. Extending proportionality regimes further – especially through size-based thresholds – inevitably multiplies differentiated regulatory frameworks. This differentiation creates parallel regimes, which fragment the European regulatory space. Far from simplifying the environment as a whole, this approach multiplies exceptions, special cases and regulatory boundaries, making the framework more difficult to understand for institutions, investors and authorities.

This fragmentation directly undermines the BU and the CMU, whose core purpose is to promote cross-border integration, capital mobility and the emergence of pan-European banking groups. Excessively differentiated proportionality regimes tend to reinforce a national or sub-national segmentation of banking models, by encouraging institutions to confine themselves to a scope of activity and size compatible with a more favourable regime, rather than to develop or consolidate on a European scale.

3.7 Corporate Governance

(88) Taking into account the need to put in place sound remuneration policies that do not provide incentives for excessive risk-taking behaviour, but also the need to remain competitive and reduce financial and administrative burden, how would you evaluate the following provisions on the pay of directors and other material risk takers? *Very positive, Somewhat positive, Neutral, Somewhat negative, Very negative, Don't know/No Opinion.*

- a. Requirement that the variable component shall not exceed 100 % of the fixed component of the total remuneration for each individual ('bonus cap')
Very negative

- b. Requirement that the variable remuneration shall consist of different types of instruments ('balancing requirement') **Somewhat positive**
- c. Requirement that a significant part of the remuneration is deferred and vest on a pro-rata basis ('deferral') **Somewhat positive**
- d. Requirement that up to 100 % of the total variable remuneration shall be subject to malus or clawback arrangements ('malus/clawback') **Neutral**
- e. Other **Very negative**
 - i. 12 months holding/retention period on upfront and deferred remuneration in instruments in individual threshold of 50K€
Retention period of one year after vesting of instruments
Quantitative criteria of identification of MRTs

Please explain

Please specify to what other provision(s) you refer in your answer to question 88:

Bonus cap

Assessment: Very negative

The bonus cap increases fixed remuneration costs, reduces flexibility in downturns, and weakens EU banks' ability to compete for talents. Non EU banks or EU other firms can offer higher variable components and maintain more efficient cost structures and stronger performance incentives.

Requirement that the variable remuneration shall consist of different types of instruments

Assessment: somewhat positive

Aligning long term incentives on shareholder interest is positive as long as it is applied above a significant threshold of variable remuneration. Linking part of variable remuneration to shares or other instruments strengthens alignment with the institution's long-term performance and capital position, reinforcing a risk-sensitive remuneration culture while preserving flexibility. However, we believe there should be greater flexibility in choosing the type of instruments and, above all, in determining when they are delivered. In principle, the obligation to deliver complex instrument mixes generates legal, tax and system costs that are too burdensome for lower levels of variable remuneration. Non-EU peers often use simpler deferred cash structures and reserve instruments for senior management/high earners.

Deferral requirements

Assessment: somewhat positive

Deferral helps align incentives on medium term risk and is useful particularly for senior management and highest earners. However, the 4-year minimum deferral for CRD MRTs (Material Risk Takers, also known as 'Identified Staff') is longer than the 3-year minimum period retained for other financial services and LTI in other types of firms.

This makes banking less attractive for talents. Using a harmonized 3 to 5 years deferral rule for MRTs would allow more competitiveness and simplification of administrative and operational workload.

Malus and claw-back

Assessment: Somewhat positive

These mechanisms are useful tools for risk management and conduct policy but their implementation may entail very substantial operational burden and costs and, in particular for clawback is legally and operationally complex in jurisdictions with restrictive labor laws. This creates operational uncertainty versus competitors with more straightforward legal frameworks.

Other considerations

- Individual de-minimis threshold of 50K€ (Article 94 (3) lit. (b) CRD V) and less than 1/3 of total remuneration: exceeding it generates the application of 40% deferral on variable remuneration and 50% part in instrument. The threshold of 50K€ appears too low due to the great disparity of remuneration levels within banking activities and financial centers both in and out of EU. Besides it has a negative impact on attractiveness vs other firms and vs internal positions that are not identified staff positions as the amount of immediate cash is reduced to 30% of variable remuneration. UK has recently increased this threshold from £44,000 variable remuneration to £660,000 total remuneration.
- One year retention period:
The requirement on variable remuneration of one year retention (under recital 289 of EBA/GL/2021/04s) in addition to 4 years minimum deferral period (5 years minimum for senior management) is a much higher constraint than market practice observed in other financial centers and other types of firms in EU. UK has just removed the retention period on deferred instruments and allows firms to decide on the appropriate retention period for the part of non-deferred variable remuneration in instrument (if any as the non-deferred part of bonus can be paid totally in cash).

We believe flexibility could be introduced, for example, by eliminating the additional one-year retention period on deferred instruments. Furthermore, the fact that no dividends are paid disadvantages employees compared to any other investor who has purchased shares in the market: both are bearing the same risk, but only the investor benefits.

- Quantitative criteria for the identification of MRTs

These criteria have to be applied on staff members of any entities within the scope of consolidation. This creates distortion of competition:

- in US, Asia, and UK, where remuneration levels are higher and where non-EU peers practice is based on much more flexible and dynamic pay packages
- in EU where other sectors do not impose such constraints

Exemption process through competent authority is too complex to be used. There should be more flexibility at the level of the institution to allow exemptions on quantitative criteria. UK has recently removed the obligation on quantitative thresholds except for firms to consider whether 0.3% highest earners should be identified as MRTs (if not already identified under qualitative criteria).

Please Explain:

In general, we support a remuneration framework that promotes sound risk management, long-term value creation and financial stability. However, certain elements of the current framework affect competitiveness and flexibility to different degrees.

Regarding the bonus cap, we assess it as very negative. While its objective of limiting excessive risk-taking is understandable, the fixed ratio between variable and fixed remuneration reduces flexibility compared to other major jurisdictions where no equivalent binding cap applies. In practice, this has contributed to structurally higher fixed remuneration in EU institutions, increasing cost rigidity and reducing the ability to adjust compensation in line with performance and market cycles. This structural constraint is particularly relevant in internationally competitive and revenue-driven activities such as investment banking and capital markets, where remuneration structures are an important factor in attracting and retaining specialised talent.

(89) Where do you see potential for simplification of the EU rules on internal governance and remuneration policies of financial institutions without undermining the institutions' sound and prudent management?

While pursuing legitimate prudential objectives, EU rules on internal governance and remuneration place EU banks at a competitive disadvantage relative to non-EU peers and EU and non-EU other firm types. Their cumulative prescriptiveness, granularity and frequent revisions create structural complexity, heavy administrative burdens, and slower decision-making. This reduces agility, increases structural costs and limits EU banks' ability to innovate, attract talent and expand internationally. Potential improvements could focus on enhancing operational efficiency while fully preserving the robustness of the EU governance framework.

In practice, the level of detail and prescriptive nature of the requirement may, in certain situations, lead to operational complexity, particularly in the design and monitoring of internal governance systems. This may result in extensive documentation requirements that sometimes exceed the actual risks posed by certain functions or entities. A similar principle of proportionality could be applied to remuneration policies, ensuring that the design and documentation requirements are appropriate to the size, complexity and risk profile of the institution.

Simplification efforts could therefore include a more proportionate approach to Fit & Proper assessments, covering processes, templates, supervisory expectations.

Better coordination between regulatory requirements, guidelines, guides and supervisory practices would also contribute to increased clarity and consistency, reducing the administrative burden while preserving the robustness of the governance framework.

A more effective application of risk-based proportionality remains key. In particular, proportionality could be applied more broadly within banking groups, allowing simplified internal processes and greater flexibility in governance arrangements at subsidiary level, including with regard to board composition, committee structures and internal control functions, where risk profiles justify such adaptations.

Certain expectations relating to collective suitability assessments could also benefit from clarification to ensure that required competencies remain realistic and appropriately aligned with the effective functioning of management bodies. Similarly, highly detailed investigative expectations regarding reputation and conflicts of interest may be reconsidered where existing safeguards already provide adequate assurance.

More generally, avoiding redundant documentation requirements — including individual statements or detailed mappings of responsibilities where equivalent internal arrangements already exist — would contribute to a more efficient framework.

Finally, systematic consultations and impact assessments, conducted both ex-ante and ex-post, would support a more stable and predictable regulatory environment. Continued simplification, consolidation and stabilisation of the European regulatory framework would further facilitate effective implementation while maintaining high prudential standards.

a) Remove the bonus cap to ensure effective risk management and a sufficiently flexible cost base for financial institutions:

This would allow firms to offer less fixed pay (which means lower fixed costs) and reward more for performance instead, ensuring a more flexible cost base for firms and greater alignment of remuneration with risk appetite. The UK removed the bonus cap in its entirety for the same reason several years ago. In its April 2024 report on banking stability, the Swiss Federal Council expressly opposed the limitation or prohibition of variable remuneration, stating that empirical evidence shows disadvantages in this regard, particularly in the form of higher fixed pay.

b) Increase flexibility in the allocation of cash and equity across upfront and deferred variable remuneration:

The CRD requires at least 50% of variable remuneration to be paid in instruments. The EBA guidelines go further, requiring that 50% of both upfront and deferred variable remuneration be delivered in instruments. This creates a significant competitiveness gap between remuneration at EU banks relative to other jurisdictions - they typically do not impose a minimum requirement that 50% of variable compensation should be delivered in instruments, nor do they stipulate that this minimum should be applied uniformly to upfront and deferred variable compensation - and to non-banks. The EBA guidelines' gold-plating should be removed.

c) Assess the appropriateness of deferral periods and quantitative deferral thresholds:

The CRD sets a minimum 4-5 years for deferral of variable remuneration, adding that the deferred portion should be no less than 40% of variable remuneration, and 60% for 'particularly high' amounts, and for senior management (see recital 262 EBA/GL/2021/04). The EBA guidelines set quantitative thresholds for application of these deferral percentages, with variable remuneration above EUR 500,000 subject to 60% deferral. This threshold should be raised to account for price-level changes since 2015, and the EBA should consider allowing a 'marginal-rate' approach to application of the 60% deferral rate, aligning with recent changes in the UK. Alternatively, to simplify the deferral approach and increase competitiveness, the requirement to defer at least 60 % (instead of 40%) of the variable remuneration for higher paid Risk Takers below the senior management level should be removed. The effect would be a simpler deferral approach consisting of two (instead of three) scenarios, i.e. 60 % deferral rate for members of the management board and the first management level below the board, and 40 % deferral rate for all other Risk Takers.

d) Revise the stricter bonus cap for control functions (see recital 233 EBA/GL/2021/04):

While CRD does not specify a specific bonus cap for control functions at all, recital 233 of EBA/GL/2021/04 requires considering determining a stricter bonus cap for control functions compared to the business units they control. In practice, this results in:

(i) increased complexity in terms of employees' understanding of the remuneration rules given that there is more than one bonus cap across the same firm, and

(ii) a lack of competitiveness when trying to attract sufficiently qualified employees for the control functions.

The latter does not only reduce internal mobility within EU headquartered banks, as internal staff are reluctant to transfer within the same bank from a non-control function unit to a control function unit due to the stricter bonus cap. In addition, a stricter bonus cap for control functions additionally includes a competitive

disadvantage for EU headquartered banks when externally hiring highly qualified control function staff in their international locations where other firms are not subject to any bonus cap. To increase competitiveness for hiring top talent for control functions and reduce complexity, we, therefore, request amending the need to consider a stricter bonus cap for control functions, e.g. in the course of the upcoming iteration of the EBA Remuneration Guidelines.

e) Remove the 12-month holding (retention) period on variable remuneration in instruments

Article 94 No. 1 (l) CRD requires that variable pay in instruments (i.e. essentially equity) shall be subject to an appropriate retention policy designed to align incentives with the longer-term interests of the institution. The retention policy shall be applied to both the deferred and the non-deferred instrument portion of the individual variable pay. CRD does not specify what length would be appropriate.

The length is determined in the separate EBA Remuneration Guidelines (EBA/GL/2021/04). Recital 285 et seq. of the EBA Remuneration Guidelines require to apply a retention period on instruments of at least one year (recital 289). As a consequence, not only the upfront equity portion but also the deferred equity portion, which is already deferred over at least 4-5 years, is subject to an additional 12-month retention period. This results in a perceived deferral period of one additional year (i.e. 5-6 years in total). As the retention period on deferred equity did not prove to be very effective, from October 2025 the UK no longer expects firms to apply a retention period to deferred instruments. Deferral periods already ensure that deferred instruments are held by the Risk Taker and create alignment to the bank and shareholders/investors over a significant time period. The addition of a retention period on deferred instruments, therefore, does not create any substantive policy benefit. However, it does add significant complexity operationally and in terms of employees' understanding of the rules. To reduce complexity, to increase the understanding of employees, and to increase competitiveness we, therefore, request to remove the retention period on deferred instruments in its entirety in the next iteration of the CRD, i.e. the level 1 text. In the meantime, the length of the retention period should be reduced to 3-6 months for both upfront instruments and deferred instruments in the course of the next EBA Remuneration Guidelines.

f) Revise the severance requirements in a very pragmatic manner.

While CRD does not go into specific details when it comes to severance pay, the EBA Remuneration Guidelines (EBA/GL/2021/04) outline in a very detailed and prescriptive manner how to treat severance pay in chapter 9.3. From an industry perspective, severance payments do not reward for performance, so it is not really considered to be variable pay. Instead, severance pay compensates staff for the early termination of the employment contract, i.e. severance pay compensates staff for losing their job and not for rewarding the individual performance for a given year. In any case, severance payments should not compensate misconduct

or poor performance. However, according to the EBA Remuneration Guidelines severance payments are generally to be treated in the same way as the regular, annual variable remuneration. As a consequence, implementing the EBA's severance requirements into practice resulted in disproportionate complexities for firms in the EU without creating a meaningful positive effect. To reduce complexity and increase competitiveness of the EU banking industry, we, therefore, request making the severance requirements more pragmatic and competitive in the course of the upcoming iteration of the EBA Remuneration Guidelines. For instance, by default, severance payments should not be taken into account for the calculation of the bonus cap (i.e. the maximum ratio between variable and fixed remuneration) at all.

g) Simplify the remuneration disclosure requirements:

The remuneration disclosure requirements under Article 450 CRR in conjunction with the tables REM 1-5 of the corresponding Commission Implementing Regulation (EU) 2021/637 are very extensive, prescriptive, complex to create on an annual basis, and the multiple data points to be disclosed are very difficult to understand for non-technical readers. Therefore, it is very unlikely that the extensive set of remuneration data to be disclosed creates a meaningful effect. To reduce complexity and increase the understanding of the reader, it is highly recommended to reduce the required data points to a minimum. At least, tables REM 1 to 3 should be removed in its entirety.

h) Revise the definition of fixed pay in the EBA Remuneration Guidelines:

The existing requirements regarding the definition of fixed pay in EBA/GL/2021/04 are very burdensome to implement without creating a meaningful effect. If the EU should have concerns that some banks may circumvent the bonus caps by classifying variable pay as fixed pay to have more headroom for the bonus caps, the national competent authority or relevant Joint Supervisory Teams of the ECB should rather make use of their supervisory powers by reviewing these few banks in the course of their ongoing supervisory process. However, for the sake of competitiveness and reduced complexity, the current strict and onerous definition of fixed remuneration in the EBA Guidelines should be significantly reduced in a pragmatic manner.

i) Simplify the criteria for identifying Material Risk Takers

Simplify the criteria for identifying Material Risk Takers based on the British model. The remuneration-related criteria should be limited to the top 0.3% of the highest-paid employees (e.g., by eliminating rigid thresholds such as EUR 750,000 and the requirement that remuneration be at least equal to the average remuneration of the Management Board, Supervisory Board, and senior management).

j) Reduce reporting requirements to the necessary minimum

Reporting obligations for institutions consolidated within a group should be limited to the level of the top consolidated entity (e.g. EBA benchmarking; reporting on the gender pay gap and the 'higher ratio'; EBA reporting on top earners; and EBA benchmarking on the diversity of management and supervisory body members).

Small and non-interconnected institutions should be exempt from reporting requirements (e.g. EBA benchmarking and gender pay gap reporting) to reduce a disproportionately high administrative burden, whether or not they are part of a consolidated group.

k) Other suggestions for changes to the EBA guidelines:

- Remove the prohibition on paying dividends on deferred remuneration, which creates a competitive disadvantage for EU banks without meaningful benefits for conduct or risk management.
- Raise the 'de minimis' threshold for disapplication of the Material Risk Taker requirements, in line with other jurisdictions, and focusing remuneration rules on risk takers and higher earners.

(90) In your view, which regulatory measures regarding the EU rules on internal governance and remuneration policies of financial institution could lead to improvements?

1. Assessment

The current EU framework has become increasingly granular, prescriptive and complex. The accumulation of requirements, including in Levels 2 and 3 texts, creates structural and organizational constraints that reduce institutions' agility, increase administrative burden, delay execution and ultimately hinder competitiveness vis a vis global peers. In several areas, EU rules exceed international standards without commensurate prudential benefit.

The following measures could improve the efficiency and effectiveness of the EU framework on internal governance and remuneration. Some of these measures have already been proposed in frame of Questions 88 and 89.

2. Proposed evolution

- Shift from detailed prescriptive rules to a more principle-based framework
Recent regulatory developments show a clear trend of increasing prescriptiveness, (i.e. detailed expectations on Board composition and responsibilities, risk setup, Fit & Proper and responsibility mapping, remuneration rules and reporting).

The Commission should:

- Adopt a more principle-based approach for more flexibility while maintaining prudential safeguards.

- Allow firms to demonstrate compliance through existing internal documentation, involvement of control functions and sound governance on remuneration.
- Prioritize effective outcomes rather than detailed formats or templates (ex: complexified reporting on remuneration since 2023).
- Ensure proportionality, avoid expanding requirements beyond Level 1 scope and limit Level 2/3 mandates to what is strictly necessary (ex in remuneration with one year retention period required in Level 3 and identification criteria of 750K€ in Level 2).

- Improve proportionality

Simplification of the rules or /and processes for subsidiaries within a Group, as well as for smaller entities or less riskier activities would be necessary. This would also help focus supervisory attention on areas of higher systemic risk.

- Improve alignment with global standards and avoid “gold-plating”

Ensure EU rules remain compatible with international frameworks (e.g., FSB, BCBS) without going systematically beyond them (gold plating).

- Strengthen the harmonization of remuneration rules within EU

Avoid gold-plating from Member States (ex: reduced bonus cap level in the Netherlands, reduced bonus cap for control functions in Germany, specific resolution of Shareholders General Meeting on remuneration paid to MRTs in France).

Harmonize remuneration rules for MRTs among banks, Investment firms, asset management and solvency (appropriate balance of variable /fixed ratio, 3 years minimum deferral period and appropriate (i.e. less than 12 months) retention period on variable remuneration in instruments).

A single, consolidated set of remuneration principles would improve consistency and facilitate cross border governance.

- Review and recalibre Fit and proper templates and assessment processes. Simplify template with more explanatory fields and less technical requests, reputation and conflicts of interest sections which are too complex versus frameworks where self-attestations are more largely recognized.

- Introduce, at European level, a generalized simplified approval procedure for the renewal of directors’ mandates, which already exists in France for non-executive directors only.

- Allow supervisors to reuse data already submitted by the institutions, including in another fit & proper file (the ECB should maintain an up-to-date database by entity). Supervisors should be able to share information already provided by banks in order to avoid requesting it again.

- Remove ex-ante notification requirements, which adds an unnecessary additional layer of requirements and red tape to the fit and proper assessment of certain new directors (Chair and management body in its management function) and does not contribute to simplification, while their appointment is already governed by national regulations under a complex timetable (e.g., publication formalities linked to the holding of the General Meeting, etc).
- Delete the provisions on the mapping of duties and individual statements of roles and duties set out in the draft revised EBA Guidelines on internal governance.
- Identification of MRTs based solely on quantitative criteria should be eliminated, as in many cases there is no real link between the level of remuneration and the impact on the risk profile. In practice, it is often more related to the local market, the business segment and the talent the entity seeks to attract and retain. We are aware that it is possible to request an exemption from the MRT population; however, the possibilities provided under Decision 2015/2218 are administratively burdensome, as they require annual renewals and must be assessed on an individual basis, without allowing for the exclusion of entire divisions or companies. Moreover, this mechanism is limited in time and requires that the company already be integrated into the entity, which may complicate mergers and acquisitions due to the uncertainty as to whether new employees will be identified as MRTs.
- Finally, the possibilities for exemptions for employees earning above EUR 1 million are, in practice, very limited, as they are based on the exceptional nature of the remuneration, which in certain markets such as the US, the UK or in wholesale banking segments, is not exceptional.

Overall, these measures would maintain strong prudential standards while enhancing operational agility, improving the EU banking sector's competitiveness and supporting innovation and efficient governance.

3.8 Reporting and Disclosures

(91) Which of the implemented or planned EU or national measures have in your opinion the most impact on reducing undue complexity and burden as regards bank reporting requirements?

The EU measures with the greatest medium to long term impact on reducing undue complexity and burden in bank reporting are those that move decisively toward an integrated, granular, and harmonized European reporting system. European and national authorities have considerably expanded banks' reporting obligations, and beyond the growing volume of requirements, inconsistencies and limited coordination among authorities have resulted in duplicative and overlapping reporting. This fragmentation significantly increases operational costs for the

European banking sector, estimated at over €4 billion³⁴ annually, while negatively affecting data quality.

A key milestone in addressing these issues is the feasibility study conducted by the EBA under Article 430c of the CRR. It demonstrated that an Integrated Reporting System based on a shared data dictionary could simultaneously serve prudential, resolution, and statistical purposes, thereby reducing duplication and inconsistencies across frameworks.

Building on this, the most impactful path forward is a medium to long term transformation toward an Integrated Reporting System in which data attributes are defined once and reused by all relevant authorities. This approach should be guided by key principles: define once, report once, data sharing, and enhanced governance. In practice, this means that supervisory and resolution authorities at both EU and national level should align on a common set of definitions for core data elements, ensuring consistency across templates and granular datasets.

In this respect, the establishment of the JBRC, together with its governance structure, including the RCG, represents a significant and operational step forward. By fostering coordination among European institutions and between these and the industry, the JBRC directly addresses fragmentation and overlapping data requests. The JBRC's ongoing work programme, prioritising semantic integration, the development of a common data dictionary, and alignment with the European Commission's supervisory data strategy, supports tangible progress toward a harmonized and granular European reporting system. These initiatives are particularly impactful because they tackle the root causes of reporting burden, namely inconsistent definitions, duplicated data attributes, and siloed reporting streams.

Complementary to this, the work of the ESCB on the IReF is also highly relevant. By consolidating and harmonising statistical reporting requirements across the ESCB while reducing national divergences, it contributes to a more consistent reporting landscape. To maximize its impact, IReF must be scalable beyond statistical reporting to also serve supervisory and resolution needs, thereby forming a foundational building block of a fully integrated reporting architecture based on a single IT solution, common data model, shared dictionary, and harmonized processes.

Other initiatives, such as the EBA's report on the efficiency of the regulatory and supervisory framework and the ECB HLTFS contribute additional impact through proposals on proportionality, materiality thresholds, coordinated reviews of reporting requirements, and improved change management. In particular, the ECB initiative, arising from an exercise with the industry to simplify reporting and

³⁴ Fitness check of EU Supervisory Reporting Requirements, page 57.

disclosure requirements, contains initial meaningful proposals that should be implemented promptly.

Further gain can be achieved by reducing unnecessary resubmissions through the introduction of clear materiality thresholds, and by promoting the use of common tools such as the ESCB's BIRD to improve data accuracy and limit errors. Stronger governance of ad hoc reporting requests is also important to ensure that such requests remain necessary, proportionate, and subject to regular review.

However, these measures will have the greatest impact when embedded in a broader strategic shift. This includes pausing the introduction of new reporting requirements and major revisions for a limited period, reviewing existing data points to ensure they provide clear added value, and setting measurable targets to reduce the number of reports and data points. Together, these steps would help stabilise the framework and deliver meaningful cost reductions.

Finally, further rationalisation should be pursued with a differentiated approach to public disclosures. For SNCIs, there may be scope for regulators to take on certain disclosure tasks, given their simpler structures. For larger institutions, however, public disclosure goes beyond reporting data: it requires judgment, narrative, and strategic context. For this reason, responsibility for disclosures should remain with the institutions themselves, as transferring it to supervisors would create risks without delivering meaningful cost savings.

(92) What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs? *Low impact, Medium Impact, High Impact, No Opinion*

- a. Number of data points *High Impact*
- b. Frequency of changes of the reporting obligations *High Impact*
- c. The difficulty of using regulatory reporting for internal risk management purpose *Medium Impact*
- d. Ad hoc reporting requests from supervisory authorities *High Impact*
- e. Frequency of submission of reporting obligations *Medium Impact*
- f. Other:
 - i. Data Quality and Data Governance Requirement *High Impact*
 - ii. Complexity of the Regulatory Framework *High Impact*
 - iii. IT Infrastructure *High Impact*
 - iv. Corrections and Resubmissions requests *High Impact*
 - v. Duplicative requirements in multiple directives *High Impact*

Please explain.

As highlighted by the EBA Cost of Compliance study³⁵, structural factors such as data granularity, scope and volume of data, regulatory changes, fragmented templates, and lack of harmonization and overlaps in reporting requirements drive most of the reporting burden.

Against this backdrop, any initiative aimed at simplifying reporting requirements should be guided by the principle that the greatest and most durable cost savings come from preventing the proliferation of new, misaligned data requests rather than trimming templates whose implementation costs are already sunk. New reporting requirements should avoid duplication or overlap with existing obligations; where overlaps exist, data collection should be eliminated, merged, or designed to reuse existing requests.

Operationally, limiting both the frequency of resubmission requests and the period during which resubmissions may be required would further reduce the burden on institutions. In particular, reducing unnecessary resubmissions, especially those linked to the correction of minor errors, would ease operational burdens, lower associated storage costs, and ultimately reduce overall reporting costs.

A specific issue is represented by ad hoc reporting requests from supervisory authorities, as they imply a significant effort for banks to manually combine the data, often under tight deadlines. Since the requested data is not part of planned reporting, report production is not automated, and in some cases, it is not even worthwhile to automate it, as the request may be withdrawn at any time. For ad-hoc requests - which are increasing significantly and whose use, for the abovementioned reasons, should generally be limited - it is important that the structure of templates and data quality checks be shared with the banks in advance (to avoid inefficiencies during fulfilling), and that appropriate deadlines for submission be established (also taking into account temporal overlaps with other requests and obligations, e.g., the well-known concentration of requests in the first quarter of the year).

In this context, the introduction of clear materiality thresholds for supervisory reporting, as proposed by the ECB in collaboration with the EBA and NCAs, would similarly prevent banks from resubmitting reports for minor deviations, further contributing to lower reporting costs. Materiality thresholds should support the focus on critical data elements needed for internal steering, proper business decision making, and supervisory control. They should be closely linked to validation rules, defining acceptable levels of mismatch, and clear criteria for when resubmissions are required.

In practice, these thresholds should be derived from steering relevant supervisory ratios (ex. >xxbp CET1-Ratio, LR, LCR, NSFR, LE-Limit) as relative parameters to adequately consider the size of a bank. When defining the thresholds, the impact of a change of a single data point on the final critical data point / ratio should be

³⁵https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1013948/Study%20of%20the%20cost%20of%20compliance%20with%20supervisory%20reporting%20requirement.pdf

the leading question. A starting point for the development of thresholds could be the ECB approach to identify significant resubmissions (ex: with adequately lower thresholds such as >xxbp CET1-Ratio). The lack of meaningful materiality thresholds leads to disproportionately high efforts/costs in the ongoing preparation of supervisory reporting. Instead of focusing on data quality issues which have a strong impact on client business and internal steering, resources are allocated to work on a large number of non-relevant issues and inconsistencies in the report. Further micromanagement by validation rules should be reduced to the really necessary minimum, and application of meaningful materiality thresholds should be implemented for all regulatory reporting requirements.

Further efficiencies could also be achieved through the wider adoption of common tools, such as the ESCB's BIRD, which the EBF actively supports and jointly develops with the ESCB. Such tools enhance accuracy, reduce errors at the source, and help streamline reporting processes, thereby reinforcing overall cost efficiency and further limiting the need for resubmissions. Finally, addressing duplication embedded in the regulatory framework itself would further strengthen these efforts. For example, the current application of the FICO 2002/87/EC and the Solvency II Directive 2009/138/EC result in duplicative reporting and supervisory processes: the national competent authorities may require intra-group transactions and risk concentration reporting at FICO level under Solvency II directive, while the ECB acting as the FICO coordinator, receives similar information under the FICO framework. Addressing such overlaps through better alignment and clarification of responsibilities would help eliminate duplication, reduce inefficiencies and further streamline the reporting landscape.

(93) What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

Modernising reporting and reducing the associated burden requires a combination of operational and legislative measures. Initiatives set in the EBA report on the efficiency of the regulatory and supervisory framework as well as the report prepared by the ECB's Governing Council HLTFS, list a number of non-legislative and legislative-oriented recommendations and policy measures to modernize reporting and reduce the reporting burden on banks. Effective coordination among authorities will be essential to translate these elements into concrete, implementable measures that meaningfully reduce the reporting burden. Greater stability of reporting frameworks, including limiting the frequency of ITS and validation rule changes, will also be critical to ensure that such efforts deliver lasting benefits for the industry.

On the operational side, improving coordination between the ECB, EBA, NCAs, and the SRB is essential to align reporting calendars, harmonise templates, and prevent duplicative requests. Enhanced coordination across EU and national authorities is also necessary to avoid overlapping data requests and ensure consistency in data

collection. Establishing a transparent repository of reporting and ad-hoc data collections would enhance visibility and support more efficient interactions with supervised institutions.

Advancing an integrated reporting framework across prudential, statistical, and resolution reporting, underpinned by a common data dictionary, would substantially reduce redundancy and improve data quality. In parallel, standardised, centralised, and harmonised reporting templates would enable higher levels of automation, while maintaining reporting requirements as consistent as possible over time (recognising that some change is unavoidable), would further support efficient processes. Enhanced processes to manage changes are equally important, including predictable release calendars, early stakeholder consultation, and targeted impact assessments, alongside the adoption of digital tools and RegTech solutions.

Additional operational improvement could further reduce unnecessary burden. The use of materiality thresholds and tolerance margins for immaterial discrepancies can further reduce unnecessary resubmissions, while supervisors should move towards facility-level information gathering rather than creating ever expanding report frameworks. At the same time, supervisors should be given a clear target to lower the amount of reporting, both in terms of reports and individual data points. The same information should be collected only once by supervisors, with supervisors exchanging that information efficiently among themselves.

To fully realize these efficiencies, certain measures would benefit from legislative or regulatory support. This includes embedding materiality thresholds and tolerance margins in law, mandating periodic reviews of reporting obligations to retire outdated or duplicative requirements, and providing a legal basis for an integrated reporting framework. Clarifying reporting mandates in EU legislation, particularly within the CRR/CRD framework, and formally incorporating proportionality measures for smaller or less complex institutions would also reinforce the effectiveness and sustainability of these reforms. Stronger proportionality would enable institutions to operate more efficiently and reduce implementation costs, while preserving supervisory effectiveness.

(94) Do you identify any instances where the reporting requirements for banks also lead to an undue burden for bank's clients? Please explain where this is the case and how this could be improved.

There are indeed instances where reporting requirements imposed on banks can create an undue or disproportionate burden for the banks' clients. While supervisory reporting is primarily intended for prudential oversight, and disclosure requirements are essential to ensure transparency, financial stability and effective supervision, some requirements inevitably cascade through banks to their customers.

A first area where this becomes visible is in the growing volume and complexity of information requests directed at clients. As supervisory, disclosure and sustainability frameworks expand, banks are often required to collect increasingly granular and sometimes overlapping datasets. In practice, this can lead to repetitive or duplicative requests, particularly affecting smaller corporates that are not yet subject to equivalent reporting obligations.

Greater alignment and harmonisation across frameworks, especially in the areas of sustainability, supervisory and disclosure, would help reduce such duplication. At the same time, a more proportionate approach for SMEs, combined with the development of standardised data sources, would ease the administrative burdens for clients without undermining the regulatory objectives.

This dynamic is especially pronounced when new counterparty-level credit data are introduced in reporting frameworks. Banks are often required to obtain additional information directly from their clients or to source it through external data providers. In practice, collecting this information from clients can create additional administrative effort for them and may place strain on the client relationship. Relying on external data providers is an alternative, but it is frequently associated with significant costs, which may ultimately be passed on to clients. This is particularly evident in the context of sustainability and ESG-related disclosures, where evolving regulatory frameworks (e.g., CSRD, ESRS, Taxonomy and related initiatives) require banks to gather more granular and forward-looking information from their clients. For example, the requirement stemming from the EBA GLs on ESG risk management requests banks to collect ESG data from clients. The data points have been aligned with CSRD but the scope of clients from which data shall be collected is only aligned with the outdated, larger CSRD scope. Thus, it might now be required to collect 'CSRD' data from clients which have actively been de-scoped from CSRD reporting by the EU.

A similar pattern emerges in the area of AML and KYC requirements. Clients, especially SMEs, are often required to submit the same information repeatedly, such as personal information, financial data, ownership structures, or documents, even when there have been no material changes. One potential improvement would be the broader use of EU-level central registers such as TOED and PEP registers, containing reliable and verified information. If banks could access such data directly from the register, the need for repeated client outreach would be significantly reduced, streamlining processes for all parties involved.

(95) In light of the ongoing revision of a number of pieces of EU legislation on sustainability (CSRD delegated acts, Taxonomy delegated acts, SFDR), do you see the need for amending any provision of the banking regulatory framework with a view to ensure achieving the objective of properly managing sustainability-related risks faced by banks?

General comments:

- ESG risk management is already extensively regulated. Additional rules are neither necessary nor desirable - simplification, consistency and proportionality are needed.
- The Omnibus is a step forward, but without aligning prudential rules, it won't deliver real simplification. Banks still face extensive ESG requirements, risking spillovers to clients. As Recital 9 of Omnibus notes, financial regulation should be aligned and reflect actual ESG data availability.
- Omnibus reduces ESG data availability, forcing banks to rely on bilateral requests and third parties, risking a shift toward less regulated financing. Fragmented data also leads to conservative estimates, thus higher capital requirements, and slower decisions. To mitigate this, authorities should promote access to public data, remove impediments to data sharing, incentivise voluntary reporting, and provide benchmarks where data is lacking.
- ESG provisions should focus on C&E risks, where methodologies are more mature – to be embedded proportionately in the existing risk framework. Greater consistency between regulatory and supervisory frameworks is essential to avoid duplication and operational burden.
- Climate scenario analysis should remain a risk identification tool rather than a binding driver of strategy.
- Overall, the prudential framework should be proportionate, coherent and aligned with data availability. ESG aspects of CRR3/CRD6 should be revised to support competitiveness and effective and operationally feasible risk management.

Specific comments – impact of legislative revisions

1. CSRD-related changes

- Pillar 3 ESG ITS -Align Pillar 3 with the CSRD scope- require only data that are accessible or can be reasonably obtained. Reference data should be provided centrally. Disclosure should be annual- consistent with CSRD and BCBS.
- CRD Article 76 – If TPs remain mandatory, they should be simplified, proportionate, focused on key risks, and adjusted for implementation challenges under the EBA ESG RMG. Group-level plans should suffice, avoiding duplication at the entity level.
- EBA ESG RM Guidelines – Align Para 28 with ESRS datapoints and voluntary standard. Remove references to “large undertakings” and align with the CSRD scope.
- CRR (Art. 430) supervisory reporting - Limit supervisory ESG reporting to what is necessary, and based on “define once, report once, share data” and strong governance. Duplication to be avoided. Ad hoc reporting should be genuinely necessary, proportionate and regularly reviewed.
- Article 449a – Harmonize scope of Pillar 3 ESG ITS with CSRD scope; SNCIs and banks not subject to CSRD should be excluded or their disclosure further simplified

and proportionate. Quantitative ESG disclosure requirements should not go beyond ESRS reporting data points. Duplicative submissions are to be avoided.

2. SFDR-related changes

- MiFID/IDD - Extend sustainability preferences beyond SFDR products to all financial instruments.
- PRIIPs-Allow sustainability disclosures for non-SFDR products to ensure consistent investor information.
- ESG Ratings -Improve transparency by regulating ESG data providers that modify raw data (or an EU code of conduct for methodological robustness)
- Taxonomy & ESMA- Remove taxonomy provisions conflicting with SFDR revision. Withdraw ESMA fund-naming guidelines to avoid overlaps with SFDR categories

3. Changes not directly related to Omnibus

- Pillar 3 ESG ITS: Remove Taxonomy disclosures from P3 permanently (templates 6-10 and relevant columns in templates 1 and 4) and Table 4 - exposures to the top 20 carbon-intensive firms, as well as information on inclusion of assets in the cover pool, as the reporting obligations are regulated in the Covered Bonds Directive
- ESRS
 - Recognize ESRS as aligned with ISSB standard, allowing EU-preparers to report via ESRS only, also for their subsidiaries outside the EU.
 - Allow non-EU preparers to take ISSB standard as a baseline, adding missing ESRS items and impact-related data points.
 - Remove obligation to use ESEF-tagging
- EU Taxonomy: Remove templates 6 and 7 (F&C, TB) - less meaningful but burdensome
- CRR Article 501: Infrastructure Supporting Factor: Remove reference to the EU Taxonomy and revert to the previous version of IFS, resulting in more practical application of ISF while safeguarding the contribution to environmental objectives
- CRR Art - Changing the frequency of collateral valuation:
 - Article 207(4), point (d) – changing to annual evaluation
 - Article 208 - evaluation only at inception; if not, then every 10 years for loans exceeding EUR 5 million property value

For full response, click [here](#).

Abbreviations List

AI	Artificial Intelligence
AML	Anti-Money Laundering
AMLA	Anti-Money Laundering Authority
API	Application Programming Interface
ATAD	Anti-Tax Abuse Directive
AT1	Additional Tier 1
AVA	Additional Valuation Adjustment
BCBS	Basel Committee on Banking and Supervision
BIRD	Bank Integrated Reporting Dictionary
BoE	Bank of England
BRRD	Bank Recovery and Resolution Directive
BU	Banking Union
B2B	Business to Business
CA	Competent Authority
CBDC	Central Bank Digital Currency
CCF	Credit Conversion Factor
CCoB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Core Equity Tier 1
CFI	Certified Financial Intermediary
CJEU	Court of Justice of the European Union
CMDI	Crisis Management and Deposit Insurance
CMU	Capital Markets Union
CPA	Consumer Protection Authority
CRA	Cyber Resilience Act
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSA	Cybersecurity Act
CSD	Central Securities Depository
CSDR	Central Securities Depository Regulation
CSRD	Corporate Sustainability Reporting Directive
CSRBB	Credit Spread Risk in the Banking Book
DF	Discount Factor
DGS	Deposit Guarantee Scheme
DGSD	Deposit Guarantee Schemes Directive
DLT	Distributed Ledger Technology
DMA	Digital Markets Act
DORA	Digital Operational Resilience Act
DPA	Data Protection Authority
DSA	Digital Services Act
DSR	Debt Service Ratio
DTA	Deferred Tax Asset
EBA	European Banking Authority
ECB	European Central Bank
EIB	European Investment Bank
eIDAS	European Digital Identity Framework Regulation
ELA	Emergency Liquidity Assistance
EMU	Economic and Monetary Union

ESA	European Supervisory Authority
ESCB	European System of Central Banks
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ESRS	Environmental Sustainability Reporting Standards
ETR	Effective Tax Rate
FAT	Financial Activities Tax
FATF	Financial Action Task Force
FASTER	Faster and Safer Tax Relief of Excess Withholding Taxes
FCA	Financial Conduct Authority
FDIC	Federal Deposit Insurance Corporation
FICO	Financial Conglomerates Directive
FIDA	Financial Data Access Regulation
FISCO	Fiscal Compliance
FIU	Financial Intelligence Unit
FMI	Financial Market Infrastructure
FPC	Financial Policy Committee
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FTT	Financial Transaction Tax
FX	Foreign Exchange
GARP	Global Association of Risk Professionals
GDPR	General Data Protection Regulation
GL	Guideline
G-SIB	Global Systemically Important Bank
GSII	Global Systemically Important Institution
GSE	Government-Sponsored Enterprise
HLTFS	High-Level Task Force on Simplification
HNWI	High Net Worth Individuals
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICT	Information and Communication Technology
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standards
IIR	Income Inclusion Rule
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IPC	Irrevocable Payment Commitment
IRB	Internal Ratings-Based
IReF	Integrated Reporting Framework
IRRBB	Interest Rate Risk in the Banking Book
IRT	Internal Review Team
ISSB	International Sustainability Standards Board
IT	Information Technology
ITS	Implementing Technical Standards
JBRC	Joint Bank Reporting Committee
JST	Joint Supervisory Team
KYC	Know Your Customer
LA	Limited Assurance
LAA	Loss Absorbing Amount

LCR	Liquidity Coverage Ratio
LDP	Low Default Portfolio
LDR	Liability Data Reporting
LGD	Loss Given Default
LR	Leverage Ratio
LSI	Less Significant Institution
LTI	Loan-to-Income
LTV	Loan-to-Value
M&A	Merger and Acquisition
MCC	Market Confidence Charge
MDA	Minimum Distributable Amount
MiCAR	Markets in Crypto-Assets regulation
MiFID	Markets in Financial Instruments Directive
MPE	Multiple-Point-of-Entry
MREL	Minimum Requirement for own funds and eligible liabilities
MRT	Material Risk Transfer
MS	Member State
NCA	National Competent Authority
NDA	National Designated Authority
NII	Net Interest Income
NPBI	National Promotional Banks and Institutions
NPE	Non-performing Exposure
NPL	Non-performing Loan
NPV	Net Present Value
NRA	National Resolution Authority
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Cooperation and Development
OR	Operational Risk
O-SII	Other Systemically Important Institutions
PEP	Politically Exposed Person
PN(R)	Positive Neutral (Rate)
PPP	Private-public-partnerships
PRA	Prudential Regulation Authority
PRIIP	Packaged Retail and Insurance-based Investment Product
PruVal	Prudent Valuation
PSD	Payment Services Directive
PSR	Payment Services Regulation
PVA	Prudent Valuation Adjustment
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirements
RCA	Recapitalisation Amount
RCB	Reasonable Commercial Basis
RCG	Reporting Contact Group
RMG	Risk Management Group
ROE	Return on Equity
RTS	Regulatory Technical Standards
RWA	Risk-weighted Asset
SA	Standardised Approach
SACRR	Standardised Approach for Counterparty Credit Risk
SF	Supporting Factor
SFDR	Sustainable Finance Disclosure Regulation
SIA	Savings and Investments Account

SIU	Savings and Investments Union
SMA	Standardised Measurement Approach
SME	Small and Medium Sized enterprise
SNCI	Small, Non-Complex Institution
SNP	Senior Non-Preferred
SOT	Supervisory Outlier Test
SP	Senior-Preferred
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRMR	Single Resolution Mechanism Regulation
SSM	Single Supervisory Mechanism
ST	Stress Test
SyRB	Systemic Risk Buffer
TC	Total Capital
T-BAG	Tax Barriers Business Advocacy Group
TLAC	Total Loss Absorbing Capacity
TLOF	Total Liabilities and Own Funds
TLTRO	Traded Long-Term Refinancing Operations
TOED	Targeted Opening Enhanced Due Diligence
TP	Transition Plans
UCC	Unconditional Cancellable Commitments
UK	United Kingdom
US	United States
UTPR	Undertaxed Profits Rule
VAT	Value Added Tax