ABI Associazione Bancaria Italiana

ABI response to the European Commission Targeted Consultation on the Competitiveness of the EU banking sector

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POSITION PAPER

2026

TARGETED CONSULTATION
ON THE COMPETITIVENESS OF THE EU BANKING SECTOR

INTRODUCTION

A competitive EU banking sector is crucial for the success of the savings and investments union and is an integral part of the Commission Communication adopted on 19 March 2025[1]. Banks play a vital role as financial intermediaries, connecting savers and businesses, and remain the main source of financing of the EU economy.

The Communication announced that the Commission would publish in 2026 a report assessing the overall situation of the banking system in the single market, including the evaluation of the banking sector's competitiveness.

The banking sector reforms undertaken in the EU in the past 15 years, including the set-up of the banking union, have significantly contributed to financial stability in the EU and globally. They resulted in more resilient and safer banks, more transparency and level playing field, credible rules to resolve banks in case of failure and safeguard the confidence of depositors and markets in the system.

However, the single market for banking is at the crossroads of several old and new political debates in the EU, notably on competitiveness, financing the green and digital transitions and defence needs, cross-border banking consolidation and global competition, regulatory stability, burden reduction and proportionality. At the same time, cross-border banking activity across the single market is limited and the banking union remains incomplete, hindering development opportunities that could better support the financing of EU economy.

This consultation seeks stakeholders' feedback on the state of the banking sector in view of informing the preparation of the Commission's work to achieve a true single market in banking, improve capital mobility across the EU and foster the international competitiveness of the EU banking sector.

This targeted consultation seeks stakeholders feedback on three main areas:

1. banking competitiveness in the EU and globally
2. the single market and the banking union
3. complexity and effectiveness of the regulatory framework

The responses to this consultation will provide important guidance to the Commission when preparing, if considered appropriate, a Commission Communication on the competitiveness of the banking sector as part of its efforts to deliver on the savings and investments union.

[1] European Commission, 19 March 2025: *Savings and Investment Union – A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU*

RESPONDING TO THIS CONSULTATION

The objective of this targeted consultation is to gather views on the broad range of issues mentioned above from financial institutions, including credit institutions and industry associations, but also their clients, namely savers, businesses and consumer associations, as well as national authorities and Ministries, the European Supervisory Agencies, EU authorities and institutions, as well as academics, non-governmental organisation and research institutions.

Respondents are encouraged to provide explanations for each of their responses. Where possible, respondents are encouraged to provide qualitative evidence and quantitative data in their responses and to substantiate their reasoning with concrete examples, legal references, and specific suggestions. At the end of the consultation, respondents have the possibility to upload files to support their replies. If size limitations are constraining, respondents may upload several files. These will be published together with the responses to the targeted consultation.

All interested stakeholders are invited to reply **by 19 April 2026** at the latest to the **online questionnaire** available on the following webpage:
https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-competitiveness-eu-banking-sector-2026_en

In order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

While some questions are general, others are directed towards specific stakeholders, i.e. credit institutions, their clients and consumer associations, investors or supervisors. As not all questions are relevant for all stakeholders, respondents may choose to reply to a sub-set of questions that are most relevant for them.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published in accordance with the privacy options respondents will have opted for in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-competitiveness-eu-banking-sector-2026_en#consultation-outcome

Any question on this consultation or issue encountered with the online questionnaire can be raised via email at fisma-banking-sector-competitiveness@ec.europa.eu.

CONSULTATION QUESTIONS

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	Sub-total	*49*
	Total	*95*

1. Banking competitiveness in the EU and globally

A competitive banking sector is key both to the resilience of the financial sector and to boost EU's economic growth, to the benefit of EU citizens and businesses.

This section of the consultation seeks stakeholder's views on general questions regarding the contribution by the banking sector to a more competitive EU economy, including in terms of financing strategic priorities as referred to in the competitiveness compass for the EU[2]. It asks questions on the competitiveness of banks themselves and driving factors, competition in the banking markets, both within the EU and globally, cross-border activity, international level playing field, the role of banks in capital markets and the importance of digitalisation in driving competitiveness.

1.1. Contribution of the banking sector to the EU economy

Banks perform essential intermediation and maturity transformation functions and play a role across almost all sectors of the economy. Therefore, their capacity to finance a competitive EU economy—including small and medium enterprises (SMEs), infrastructure, innovation, defence as well as the green, digital and social transitions, among other policy priorities—is crucial as banks remain for the time being the most used source of financing by EU businesses.

This section aims at gathering views and evidence on whether banks' contribution to the EU economy is satisfactory or could be improved, and what are the areas where respondents observe important competitiveness gaps versus other third country banking players.

(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.

Current contribution

The EU remains a predominantly bank based financial system, in which banks are the main source of external financing for households and non-financial corporations, especially SMEs.

EU banks 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 innovation and high-growth sectors through financing, advisory and participation in innovation ecosystems (e.g. accelerators, venture platforms and Proof of Concept initiatives), including via lending, venture debt and equity/quasi-equity instruments, often in cooperation with public guarantee schemes
- Channelling savings into capital markets, acting as underwriters, arrangers and distributors of investment products, financial adviser of retail clients thereby contributing to the objectives of the Savings and Investments Union (SIU)
- Advising and supporting companies in accessing the capital market (equity and debt)
- Financing the green and digital transitions, through green/mortgage loans, green and sustainability linked bonds and project finance for renewable energy, energy efficiency upgrades and digital infrastructures.

How banks could do more

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

1. Scaling up green and transition finance: expanding energy efficiency lending, renewable infrastructure financing supported by stable and coherent prudential treatment, blended finance mechanisms, public guarantees funds and the possibility to access to public database on ESG information.
2. Boosting SME digitalisation and innovation financing: strengthening credit, advisory and ecosystem support for AI adoption, digital transformation and cybersecurity.
3. Mobilising household savings towards long term investment: advising retail clients and developing retail investment products and reinforcing the connection between banks and capital markets, in line with the objectives of the SIU.

4. Enhancing social inclusion and financial resilience: promoting financial education initiatives and inclusive banking solutions to ensure that technological and green transitions remain socially sustainable.
5. Acting as long term investors in companies' equity: along other institutional investors (i.e. pension funds, insurance companies), acting as private equity investors and supporting companies, especially SMEs, in their capital growth.

Enabling conditions
To maximise banks' contribution to EU competitiveness and strategic priorities, policy action should focus on:

- Reducing cumulative regulatory and reporting burdens, 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
- Ensuring effective proportionality of the regulatory framework
- Addressing those parts of the prudential framework that discourage innovation or put banks at a disadvantage
- Increasing coherence within the regulatory framework (i.e. reduction of climate reporting for corporates without a corresponding change in the prudential approach on banks)
- Completing the Banking Union and advancing the Capital Markets Union, in order to reduce market fragmentation and improve cross-border integration
- Preserving a level playing field with nonbank competitors and non-EU jurisdictions, removing structural disadvantages for EU banks
- Promoting the development of banking funding sources such as securitisations, through a reduction in compliance and penalties relating to regulatory framework
- Allowing banks to access public database especially on ESG information, allocate capital more efficiently across countries and sectors (deeper banking integration)
- Leveraging on integrated capital markets to channel household savings into productive investments
- Avoid imposing innovation and support it only where there is clear market demand. The FIDA/Open Finance initiative would impose high implementation costs on banks with uncertain benefits, requiring the sharing of data that consumers may have limited interest in. The proposal is also complex and not aligned with EU objectives of simplification, competitiveness and resilience, nor with the evolving technological and geopolitical context. A unified framework based on voluntary participation and clear rules (e.g. the Data Act) would better support innovation. Given the rapid rise of generative AI and new data uses, policy efforts should prioritise strategic areas such as AI, cybersecurity and innovation. FIDA should therefore be withdrawn.

(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.

Current situation and outlook
Overall, current credit demand is being broadly met by EU banks, but volumes have been dampened by the macrofinancial environment rather than by supply constraints. ECB surveys indicate that loan growth to firms and households slowed mainly due to weaker investment plans, higher interest rates and uncertainty, while banks reported broadly adequate funding and capital positions to support viable demand.

This assessment is corroborated by standard statistical evidence. In particular, our analysis relies on methodologies recently employed by ECB staff to evaluate whether credit dynamics in the euro area are aligned with the needs of the economy. The key gauge is the credit-to-GDP gap, which measures how current credit levels compare with their long-term trend relative to the size of the economy. A negative gap signals that firms are borrowing less than expected, given macroeconomic conditions, whereas a positive gap indicates above-trend borrowing. Current estimates consistently point to a negative gap for total credit to the private non-financial sector, including bank lending, thereby confirming that subdued credit volumes primarily reflect weak demand conditions.

Against this background, there is also a risk that a portion of credit demand — particularly from smaller firms — may face increasing difficulties in being satisfied, also in light of the ongoing trend towards stricter credit standards and creditworthiness assessment following regulatory and supervisory pressure .

Looking ahead, several structural factors may affect credit dynamics on both the demand and supply side. Large investments needed to strengthen Europe's strategic autonomy would likely support credit demand. At the same time, structurally higher geopolitical uncertainty may influence the macro-financial environment, shaping investment decisions and the overall pace of credit expansion. Changes in consumption patterns — away from durable goods and towards services — together with demographic trends, may weigh on credit demand. In parallel, firms' increasing investment in intangible assets reduces the availability of collateral and may constrain access to bank financing, particularly for smaller borrowers.

Barriers to bank financing
Against this backdrop, some barriers may limit the full deployment of bank intermediation in support of EU priorities:

- Cumulative regulatory and reporting burdens, with disproportionate requirements
- Supervisory rules often not fully aligned with underlying credit and market risks, potentially leading to excessive capital requirements
- An overly penalising securitisation framework, which limits the use of this important funding and risk management tool
- Burdensome requirements for the collection of ESG-related information from clients
- The absence of a single European Banking Act, which would help ensure a level playing field among EU banks and between banks and non-banks.

Moreover, some specific structural barriers emerge in sectors with a strong innovation component, which are increasingly central to EU policy priorities:

- Pre-revenue deep-tech start-ups and scale-ups often do not generate stable revenues or positive cash flows, making it difficult to meet traditional bank lending criteria and limiting their access to credit
- Innovative firms rely heavily on intangible assets (such as patents, software, data and know-how), which remain only partially recognised and underutilised as collateral within existing prudential and legal frameworks.

(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 origination.

Possible constraints in this market segment are mainly linked to:

- macroprudential measures (e.g., LTV/LTI/DSR caps), which are justified from a financial stability perspective but may limit credit access
- rising construction and market value of real estate, which affect the capacity to borrow sustainably.

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, 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
- Microenterprises
- 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 sheet and business plans which do not allow banks to assess creditworthiness in an efficient way.
- High reliance on intangible assets for tech SMEs (e.g. intellectual property, software, data), which are difficult to value and only partially recognised as eligible collateral in current lending frameworks.

These factors particularly constrain growth oriented, intangible intensive or transition related investments, even when business models are viable.
Strengthening and harmonising public guarantee schemes, improving insolvency convergence, and ensuring a proportionate supervisory approach – especially for innovative, digital and green SMEs – would materially expand access to finance.

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, which, nevertheless, increase significantly corporates and banks efforts while current EU Commission approach is to reduce corporates' burdensome reporting
- Cross border or multi-jurisdictional projects, where divergent insolvency, tax, collateral and reporting rules complicate bank lending
- Often unclear prudential rules that prevent the bank from providing credit support (e.g., in the shipping and construction sector, or about the definition of Trade finance in CRR);

More predictable regulatory frameworks on transition finance, non-penalizing capital requirements (e.g. with regard to aspects connected to innovation), further development of the Capital Markets Union, and lower structural fragmentation would facilitate access, especially for large cross border or capital-intensive projects.

[2] Competitiveness compass - European Commission

(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.

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

- different rules for foreclosures procedures in case of default events
- different rules on contractual bans on assignment of receivables, which reduce SMEs access to finance
- different rules due to national discretions/secondary rules in spite of the specific Directive
- different languages which make costly the contractual management
- consumer's preferences for local banks
- fragmented data systems across multiple platforms and lack of integration or interoperability at international/cross-border level.

Fiscal heterogeneity across Member States contributes to market fragmentation. Differences in the tax treatment of products such as savings accounts, deposits, mortgages, and investment instruments can discourage households and businesses from engaging in cross border banking relationships, as such disparities distort pricing and reduce the comparability of offers. Harmonisation or convergence in key tax features would significantly improve cross border product portability and user experience.

The creation of an integrated financial data sharing ecosystem (FIDA/Open Finance) poses significant challenges for banks, in terms of costs and effective market response. Furthermore, although a proposal for "reasonable compensation" has been made, it remains vague. Continuing discussions on FIDA while the overarching European Strategy for Data is under review is also not coherent with the objective of creating a unified EU data economy that ensures Europe's global competitiveness and data sovereignty. Instead, it would lead to more fragmentation and most likely to duplication of relevant costs.

Mandatory participation in financial data sharing schemes (FDSS) could create unequal competition between European banks and FinTechs. Furthermore, with respect to gatekeepers, voluntary access to Open Finance could pose the risk of data and capital leakage abroad.

Effective data sharing cannot be achieved through a peremptory regulatory obligation, but rather through adequate and preventive market analysis and preparation, consumer education and awareness, and regulatory uniformity.

(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.

Importance of a diversified banking sector

The EU economy benefits significantly from a diversified banking ecosystem, 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 diversified products and channels, either offered by traditional/universal banks with a broad range of traditional and digital services or by specialised lenders/ 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).

How to further encourage diversity

From our perspective, policy and regulation should explicitly recognise diversity as a strength, not a deviation from a single model. To do so, appropriate and consistent application of proportionality in the regulatory and supervisory framework is needed, allowing to address the specificities of different size and business models. In this regard, it might be noted that EBA and ECB tend instead to extend supervisors' "best practices" to the whole banking sector.
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 Banking Union, Capital Markets Union, and the removal of barriers to cross-border activity that would further improve financial stability and strengthens Europe's ability to finance growth and investments within the EU – better cross-border access to financial services means increased competition and better choice for final client; more efficient allocation of household savings and investments and more diversified funding sources for corporates; a completed banking union also means consistent supervision and better crisis management; allowing institutions to operate more efficiently across EU market creates economies of scale, improve efficiency and innovation and strengths overall competitiveness of European financial institutions.
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 model-neutral is essential to preserve and enhance this diversity in the service of EU competitiveness.

(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, national promotional banks (NPBs) and public guarantee institutions provide a clearly complementary contribution to the activities of commercial banks in financing the EU economy. 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
- catalyse private capital by crowding in commercial banks and institutional investors, rather than substituting them.

Public guarantee schemes (as the "Guarantees Fund for SMEs") 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.

National promotional banks 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. Clear eligibility criteria, transparency, and coordination at EU level — especially in cross-border contexts — enhance the overall efficiency of the system.

(7) To what extent would the EU economy benefit from the following changes in the banking landscape?

	To a very large extent	*To a large extent*	Neutral	*To a small extent*	Not at all	No opinion
Cross-border bank consolidation	X					
Domestic bank consolidation			X			
Banking services offered across the single market	X					
Digitalised banking services	X					
Other (please indicate)	X					

Please explain.

Cross-border consolidation is essential to strengthen private risk-sharing within the EU, improve capital allocation across Member States and enhance the global competitiveness of European banks vis-à-vis US and other international peers. However, meaningful cross-border integration requires the completion of the Banking Union, notably a credible European Deposit Insurance Scheme (EDIS).

The development of banking services across the single market would deliver very substantial gains. A truly integrated retail and corporate banking market would reduce structural fragmentation, lower funding costs, enhance competition and facilitate cross-border investment flows — all crucial for advancing the Savings and Investments Union and strengthening EU productivity.

Digitalised banking services are a key driver of competitiveness. Digitalisation enhances efficiency, financial inclusion and SME access to finance, while enabling new data-driven credit models.

Finally, the EU economy would benefit to a very large extent from completing the Banking Union and accelerating Capital Markets Union, which remain preconditions for unlocking scale, strengthening financial resilience and enabling banks to fully support the green, digital and social transitions.

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

EU banks currently face a complex set of interrelated macroeconomic, structural, regulatory and technological challenges, which together weigh on profitability and long-term competitiveness.

On the macroeconomic side, persistent uncertainty — including slower growth, geopolitical tensions and potential volatility in interest rate conditions — may affect credit demand, asset quality and balance sheet dynamics, with some sectors such as SMEs and commercial real estate remaining particularly sensitive to cyclical developments.

At the same time, structural fragmentation within the EU financial system continues to limit economies of scale and the efficient allocation of capital. Differences in national legal frameworks, supervisory expectations and market practices increase operational complexity for cross-border banking groups and reduce the full benefits of the Single Market (see also the response to Question 13).

These challenges are compounded by an increasingly complex regulatory and supervisory framework. While post-crisis reforms have significantly strengthened the resilience of the banking sector, the cumulative effect of overlapping prudential, reporting and conduct requirements weighs on cost structures, constrains internal capital generation and limits banks' ability to fully exploit scale efficiencies.

In parallel, rapid technological change and rising cybersecurity risks require substantial and continuous investment in digital infrastructure, data management, operational resilience and human capital. At the same time, competition from non-bank financial intermediaries and large technology firms is intensifying across several segments — including payments, consumer finance and digital platforms — often under different regulatory conditions.

Taken together, these factors may constrain banks' capacity to invest, innovate and support the green and digital transitions, thereby affecting their long-term competitiveness at the global level.

The Open Finance/FIDA initiative, while designed to foster innovation, presents several risks for EU banks, including:

- a concrete risk of favoring American and Chinese technology giants, capable of aggregating financial data with their own behavioral datasets, creating a competitive advantage unbridgeable for banks. This would lead to the loss of direct contact between customers and banks, in favor of web/app interfaces managed by Gatekeepers;
- the risk of data breaches, fraud, and unauthorized access due to the increase in access points to banking systems;
- the risk of technical incidents due to the high reliance on non-EU cloud service providers, which can cause mass outages, data loss, and undermine customer trust in the system;
- a competitive asymmetry, as banks are tightly regulated (numerous and complex regulations with significant compliance costs), while new technology operators often work in regulatory grey areas.

It is essential that regulation ensures a genuine level playing field through the application of the overarching principle “same activity, same risk, same rules”.

(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 enter the current phase from a position of resilience.

One potential risk concerns the transmission of macroeconomic shocks to the real economy, as banks remain the primary source of financing for European households and businesses. A deterioration in economic conditions could affect credit quality and lead to tighter lending conditions, particularly for SMEs that depend strongly on bank financing.

Another area to monitor is operational and cyber risk, as the increasing digitalisation of financial services may amplify the potential impact of technological disruptions or cyber incidents.

More broadly, structural pressures on banks’ profitability and competitiveness could also have implications for the financial system over the longer term. If regulatory complexity and operational costs continue to increase disproportionately relative to other financial actors, this may weaken the capacity of banks to support investment and economic growth.

For this reason, maintaining financial stability should be combined with a balanced regulatory framework that safeguards resilience while preserving the ability of banks to compete, innovate and finance the real economy.

1.2. Competitiveness and competition in the EU banking sector

The competitiveness of banks reflects their ability to perform effectively and remain profitable, innovative and resilient, highlighting their capacity to attract and retain customers, generate profits and adapt to changes compared to competitors. A competitive and profitable banking sector is key, as it contributes to the resilience of the financial system and to the growth and competitiveness of the EU economy, supporting EU businesses at home and abroad, as well as EU citizens. A competitive EU banking market also serves the EU’s strategic autonomy objectives as referred to in the competitiveness compass for the EU.

This section seeks stakeholders’ feedback on the current level of competitiveness and competition in the EU banking sector and the different factors behind the competitiveness of EU banks.

(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

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

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

EU banks are performing well in many areas. In the payments sector, European banks have fostered a process of standardization, efficiency, and digitalization capable of increasing competitiveness and responding to market needs. The same on onboarding, compliance/regtech, risk management and data analytics dimension.
However, the overall pace and scale of innovation and digital transformation often 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.
Strengthening harmonisation and supervisory convergence, real simplification of regulation while maintaining high prudential and consumer-protection standards, would help EU banks scale innovations more effectively across borders.
In the area of investment products and services, EU banks have constantly improved their support and advice to clients on how invest their savings , thanks also to the guidance provided by EU regulation (i.e. MiFID, PRIPS, etc.) which has been constantly enhanced and applied by banks and investment firms. This has created a true harmonized and competitive environment in the EU.

(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.).

In our view, EU banks competitiveness is shaped by the interaction between regulation/supervision and structural factors such as scale, digitalisation, market integration and competition from non-bank and non-EU players. The balance differs by segment.

Savings

- Regulatory factors: harmonization of regulation and supervisory practice is key in delivering a true level playing field where banks may compete among them and with non-banking financial institutions
- Non-regulatory factors: the interest-rate environment, household financial literacy and EU market fragmentation shape banks' ability to offer savings product. Where tax and regulatory frameworks favor non-bank products, banks' ability to intermediate long-term savings is reduced. In addition, developments in the digitalisation of money and payments may also affect banks' funding structure and competitive position. In this context, the envisaged introduction of the digital euro, depending on its design features and implementation rules, could lead to significant reductions in banks' liquid liabilities. At the same time, the risk stemming from the expansion of

significant stablecoins denominated in a foreign currency (e.g. dollar based) should also be taken into account

Payments

- Regulatory factors: fair remuneration should be ensured for the substantial infrastructure investments required to banks and appropriate definition and regulation of fraud, starting with the correct allocation of responsibilities to all operators involved in the payment chain, including telephone operators and large online platforms; coordination is needed among the various relevant payment regulations, as well as the update of certain national rules (relating to electronic payments via payment cards) in order to ensure alignment with European rules
- Non-regulatory factors: EU banks' competitiveness in payments depends on their ability to scale pan-European solutions, to access core digital infrastructures on fair terms and to compete on a level playing field with big-tech and fin-tech players that benefit from strong network effects and data-driven business models

Retail banking

- Regulatory factors: prudential requirements (capital, liquidity, macro-prudential buffers). Examples, cross to retail and corporate, are the rules on the determination of the credit conversion factors (which present penalizing elements under both the standardised and the IRB approach) and the NPL framework (with regard to the treatment of forbearance and to the NPL backstop).
- Non-regulatory factors: i) demographics and household balance-sheet structures influence both savings accumulation and credit demand; in ageing societies, lower structural credit growth shifts competition toward advisory, wealth and fee-based services rather than pure loan expansion; ii) market fragmentation remains a structural constraint; retail banking is still predominantly domestic; differences in taxation, consumer law, credit registers and legal frameworks limit scalability and economies of scale, constraining EU banks' ability to compete globally; iii) competition from big-tech and fin-tech is increasing, particularly in payments and consumer finance; these players often operate under lighter regulatory or capital constraints, raising level playing field concerns

Corporate banking

- Regulatory factors: prudential requirements (capital, liquidity, macro-prudential buffers)
- Non-regulatory factors: i) degree of capital markets integration in the EU: the limited depth and fragmentation of European capital markets constrain banks' ability to syndicate, securitise and distribute risk efficiently compared to global peers; ii) structure of the corporate sector: as in EU SMEs represent an important share of economic activity, relationship banking remain key competitive advantage; however, high fragmentation of the productive system can also limit economies of scale and increase monitoring costs; iii) ESG factors: ESG requirements place significant responsibilities on banks—particularly on the environmental front—in supporting an efficient green transition, with substantial adjustment costs and non-negligible constraints on business activity, while regulatory reporting for customers (and consequently actual data availability) is limited

Investment banking

- Regulatory factors: prudential requirements (i.e. expected impact of FRTB as regards the trading book, treatment of equity under the credit risk framework)
- Non-regulatory factors: beyond regulation, the defining competitive constraint is the structural depth and integration of EU capital markets: i) capital markets remain fragmented along national lines and smaller than global peers; ii) the EU exhibits a lower equity culture, which reduces the potential market volume; iii) the incomplete Capital Markets Union constrains cross-border consolidation, the emergence of pan-European investment banks, and the achievement of scale economies in trading, clearing and distribution.

(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

EU banks face high levels of competition within their Member State of establishment	X					
EU banks face high levels of competition in the EU market		X				
EU banks face high levels of competition in global markets/ markets outside of the EU	X					
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.	X					
Other (please indicate)						

Please explain.

The level of competition in the EU banking sector within the single market can be assessed as overall high, albeit heterogeneous across Member States, product segments and levels of integration.

At the domestic level: EU banks operate in environments characterised by intense and sustained competitive pressure. Credit institutions compete on pricing, service quality, innovation, funding conditions and customer experience. While market concentration varies significantly across Member States, domestic rivalry remains generally strong, supported by the presence of multiple incumbents, cooperative and savings banks, as well as increasing digital distribution channels. At the EU level: competition is meaningful but still structurally constrained. Cross-border activities—particularly in wholesale, corporate and certain capital market-related services—indicate the presence of competitive dynamics beyond national borders. However, the full potential of the single market in banking is not yet realised. Regulatory and operational fragmentation, notably in areas such as consumer protection, insolvency regimes, taxation and reporting requirements, continues to limit scalability and cross-border expansion, especially in retail banking. As a result, competition at EU level exists but does not yet fully reflect the depth expected of a fully integrated market. At the global level: EU banks are exposed to strong competitive pressure from non-EU institutions, particularly in internationally contestable segments such as capital markets intermediation, investment banking and certain wholesale activities. Competitive conditions in these areas are shaped by differences in market structure, scale, profitability and access to capital, which may affect the relative positioning of EU banks in global markets. In parallel, technological developments and new market entrants are reshaping competitive dynamics across specific product lines. Digital banks, FinTech firms and, in some cases, Big Tech companies are exerting increasing competitive pressure, particularly in payments, consumer interfaces, data-driven services and emerging areas such as tokenisation of assets. These developments contribute positively to innovation and consumer choice, while also intensifying competition for traditional banks and affecting margins in certain segments. In light of the above, the EU banking sector is characterised by high levels of competition across multiple dimensions, but also by structural features that limit the full expression of competition at single market level. The key challenge is therefore not the absence of competition, but rather the need to enhance market integration and ensure a level playing field, enabling EU banks to compete effectively both within the Union and globally, while adapting to technological transformation.

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
Limited scale and inefficiency of EU capital markets (limited depth, insufficient liquidity, etc.)	X					
Macro-economic environment (economic growth, inflation, fiscal situation, interest rates, demographics)	X					
Limited growth and scaling up prospects due to market fragmentation and different national rules	X					
Underinvestment in new technologies			X			
Supervisory practices (e.g. potentially impacting the level of dividend distribution and share buybacks)		X				
EU regulatory/ resolution frameworks (including international level playing field)	X					
Internal factors (low risk appetite, bank governance/culture)				X		
Uncertain or ineffective market exit for inefficient or distressed banks			X			
Other (please indicate): Structural lower profitability due to fragmentation and over-regulation	X					

Please explain.

Analysts often highlight a persistent valuation gap between European banks and their international - particularly US - peers. This gap is underpinned by several long-standing structural factors that shape both earnings potential and market perception.

A core driver is Europe's structurally capped growth environment, which contrasts with the stronger macroeconomic momentum in the United States. Weaker demographics, lower productivity growth, and historically lower interest rates have all contributed to subdued profitability expectations for EU banks.

On top of these, as also explained in the following answers, significant asymmetries are present in the regulatory framework and supervisory practices.

These elements have reinforced the sustained valuation premium enjoyed by the US banking sector.

In addition, Europe's financial and regulatory fragmentation continues to constrain scale, profitability, and strategic optionality. The absence of a fully functioning Capital Markets Union (CMU) and the incomplete Banking Union limit banks' ability to expand across borders and fully realize cost or revenue synergies. Cross-border consolidation often results in duplicative IT systems, risk management frameworks, compliance processes, and locally ring-fenced organizational structures. These requirements impede the seamless deployment of capital and liquidity within banking groups and dilute the economic incentives of cross-border M&A, even when it is strategically sound.

This fragmentation also affects market depth and liquidity, limiting access to diversified funding, reducing opportunities for efficient capital allocation, and weakening growth prospects relative to peers in more integrated jurisdictions. As a result, Europe's largest banking groups remain significantly smaller than the

leading US players in terms of market capitalization, balance sheet size, and profitability—constraining their ability to invest at scale in technology, digitalization, and critical infrastructure.

A further difference lies in business model evolution. US banks have developed a more prominent approach, supported by a more flexible securitization framework. This enables more dynamic balance sheet management and more efficient use of capital compared with many EU institutions operating within a more restrictive regulatory environment.
Overall, structurally lower growth, market fragmentation, and regulatory asymmetries help explain the valuation discount applied to EU banks. Reducing this gap would require meaningful progress on Europe's financial integration - including completing the Banking Union and establishing a genuine Capital Markets Union - as well as broader reforms aimed at strengthening the region's long-term growth potential.

(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.

Equity exposures prudential framework is a good example of limitation. Amendments introduced by Regulation (EU) 2024/1623 to art. 133 CRR have removed the IRB approach for equity exposures (with the deletion of Article 155) in favour of the standardised approach (which provides for a less granular risk assessment) and more than doubled the related risk weight, bringing it from 100% to 250% as the basic prudential treatment for equity exposures. Such approach has reduced the possibility of banks, where deemed appropriate, contributing to supporting the capitalization of companies through equity investment. The introduction of a more favorable risk factor for the so called "legislative programs" has not yet brought any concrete facility for the banks as such programs are not very common. Therefore, a more structural reform of art. 133 CRR is desirable, to remove disincentives for banks in equity investing.

Banks' competitiveness with regard to a non-traditional business is also negatively affected by the prudential treatment constraints on banks' exposures to crypto

-assets, arising from the EBA RTS issued under Article 501d (5) CRR III, which place them at a disadvantage relative to authorised CASPs under MiCAR, and prevent banks from offering crypto-related services. These constraints include: i) exposure limits to crypto-assets (1% of Tier1 Capital) and RWA 1250% applied are too restrictive; ii) the methodology for aggregating exposure (netting between long and short positions) is punitive and not evidence-based, iii) exclusion a priori of Internal Models Approach (IMA).

(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 among banks and non-bank players — including investment firms, FinTech companies and, in certain market segments, BigTech — continues to intensify. This evolution can enhance the functioning of capital markets by driving innovation, reducing costs, improving user experience and broadening customer choice.
The overall outcome, however, depends on the existence of a consistent regulatory and supervisory framework. Without a level playing field, heightened competition risks creating uneven operating conditions and shifting risks outside the regulated banking environment. For this reason, the principle of "same activity, same risk, same rules" should be guaranteed.
Access to financial data is also a critical factor in the capital markets ecosystem, as it can significantly influence the fairness of competition between banks and non-bank players. Data availability and the ability to process it effectively are becoming core competitive advantages. When certain market participants – such as BigTechs, FinTechs, or other non-bank entities – benefit from asymmetrical access to large volumes of customer data or from more flexible data-usage rules, competitive dynamics may be distorted. Ensuring that all actors providing similar services operate under balanced data-access conditions is therefore essential. See also answer to Q30.

1.4. Cross-border activities in the EU banking sector

Reports[3] show that in the last decade cross-border banking activities in the Euro Area have not grown and banking sector consolidation has shown limited progress. This is also illustrated by statistics on, amongst others, the share of EU cross-border total assets, market concentration and mergers activity.

This section seeks feedback from stakeholders on the possible reasons behind the lack of progress on integrating the single banking market, which may differ by market segment.

(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			X			
Wholesale and investment banking			X			

[3] For example: ECB Financial Integration and Structure in the Euro Area, 2024, or speech by Mr. Andrea Enria, former Chair of the Supervisory Board of the ECB '*How can we make the most of an incomplete Banking Union*?', 2021.

Please explain.

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 reduces competitive pressure and 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. It also limits risk-sharing and the efficient allocation of capital and liquidity across Member States. While the current level of integration supports some diversification benefits and facilitates cross-border corporate financing, SMEs remain comparatively excluded from these advantages.

(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.

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

Please explain.

Tax divergences are an important non-prudential barrier. National tax regimes on financial products and banking operations (including VAT, corporate taxation, and personal income tax treatment of financial products) increase compliance costs and discourage integrated crossborder business models. Fiscal fragmentation also complicates groupwide planning. Greater fiscal alignment, especially on VAT treatment and on the tax qualification of standard retail products, would directly support cross-border banking integration.
More generally speaking, the application of requirements at local level and the fragmentation of the markets affects the actual economic return of cross-border activities.
Moreover, in merger scrutiny of banking transactions, the definition of the relevant market is often still national or sub-national, although the fast-paced market developments present a wider scenario, with a variety of competitors and a playing field going well beyond the domestic boundaries. This goes at the detriment of scale, where this latter can be pro-competitive, especially in global markets where European players face much larger international competitors.

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

Please explain.

(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

Large EU banks compete directly with large international banks, both globally and in the EU market. A level playing field among these global players is critical when it comes to the regulatory framework, to ensure appropriate competition, fair treatment and outcomes for customers and global financial stability.

This section seeks stakeholders' feedback on the state of the international level playing field in banking and the challenges faced by EU banks when competing globally.

(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?

From our perspective, the level playing field in the European banking market remains incomplete, especially in wholesale, capital-markets and investment-banking activities, where large non-EU financial institutions maintain a strong and often dominant presence.

In general, key factors include: a) different supervisory regimes for third-country branches vs. EU-supervised entities, b) international regulatory divergence (especially Basel III implementation timing), c) structural regulatory and compliance burdens that fall more heavily on EU banks, d) remaining fragmentation within the EU itself. Furthermore, a key factor amplifying the level-playing-field gap in the EU capital market is that it remains structurally smaller, more fragmented, and less competitive than other major international markets, most notably the United States. As a result, the EU's less developed and less integrated capital markets constrain the scale, profitability, and strategic evolution of European investment banks.

(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?

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

Please explain.

Prudential rules: divergences that significantly affect EU banks' ability to compete on equal footing with international competitors are present, among others, in the following frameworks: credit conversion

factors, software deduction from CET1, interest rate risk in the banking book, NPL treatment, prudent valuation, macroprudential requirements, MREL requirements (see also the response to question 52).

Supply-side factors: EU banks do face cost disadvantages related to smaller and more fragmented home capital markets, as well as to demographic and macroeconomic factors that constrain revenue growth. However, they have significantly increased investment in technology and innovation; the main constraint is less a lack of innovation and more the difficulty of scaling it across a non-fully integrated EU market.

As a key "other" factor, it should be stressed the fragmentation of the EU financial system and the incomplete Banking Union and Capital Markets Union. The absence of a fully integrated home market, including EDIS and more harmonised legal framework, prevents EU banks from reaching the scale and diversification that global competitors enjoy, and thus significantly hinders their ability to compete globally.

Another aspect that should be addressed is the lack of common definitions at EU level for important products offered by financial intermediaries, like leasing. To ensure better integration, market transparency and fair competition among intermediaries, EU regulation should provide precise and uniform definitions and/or the same rules should apply.

(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
	X				

Please explain.

European internal governance rules, characterised by an extremely rigorous and highly structured framework, are designed on the one hand to ensure financial stability and sound and prudent management. On the other hand, however, they impose very high compliance costs compared to other legal systems. In addition to the Level 1 legislation, Level 3 measures—such as the EBA Guidelines on Internal Governance (EBA/GL/2021/05, currently under review)—contain extremely detailed provisions concerning organizational structures, internal control functions and risk management policies. This approach is further enhanced by the upcoming revision of the Guidelines that burden institutions with additional constraints that are not envisaged by the CRD VI Directive. These provisions – that go beyond the requirements of the CRD VI - set unjustified limits on banks' autonomy in defining their own governance mechanism, increase the complexity of administrative and compliance burdens ("compliance costs") and reduce the profitability of European banks compared with their international competitors.

Also, the strict EU rules in the field of remuneration constrain banks' ability to compete for talents. In addition, the application of the remuneration requirements set out in the CRD on a consolidated basis also to subsidiaries established in a third country (with certain exceptions), significantly limits the ability of EU banking groups to expand outside the EU market, reducing their ability to attract and retain local staff and limiting their ability to compete with local entities.

(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?

(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?

Among the elements that affect the ability of EU banks to finance large-scale projects, an important one is the prudential treatment. Among other things, deletion of certain constraints would be needed, such as the eligibility condition based on the “Do Not Significant Harm” criterion that significantly restricts the application of the so called “infrastructure supporting factor”. While consideration of environmental goals can be retained, the eligibility condition in Article 501a CRR should not directly reference the Taxonomy regulation, as this creates unnecessary complexity and represent a condition that is hard to be fulfilled in practice.

The factors limiting EU banks are regulatory (stringent capital requirements, market fragmentation, low risk appetite) and structural (networks of physical branches, lower interest margins than in the past). To finance digital projects, EU banks must compete with foreign technology companies that have immense market capitalizations and no banking restrictions. This creates a competitive economic and regulatory gap where EU banks are forced—by prudential supervisory rules—to protect themselves to safeguard their stability (as well as regulatory compliance, which, incidentally, comes at a high cost) rather than promote innovation. For example, in this context, the FIDA proposal would constitute a requirement for banks to invest in infrastructure (APIs) without a real market need, which would then benefit large foreign technology companies. At a time when EU banks are called upon to finance the strategic needs of Europe - innovation, sustainability and defence - priorities matter, FiDA would divert much needed resources from financing these strategic needs and implementing the European roadmap for competitiveness.

1.1. Digitalisation

The widespread use of the online banking and the increase in banks' adoption of new technologies, such as artificial intelligence, the inroads in tokenisation and use of distributed ledger technologies, the emergence of central bank digital currencies and stablecoins, present challenges and opportunities for banks.

This section seeks stakeholders' feedback on the effects of digitalisation on the EU banking sector, as well as the opportunities and challenges it may bring for EU banks.

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

Digitalisation carries both opportunities and challenges. It is significantly reshaping business models, operating structures and activities of EU banks and has become a tool to enhance traditional and develop new services.

Digital elements are being incorporated in all processes of banking services through cloud computing, AI-driven analytics, ICT systems, and strategic partnerships with technology providers. This integration enables increased automation, enhanced personalisation of offerings and improved operational efficiency, while requiring growing investments.

Digitalisation is accelerating a shift from vertically integrated models toward digital-only and hybrid omnichannel models, primarily driven by the integration of third-party providers' solutions into existing banking systems. As a result, value creation is 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, frictionless payments, and greater flexibility in switching across service providers. These expectations are driving significant changes in front-office processes and service design.

Digitalisation is also improving SME financing and treasury services through instant payments, data-driven underwriting, and where appropriate programmable finance. New product categories and operating models are also being introduced, including 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 undergo a similar transformation, with increasing automation in payment processing, compliance, credit processes and reporting.

Digitalisation is reshaping the payment ecosystem and the future of payments, prompting banks to reassess their role therein and prepare for potential changes in deposit funding dynamics. This transformation requires major investment in common EU digital infrastructures which directly affect payments, settlement, identity and intermediation functions within the Single Market. 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.

Competition is increasingly unfolding within digital ecosystems, particularly in the context of Open Finance and platform-based models. While data is becoming a strategic asset shaping credit decisions, fraud detection, personalisation, and risk management, asymmetries in access to data and control over digital interface create structural advantages for large technology platforms.

While digitalisation is generating substantial efficiency gains this transformation comes with new risk profiles. This includes increased exposure to cyber, ICT, and fraud risks, third-party concentration risks, and complex dependencies on non-EU 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 is accompanied by a complex regulatory environment, and a vast array of horizontal (e.g., GDPR, Data Act, AI Act, DMA/DSA, eIDAS2, CSAII and CRA) and financial sector (e.g., DORA, PSD2/PSR) legislations. Divergent interpretations across Member States and potential inconsistencies/overlaps between these frameworks and their requirements generate legal uncertainty, operational complexity and related compliance costs, limiting bank's capacity to innovate.

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

Finally, the impact of digitalisation 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, high migration costs, higher 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 and may need consolidation or forms of cooperation (like consortia) to reach technological scale (though mergers themselves entail integration risks and additional IT 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. 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. However, it is important to emphasise that some operators, while not violating specific rules, offer clients the possibility to trade shares, bonds and sometimes even crypto-related assets without performing MiFID suitability or appropriateness assessments (so-called "execution-only" models). Clients may initially perceive this approach as positive - processes are quicker, less bureaucratic, cheaper, and they can buy almost anything with minimal checks. Yet this raises the question: is this the type of investment experience Europe intends to promote for new or basic retail investors? Due consideration should be given to the fact that when markets rise, these risks are invisible, but markets do not always perform well.

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 are critical, as trust can be rapidly undermined by outages, breaches or operational failures.

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, 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.

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 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.

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.

A recognizable legal framework – such as Savings and Investments Accounts (SIAs) - 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 unparallel benefits for investors.
A secure and reliable digital identification is another key ingredient for strengthening confidence. The upcoming EU Digital Identity Wallet (EUDIW), enabled by eIDAS 2.0, will provide harmonised, high-assurance identity verification across the EU. This will significantly reduce identity-fraud risks and enhance clients' sense of security when accessing digital financial services.

(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 digitalization of operations and services, and overall IT spending continues to rise. However, compared to global peers, investment levels are often still not fully commensurate with the scale of transformation required/desired relative to profitability and market capitalization.

A key limitation to invest in digitalisation stems from structural factors within the EU framework. These include the proliferation of legislative requirements, fragmented national implementation and interpretation of the EU legislation, and a complex supervisory architecture. 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.

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

For example, in the context of the digital euro, it is essential to ensure that its design is calibrated to minimise implementation and operational costs, and do not undermine European banks' innovation capacity. At the same time, it is crucial to prevent competitive distortions that could favour the entry or expansion of non-EU players.

Simplification, greater harmonisation, consistent supervisory approaches and reduced regulatory fragmentation and overlap would allow banks to deploy digital solutions more efficiently across borders, supporting productivity gains and economies of scale.

At the same time, the influx of regulatory requirements for the banking sector is also creating the basis for asymmetric competition vis-a-vis less-regulated competitors (such as BigTechs). These players can offer financial services under lighter capital, prudential, and IT (supervision) constraints. This limits banks' capacity to invest in more "offensive" forms of innovation aimed at redefining customer experience or developing new value propositions, compared with FinTech and BigTech players. Moreover, 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, thereby diluting the effective impact of banks' digital investments. These regulatory and supervision divergences also create risks related to customer protection, KYC/AML, European sovereignty and financial stability, if similar activities facing the same risks are not subject to comparable regulatory and supervisory requirements.

Additional challenges to achieve the desired levels of digitalization relate to the high "run-the-bank" costs linked to maintaining and modernising complex legacy IT systems. Many EU banks continue to rely on complex, ageing core systems that are costly to maintain and difficult to modernise. These structural expenditures limit agility and reduce the share of budgets available for large-scale modernisation initiatives. 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.

In addition, the prudential treatment of software investments remains a relevant factor influencing banks' digital investment capacity. Although software has become a strategic asset for banks, its prudential treatment acts as a constraint. In particular, the current framework triggers a prudential amortisation mechanism and a CET1 deduction of the positive difference between accounting and prudential amortisation, which increases the cost of software investment and reduces the capital available for lending and investment, thus creating a competitive disadvantage for IT investments in the EU vis-á-vis US peers.

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.

Overall, while EU banks continue to invest heavily in digitalisation, structural constraints regulatory fragmentation and asymmetric competition with e.g. large online platforms 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 (e.g. China), and infrastructural and basic operating costs are higher than elsewhere (e.g. the US). Without further modernisation investments and further progress in market integration and regulatory coherence, this 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.

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.

At the same time, the entry of new competitors creates strategic risks for traditional banks. Regulatory changes such as PSD3/PSR will broaden market access for non-bank providers, while technological advances and strong customer bases put FinTechs and platform companies in a favourable position to capture the direct client relationship.

Without decisive action, banks risk being pushed into a role closer to regulated infrastructure providers, with customer interaction increasingly mediated by front-end platforms. This prospect 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.

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.

For example, European banks are 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.

However, 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 (e.g., DMA, MiCAR), 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.

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 also 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 in a limited number of large digital platforms and critical infrastructures.

Overall, while the entry of new players in the provision of financial services supports innovation and efficiency in the Single Market, it also underscores the importance of ensuring a genuine level playing field, supported by effective consistency and 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: regulators should monitor and support technological developments and private sector-led innovation before imposing early, prescriptive regulation. Premature intervention may disrupt innovation and hinders Europe´s digital competitiveness. A case in point is the entry into force of the AI Act, which was subjected to modification one year later. Regulatory frameworks should allow experimentation while ensuring core safeguards are respected.

2. Support private-public partnerships (PPPs) and controlled experimentation: where projects display tangible innovation potential, authorities should foster PPPs. The DLT Pilot Regime, the Pontes Project, the experimentation and pilot on the digital euro are examples of how the PPPs can contribute to the establishment of innovative and sovereign infrastructures. Developing innovation sandboxes and pilot regimes enables private actors to test in a safe, monitored environment.

3. Technology-neutral, risk-based regulation: regulators should strike a proper balance between innovation, risk management and resilience, including the "same activity, same risks, same rules, same supervision" principle.
The framework should be adapted to the evolving risk landscape. Key risks are increasingly originating outside the traditional banking or payment layers, requiring coordinated and proportionate preventive obligations across the entire digital value chain, including online platforms and telecommunications operators.
Authorities should provide 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 regulated banks to participate safely and competitively within the regulated perimeter while supporting innovation. This shift also requires strengthening supervisory technological expertise.

4. Implement and align sectoral and horizontal laws: authorities should focus on aligning and simplifying existing legislative and supervisory requirements. Initiatives such as the Digital Omnibus and the Digital Fitness Check, aiming to reduce duplications and inconsistencies across legislations, are crucial. Continuing discussions on FiDA while the overarching European Strategy for Data is under review is not coherent with the objective of creating a unified EU data economy that ensures Europe's global competitiveness and data sovereignty. Instead, it would lead to more fragmentation and most likely to duplication of costs.
Another example is the AI Act, which represents a positive step from both an ethical and regulatory perspective, but it should be applied in a proportionate manner (e.g. with regard to the high-risk use case of creditworthiness assessment and credit scoring, it should apply only to those parts of the lending process that effectively impact individuals' fundamental rights). Moreover, it should be supported by precise definitions (e.g. "AI system", clearly excluding traditional statistical models such as linear and logistic regressions, in line with the considerations put forward by the ECB, which argues that generalized linear models are transparent, interpretable, and do not function as "black boxes," unlike more complex AI systems targeted by the AI Act), so that regulation acts as an enabler rather than adding further complexity in an already highly regulated sector. In this context, banks can also play an active role not only as users of technology, but also as sponsors and financiers of technological projects, including within public-private partnerships

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 strong customer authentication), proportionate technical requirements and sustainable

economic incentives for intermediaries. Specific measures include:

- Digital Markets Act (DMA): ensure full and effective enforcement of the DMA to remove technical and design frictions in mobile payments ecosystem and prevent de facto dominant positions.
- eIDAS 2.0: fast-track the deployment of the European Digital Identity as a common infrastructure for identification, signature and certification across the Single Market.
- MiCAR/PSD3 alignment: ensure integration and consistency of MiCAR requirements for stablecoins with PSD3 and 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.

2. The single market and the banking union

In response to the global financial crisis, the EU took decisive action to enhance the single market, including by creating the banking union and developing a single rulebook for banking. These initiatives were intended to support the objective of achieving a resilient, genuinely integrated banking market, where banks could operate across borders without barriers, achieve greater scale and interconnection, and more effectively channel financing across the EU.

The single rulebook and the banking union have delivered on the resilience objective, significantly contributing to the stability of the sector through enhanced prudential requirements, improved protection of depositors and better rules to manage failing banks. The current level of cross-border activities in the EU banking sector however shows that the objective of further integration and increased financing across the EU have not been sufficiently met. The lack of progress on structural features of the banking union, despite the successful setting up of the single supervisory mechanism (SSM) and the single resolution mechanism (SRM), is regularly identified as one of the main factors holding back banks' competitiveness and further integration of the single market.

This section seeks stakeholders' feedback on the drivers and barriers to market integration in the banking sector, and on the current design and potential outstanding features of the banking union.

2.1. The impact of prudential requirements on market integration

The allocation of funds in cross-border groups is subject to prudential requirements, which determine at which level of the group capital and liquidity should be prepositioned. These prudential requirements influence the structures and organisational models of banking groups, as well as the degree of market integration and consolidation in the banking sector.

As a rule, these requirements apply at individual level for group entities, but can be waived in specific circumstances within a Member State or, for liquidity requirements, also on a cross-border basis.

This section seeks stakeholders' feedback on the adequacy of prudential requirements on banking groups and their impact on market integration in the banking sector.

(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. Main examples in this regard are the conditions and discretions for the authorization of waivers for application of capital and liquidity requirements at individual level (which makes in practice such waivers rarely recognized), and the exemption from intragroup exposure regime, both preventing free circulation of capital and liquidity within a banking group. This fragmentation limits efficiency, forces subsidiaries to hold excess local buffers, and undermines the economic rationale for operating as an integrated cross

border group.

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 Banking Union, 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 Banking Union, the condition under point d), requiring that the counterparty is established in the same Member State 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 Member States 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
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					X	
Prudential requirements should only be applied at highest EU consolidated level of the banking group	X					
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		X				
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)).

Application at consolidated level is considered the most efficient solution, also considering that the BCBS standards are designed based on this approach.

In any case, if application at individual level were to be maintained, it is essential that more flexibility is ensured in centrally managing resources at group level.

(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?

2.2. Market consolidation

Recent analyses, including the Draghi report on EU competitiveness[4], underline that the EU banking sector remains structurally fragmented, with limited progress on cross-border consolidation. Despite the existence of a single rulebook for banking and passporting rights, banks' operations remain predominantly domestic, and cross-border mergers have been rare, while branch-based expansion across Member States has not developed at scale.

Some of these analyses argue that a greater degree of consolidation and the wider use of branch-based cross-border expansion could enable EU banks to achieve greater scale and allocate capital and liquidity more efficiently across the EU. Such developments could also facilitate the effective cross-border provision of banking and other financial services, potentially strengthen competition and improve the capacity of the EU banking sector to meet the financing needs of the EU economy. This section seeks stakeholders' feedback on the factors behind the lack of market consolidation in the EU banking sector and the potential remedies to increase the provision of cross-border banking services in the EU.

(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.

Yes. The EU economy does benefit from the presence of large, cross-border banks operating across the Single Market, provided that this occurs within a robust, proportionate and coherent prudential and resolution framework, and in coexistence with a diverse ecosystem of regional, cooperative, savings and specialised institutions.

In this context, greater cross-border integration of the banking sector is essential, as fragmentation continues to limit these benefits and may increase systemic vulnerabilities by keeping banking systems closely tied to domestic macroeconomic conditions.

Large cross-border banking groups can generate several benefits for the EU economy:

Enhanced private risk-sharing and financial stability: operating across multiple jurisdictions and business lines allows risks to be diversified geographically and sectorally. A more integrated system reduces exposure to national economic cycles and mitigates the impact of asymmetric shocks, strengthening the EU's overall financial resilience.

Improved funding and lending conditions: large balance sheets and access to deep global capital markets enable cross-border groups to provide more competitive conditions, offer a wider range of credit solutions, and pass on efficiency gains to households and firms. By facilitating cross-border lending, credit can be directed towards its most productive uses across the EU, enhancing capital allocation and supporting investment, innovation and productivity.

Support for strategic investment needs: major infrastructure projects, as well as green, digital and defence-related investments, often require structuring capacity, international reach and balance-sheet size. Large cross-border groups are better positioned to mobilise these resources and to complement EU policy instruments.

Efficiency gains and better services: reducing fragmentation would allow banks to achieve economies of scale, lower operational costs and deliver more innovative and affordable financial services. Households and SMEs would be the main beneficiaries, given their more limited access to international capital markets.

(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?

Scale is an important driver of competitiveness, particularly for supporting sustained investment in technology, data and cybersecurity, enhancing risk-management capabilities, and mobilising the balance-sheet capacity required for large-scale green, digital and infrastructure projects.
In this sense, cross-border market consolidation can be a useful channel to achieve scale, provided that it remains market-driven, subject to robust prudential safeguards, and compatible with effective competition, business-model diversity and broad access to finance for households and SMEs.

To facilitate EU banking groups wishing to operate cross-border, the EU would prioritise EU-level actions in the following areas:
1. Complete the Banking Union and remove the obstacles to free circulation of capital and liquidity within banking groups;
2. Advance the Capital Markets Union and further legal harmonisation;
3. Reduce unnecessary regulatory complexity, avoid overlaps and enhance proportionality.

Moreover, although the questions focus on market consolidation, without more consistent tax frameworks, economies of scale from consolidation cannot be fully realized, and cross-border mergers remain costlier compared to domestic ones.

2.3. Non-prudential barriers to market integration

EU banks face obstacles to leverage the benefits of operating in a single market, which are not directly related to the prudential requirements. These non-prudential barriers may be very diverse in nature (insolvency law, company law, labour law, consumer law, taxation) and often result from traditional and historical factors (language, culture and domestic preferences). These barriers may be hard to navigate for new entrants and require significant investments to overcome, which may disincentivise cross-border activities.

This section seeks stakeholders' feedback on the impact of non-prudential requirements on banking groups and on market integration in the EU.

[4] The Draghi report on EU competitiveness (2024)

(37) What are the main non-prudential barriers that impede cross-border activities?

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
Divergent national tax treatment attached to certain banking products (mortgages, savings accounts, deposits) or banking operations (Value Added Tax, corporate and personal income taxation)	X					
More generally, lack of unified banking product offering across EU or sub-regions, forcing product adaptation to each national market						
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.						
Preference by local customers of local bank brands						
Divergent insolvency laws and collateral foreclosure rules						
Consumer protection laws and client specific documentation						
Divergent (non-prudential) reporting requirements						
Language barriers						
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.

Differences in national tax treatment of mortgages, deposits, savings products and other banking services represent a major cross-border barrier. They also force banks to redesign or reprice identical products for each jurisdiction, increasing operational costs and limiting scalability. Reducing or harmonising these fiscal discrepancies, especially regarding VAT regimes, stamp duties, and deductions on mortgage interest, would significantly strengthen market integration.

The rules on the validity of contractual bans on the assignment of trade receivables vary significantly among EU Countries, representing a major source of market fragmentation and a barrier to cross-border activities based on purchases of receivables. Bans on assignment affect, in particular, SMEs, reducing their capacity to sell their receivables and access working capital finance, in particular in cross-border transactions.

2.4. Protection of depositors

Finding a way forward on a new approach to establish a common deposit insurance system in the banking union would improve the resilience of the banking sector to asymmetric shocks and help address certain concerns by host Member States regarding further market integration of banking services across the EU.

Since the 2015 Commission proposal on a European deposit insurance scheme, there have been significant developments in the EU banking sector: the implementation of the regulatory framework has led to a much more resilient banking sector – as illustrated by improved capital and liquidity positions, reduced amount of non-performing loans (NPLs), improved asset and funding portfolios, as well as strong minimum requirement for own funds and eligible liabilities (MREL) buffers and improved overall resolvability. The SSM and the SRM are fully functioning and the single resolution fund (SRF) and national deposit guarantee schemes (DGSs)v have reached their target levels. Furthermore, following the establishment and operationalisation of the resolution framework, covered deposits are protected not only via DGS payout but also by ensuring uninterrupted access in resolution. These structural improvements could lead to a fundamental rethinking of the necessary design features of the deposit insurance system in Europe.

This section seeks stakeholders' feedback on the perceived effectiveness and credibility of protection of deposits in the EU and the potential improvements to deposit insurance in the banking union as supporting factors of further market integration.

(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
X					

Please explain.

The current depositor protection in the EU is based on available national Deposit Guarantee Scheme (DGS) funds, which have relative fire-power - and depend on national fiscal capacity. Therefore, in the case of significant crises, the Banking Union could face potential vulnerabilities to guarantee sufficient pay-off functions. Even for institutions that are expected to be managed through resolution rather than liquidation and where the DGS plays only an indirect role, the robustness of DGSs remains relevant for the overall credibility of the CMDI framework and market stability.

At the end of 2024, the EBA reported that total covered deposits in the EU reached €8.6 trillion, while national DGSs held only €79 billion in available financial means - less than 1% of insured deposits after a decade of buildup. National DGS could unlikely absorb a "large local shock" , created by the failure of a bank which is large relatively to its domestic system but medium-sized when considered at EU level. Because borrowing between national schemes remains voluntary, a depleted DGS must typically rely on government backstops. Yet lower-income or highly-indebted Member States often lack the fiscal capacity to provide credible support, creating asymmetric market perceptions and deepening fragmentation within the Banking Union. DGSs, depending on sovereign support or voluntary extra contributions from their domestic banking sector, risk perpetuating the sovereign–bank loop, which can be especially acute in countries with limited fiscal space. As a result, even after improvements under the DGSD, and the buildup of MREL and SRF, systemic risks remain largely nationalised, contradicting the core objectives of the Banking Union.

These structural characteristics highlight the need for a European Deposit Insurance Scheme (EDIS). A fully mutualised EDIS would pool resources at the European level, ensuring that depositor protection no longer depends on the fiscal strength of individual Member States. It would offer uniform, credible coverage across the Banking Union, break the sovereign–bank loop by replacing national backstops with a common fund, increase market confidence, reduce fragmentation, and enhance the resilience of cross-border banking.

In a first phase, a transitional regime "EDIS light" – in which the common scheme provides liquidity to institution when DGSs are about to run out - could be an achievable solution which would increase the DGS capacity to bridge the gap to access the SRF and to prevent or help crises (as provided by CMDI reform). Being the DGS industry funded, its more incisive role would turn into less taxpayer money to be

called to deal with bank crises.

(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?

Large banks covered by the SRM, whose failure would be managed through resolution rather than liquidation, contribute to national DGSs, which primarily intervene to finance payouts when smaller institutions fail. These contributions are in addition to those made to the SRF, given its specific mandate. In principle, a more integrated approach could simplify the current framework, yet expanding the functions of national DGSs should follow a full harmonized approach to avoid increasing fragmentation, widening differences in funding capacity across Member States, and inadvertently reinforcing the bank–sovereign link. Any meaningful simplification of the system, particularly any integration of depositor protection with resolution funding, would only be feasible once European Deposit Insurance Scheme (EDIS) is in place. Without EDIS, attempts to consolidate these functions would remain nationally fragmented and structurally uneven.

(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
…all banks	X					
…all banks which are active cross-border		X				
…all banks under direct SSM/SRB remit	X					
…only banks that wish to be included				X		
…other						

Please explain.

First, it should be stressed the importance of putting in place any best effort to complete the Banking Union through the build-up of a European Deposit insurance system, as pragmatically declined above (first EDIS light, then fully fledged EDIS).

Anyhow, if the question refers to a hypothetical banking deposit insurance system aimed at protecting cross border banking groups' depositors (likewise suggested in the Draghi Report back in 2024), it should be highlighted the need to carry out any evaluation of this kind on the base of a comprehensive legislative proposal from the Commission to be analyzed in every single aspect. It is essential to subject such initiative to thorough consultation processes in the full respect of better regulation principles, following a careful impact assessment analysis that duly considers unintended consequences like – for instance – fragmentation of the banking sector, disparity of treatment among depositors, incentives to market consolidation through political choices rather than through market forces, impact on national DGS financial means and available interventions, unsustainable duplication of contributions among

participating banks, etc

(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
… be used to provide only liquidity support to national DGS						X
…replace national DGSs						X
…replace national DGSs for deposits in a subset of banks as identified in the previous question						X
…other						

Please explain.

Without prejudice to the need to avoid duplication of contributions among participating banks, see the arguments illustrated under questions 38, 39 and 40 with reference to EDIS and any other hypothetical solutions.

2.5. Liquidity in resolution

Ensuring a credible and robust mechanism to provide liquidity in resolution is key to strengthen the resilience of the crisis management framework, and promote a stable, less uncertain environment supporting EU's banks in becoming more competitive in the EU and internationally. A credible liquidity in resolution framework would be a very important form of financial stability backstop encouraging market confidence in EU's cross-border banks and the increasing role they could have in financing the economy, including its critical sectors for strategic autonomy.

This section seeks stakeholders' views on an EU mechanism for the provision of liquidity in resolution to banks in distressed scenarios and its potential design features.

(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.

Yes.
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 liquidity backstop. Actually, the ECB steps in when an unexpected crisis hits the economy providing liquidity to the system, 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 Single Resolution Fund, with ECB backstop via Emergency Liquidity Lines, 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 objectives not yet achieved for a fully integrated European banking system: it would tackle the resistance of host countries to the unfettered movement of capital and liquidity across national borders, it would justify a true simplification of the

MREL framework that could be replaced by an equally sound and simpler TLOF requirement and it could finally pave the way for a European DGS.

Liquidity in resolution remains the main unresolved gap in the EU crisis management and deposit insurance framework. Even with robust MREL buffers, banks in resolution may face acute liquidity pressures unrelated to solvency, and currently the EU lacks a credible, deployable and sufficiently large liquidity backstop.
A more transparent and predictable EU level mechanism would strengthen the framework by:

• Ensuring continuity of critical functions (payments, settlements, collateral needs) during stabilization, thereby supporting market confidence for viable banks.
• Reducing systemic risk, particularly relevant for cross border banking groups, and enhancing the international competitiveness of EU banks.
At present, existing EU instruments — the Single Resolution Fund (SRF) at c. €81+ bn as of December 2025 and the limited, not yet fully operational common backstop from the ESM — are inadequate. Actual liquidity needs observed in recent bank crises have been multiple times larger than the volumes currently available under EU arrangements, even when institutions were fundamentally viable. Other major jurisdictions already operate centralized, sizeable and flexible liquidity in resolution mechanisms. For example:
• United States: Under Title II of the Dodd Frank Act, the FDIC can access the Orderly Liquidation Fund (OLF), financed via U.S. Treasury borrowing authority, enabling very large (potentially hundreds of billions of dollars) in temporary liquidity to a failing systemic institution, with ex post industry assessments to repay Treasury.
• Switzerland (Credit Suisse, March 2023): Authorities made available up to CHF 200 bn in liquidity support (two tranches of up to CHF 100 bn each, including a Public Liquidity Backstop guaranteed by the Confederation). Only part of this capacity was drawn during the acute phase, and the extraordinary guarantees were subsequently repaid/terminated once stability was restored.
This disparity creates a competitive disadvantage for EU banks and contributes to market fragmentation and uncertainty.
For these reasons, establishing a predictable, centralized and scalable EU liquidity in resolution mechanism is essential. Such a mechanism should enable swift and consistent provision of temporary liquidity without relying on national solutions or sovereign fiscal capacity. Because the support would be temporary and fully repayable, it would not constitute a return to bailouts; rather, it would provide the financial stability backstop necessary for genuine resolvability, stronger market confidence and a true level playing field across the EU

(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 effectively 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. Such mechanism should also support the integration of banking markets since host authorities should be much less reluctant to grant cross-border liquidity waivers. Such mechanism should logically be granted by the ECB, it should be available to support institutions in resolution as well as their BU/EU subsidiary institutions and to support liquidity needs of DGSs.

Yes. Introducing a formal, transparent and predictable EU-level mechanism for providing liquidity in resolution would significantly enhance confidence in the stability and effectiveness of the crisis management framework and would meaningfully support the integration of EU banking markets. From a banking industry perspective, such a mechanism would reduce uncertainty around the availability and timing of liquidity support — the most critical element during a resolution — and would therefore help prevent destabilising behaviours such as pre-emptive ring-fencing, fragmentation of internal capital and liquidity, or abrupt withdrawals by market counterparties.

Desirable features of such a mechanism (from a bank perspective)

1. Fully EU-level governance

Activation and management should be centralised (SRB, ECB/Eurosystem, Commission), ensuring fast decision-making and avoiding heterogeneous national approaches.

Access rules and decision criteria should be transparent, published, and consistent across all Member States.

2. Sufficient capacity aligned with real liquidity needs

The mechanism must be scalable to match the actual liquidity outflows observed in recent crisis cases, which have been substantially larger than the capacity of the current EU tools.

It should cover large cross-border groups, including G-SIIs, which may require sizeable temporary liquidity during stabilisation.

3. Clearly defined, ex-ante eligibility criteria

Access conditioned on:

a positive post-resolution viability assessment,

availability of adequate collateral (including via appropriate haircuts or temporary public guarantees where necessary),

alignment with the bank's resolution plan and resolvability testing.

4. Temporary, collateralised and fully repayable support

Liquidity, not capital: provided strictly as a temporary bridge.

Super-senior priority and full collateralisation preserve the "no taxpayer bail-out" principle while still ensuring credibility.

5. Integrated with existing crisis management tools

Operational interoperability with the SRF, the ESM backstop, and Eurosystem liquidity frameworks.

Alignment with supervisory and resolution reporting requirements to ensure timely data availability.

6. Support for true cross-border market integration

Uniform accessibility across Member States reduces incentives for ring-fencing and strengthens the functioning of EU-wide banking groups.

Greater predictability enhances the confidence of investors, depositors and counterparties in EU institutions.

2.6. Sovereign exposures and risk reduction

One of the objectives of the post financial crisis reforms, and namely of the banking union, has been to address the bank-sovereign nexus. This is often defined as the 'doom-loop' where bank failures can trigger sovereign debt crises, and vice versa. One of the avenues to tackle the issue is to reduce the so called 'home-

bias', whereby banks are exclusively or very highly exposed to their 'home' sovereign. In recent years, discussions on the regulatory treatment of sovereign exposures in relation to the banking union were held together with other elements of relevance for the completion of the banking union, such as the crisis management and deposit insurance framework, a European system for deposit insurance and cross-border financial integration. Sovereign debt continues to be treated favourably, consistent with international standards and no regulatory measures have been introduced to reduce the home-bias.

This section seeks stakeholders' feedback on the regulatory treatment of sovereign bank exposures and potential drivers behind the 'home-bias'.

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

Please explain.

The "home bias" in sovereign exposures is driven primarily by structural and market-based factors, rather than by political pressure or implicit expectations of public support.
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 Banking and Capital Markets Union 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.

Second, business model alignment with domestic economic activity is relevant. Banks that primarily finance households and firms in their home country naturally hold assets denominated in the same jurisdiction and currency, limiting currency and basis risk. 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.

Third, sovereign bonds play a central role in banks' liquidity buffers, collateral management and monetary policy operations. Home sovereign debt is typically highly liquid, operationally efficient and well integrated into domestic repo and payment infrastructures. 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 Banking Union, the completion of Capital Markets Union 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?

In light of the reasons explained in the response to Q44, no reason is deemed to support in general a change in the regulatory treatment of sovereign exposures, that, among other things, would heavily affect the market for government bonds (and all interlinked markets), therefore fostering instability rather than promoting financial stability.

Sovereign spreads in the eurozone have been converging to the narrowest levels since the Great Financial Crisis, reflecting improved macro/fiscal fundamentals in countries previously deemed as vulnerable. In this environment, the risk of a doom loop between sovereigns and banks is low and this weakens the case for a revision of the regulatory framework for sovereign exposure.

An amendment would be necessary and appropriate to make the framework entirely consistent, which is the exclusion of sovereign exposures from the default risk charge under the Internal Model Approach (IMA) for market risk in the new Fundamental Review of the Trading Book (FRTB) regime, consistently with the treatment already envisaged under the Standardised Approach.

(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.

Yes, the preferential treatment should be extended to sovereign exposures issued by non-Euro Area Member States and denominated in Euro. A uniform treatment would help ensure consistent prudential conditions across the EU. Many Member States outside the euro area issue a significant share of their debt in euro, and banks across the Union hold sizeable sovereign debt portfolios with similar risk characteristics regardless of whether the issuing country has adopted the single currency. Extending the preferential treatment would therefore avoid creating differing regulatory conditions that arise solely from the status of euro adoption rather than from the nature of the exposures themselves. It would also support more balanced and diversified sovereign debt holdings, enhance liquidity in euro-denominated markets and contribute to greater stability and predictability in banks' capital and liquidity management.

3. Complexity and effectiveness of the regulatory framework

The regulatory framework is complex for many reasons. Banks require strict regulation and careful supervision, because they are the backbone of financing for the EU economy and inherently vulnerable to runs on their primary funding source which may create financial instability. The need to ensure financial

stability justifies public safety nets, but in turn also creates moral hazard that needs to be limited by regulation.

Complexity can also arise because banking regulation reflects a multitude of considerations: risk sensitivity, robustness, cost efficiency, comparability, inconsistencies and overlaps when setting up standards, as well as the diverse nature of banks operating in the EU (cooperatives, universal banks, etc..

From a process perspective, complexity also arises from the multitude of legislative layers, as well as from the guidelines and implementation expectations issued by supervisory authorities. Further complexity results from the involvement of multiple authorities responsible for different elements of the framework (including prudential, macroprudential, crisis management, and other areas). While guidance—often requested by regulated entities—should support and promote clarity, consistency, and a level playing field in the implementation of the framework, an excessive level of detail and prescriptiveness may itself add complexity.

In addition, complexity is also introduced through the political negotiation process. On top of adopting internationally agreed standards, numerous EU-specificities (e.g. exemptions, derogations) in the single rulebook to cater for specific situations in Member States have been introduced to achieve a consensus among the EU co-legislators.

This section seeks stakeholders' views regarding the level of complexity in the EU banking regulatory and supervisory framework and its effectiveness.

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
… effectiveness (the extent to which the framework achieved its objectives)				X		
… proportionality (the extent to which the objectives of the framework are achieved at minimal cost)	X					
…EU added value (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone)				X		
…relevance (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone)				X		
…coherence (extent to which a policy/intervention is internally consistent and externally consistent with other EU policies)		X				

(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
The overall framework					X	
The minimum capital requirements (Pillar 1)					X	
The supervisory measures (Pillar 2)				X		
The macroprudential requirements					X	
The resolution requirements			X			
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 cross nature of the main reasons behind complexity, such as: the overlap of many layers of regulation (also including non-binding texts such as 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 the Authorities, also due to the absence – especially for certain cases, e.g. the SyRB - of clear mechanism and guidance about the circumstances under which they can be activated and their calibration, and of clear distinction between the risk addressed by each buffer (with consequent overlaps). Also, the absence of clear rules about the conditions and timing under which buffers may be released and reinstated contribute to make the framework complex and unpredictable.

Supervisory measures (Pillar 2) are not deemed highly complex. The main issue instead lies in the lack of transparency regarding the rationale behind their application, which may also lead to an overlap of measures addressing the same risk.

As to resolution requirements, while it is recognised that a certain degree of complexity is inherent and often necessary to achieve the intended regulatory objectives, certain areas of the framework still appear burdensome and proportionality and clarity remain essential for ensuring consistent implementation across a diverse banking sector. Contributing factors include: procedural layers (e.g., prior-permission), frequent guidance updates, repetitions across multiple documents, scenarios with limited practical applicability and significant implementation costs compared to the potential usage.

As to Pillar 1, while cases of undue complexity significantly affecting banks are identified in the response to Q59, it might also be worth mentioning cases like FRTB internal models, made unduly complex and often unviable by the combination of rigid modelling criteria, punitive treatment of non-modellable risk factors and overly conservative calibration parameters, leading many banks to abandon them.

More generally speaking, complexity not only stems from regulation but also from supervisory practices (e.g. the overall process relating to approval and supervision of the accuracy of internal models).

(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
International standards (Basel, FSB)			X			
Level 1 EU legislation (i.e. regulations/directives)			X			
Level 2 EU legislation (i.e. technical standards)					X	
Level 3 EU measures (i.e. EBA guidelines, Q&As, etc.)					X	
Supervisory guidance/practices				X		
Implementation differences of EU legislation at national level				X		
Interaction with other national legislation			X			
Interaction with other EU legislation				X		
Other Timing				X		

Please explain.

As to complexity stemming from regulations, one aspect that is extremely relevant is the fact that the assessment of the impacts is often not realistic. For L1 legislation, the impact assessment is carried out only once, ex ante at the time of the proposal. This means that changes introduced during the legislative process – often resulting in difficult compromises enhancing complexity - are not taken into account in the impact assessment on which the political decision is based. Neither is there an ex-post assessment including specifications and additional elements – not required by Level 1 regulations - introduced at L2/L3 and via supervisory practices.

Also, the huge number of mandates for implementing measures, together with regulatory products not following to a mandate, contributes to increasing the overall complexity of the framework.

In turn, L2/L3 measures are often not accompanied by an appropriate impact assessment, while other acts – like guides and Q&As – are not assessed at all (also because in principle they are supposed not to create new obligations, which is not always the case).

Another aspect that is worth noting regards complexity arising from uncertainty in supervisory guidance/practices as to what is expected, and which consequences derive from divergence. Reference is made to the fact that relevant information (incl. ECB expectations) are often shared via unstructured channels (e.g., ECB Newsletter, speeches, press releases, blog posts) and there is no taxonomy clarifying the effects associated to the different definitions (i.e., assessment criteria vs. expectations vs. best practices vs. good practices vs. sound practices, etc.). These kinds of documents, like “sound practices”, are often attributed a standing equal to expectations (e.g., see ECB Sound practices for intraday liquidity risk management published in November 2024 via newsletter, where it is read “The sound practices identified will be used for future follow-up with banks”) but, noteworthy, they are not placed under consultation.

More generally speaking, it is often not clarified if and how the examples of good practices are considered binding or whether these will serve as a benchmark in future exercises. Experience reported by banks is that in practice good/best practices cannot be disregarded, as the failure to observe such guidance may lead to the application of supervisory measures.

In addition, and with reference to the resolution framework, starting from 2024, several pieces of

Resolution-related Guidance have been amended, with non-negligible impacts on banks that are not always adequately taken into account by the Authority when planning resolution activities (including tests). At times, it is not easy to understand the rationale behind the modifications proposed by the Authority, as they often stem from the application of "best practices" identified during Supervisory activities, but these are not always applicable across the entire banking sector. On a separate note, complexity also stems from the resolution self-assessment, where the levels that a bank can attribute to itself contain non-official expectations which have not yet been communicated by the SRB formally.

Also, consistency among different measures and levels of regulation is not always ensured (e.g. while the EU policies are approaching the topic reducing or delaying SMEs and Corporates' sustainability reporting, the EBA and ECB expectations on climate risks are not adapted accordingly).

Experience has shown that, in addition to the idiosyncratic aspects of the single measures, recurring issues related to the adoption process or regulatory design often contribute significantly to the complexity and implementation burden for banks. In this regard, a very relevant aspect is timing. New regulations are often required to be applied in a timeframe that is not sufficient for orderly implementation and sometimes - notably for the CRR III/CRD VI banking package - application has been required in the absence of envisaged implementing acts (and sometimes even in the absence of the conditions for implementation, as in the case of the exclusion of ECAI ratings that incorporate assumptions of implicit government support). The fast speed of the regulatory workstreams, the intertwining of a plurality of levels of legislation and the tight deadlines generate timetable difficulties (that become particularly acute when a regulatory proposal is put forward at lower level of regulations or in supervisory activity), as well as operational complexities stemming from the trade-off between the need for timely and accurate application and interpretation of the primary rules, and the necessity to await the issuance of more detailed provisions in order to ensure full compliance.

(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
…less risk sensitivity within risk-weighted requirements						X
…increase in capital requirements					X	
…less consideration for EU specificities						X
…less consideration for national specificities						X
…higher contributions to safety nets (DGS and resolution funds)						X
…less resilience/ financial stability					X	

Please explain.

The proposed options are not deemed reasonable consequences of simplification, as the latter is not intended to be done at the expenses of financial stability, and reduction in complexity does not mean deleting rules that find concrete justification in addressing risks in a proportionate way. Simplification is therefore not associated to lower resilience of the banking sector and should not imply increased conservativism in the other parts of the framework. The proposed simplifications are obtained by means of streamlining and clarifying rules, removing goldplating over Basel rules (which is assumed that can be deemed sufficient to ensure financial stability), harmonizing rules at EU level and removing obstacles to cross-border activity, which do not per se imply lower conservativism of the framework. On the other

hand, simplification should not hamper the consistency of the regulatory framework with national specificities where the latter are justified.

There is no inherent trade-off between simplicity and risk sensitivity as implied in the question. Increasing complexity may not ensure higher risk sensitivity, particularly in a context where such requirements are applied across different jurisdictions. The issuance of highly complex rules tends to make it difficult to ensure full compliance with regulatory and supervisory expectations.

In any event, the level of regulatory complexity should not be used as a driver to unduly increase capital requirements.

(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?

Generally speaking, regulations should be preferred as they are directly applicable without divergences at national level, thus avoiding fragmentation and complexity (to the extent that the regulation is sufficiently clear and does not leave too much room for implementing regulations and supervisory discretion). Anyway, in situations where there are genuine national specificities, directives might be necessary. What should be avoided is the use of directives to allow for divergent implementations (and consequent complexity) that are not justified or are intended to create barriers to the free flow of capital and liquidity across the EU.

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.

Rather than via national transposition of EU directives, examples of goldplating can be found in EU implementation compared to BCBS standards and in implementing regulations (Level 2, level 3 and non-binding texts) towards the EU Level 1. Examples of goldplating elements, compared to the Basel standards, are present in the following frameworks:

- credit conversion factors (capital charge for proposals not yet accepted by the clients, stricter eligibility conditions for unconditionally cancellable commitments, zero floor for the estimation of CCF via internal models)
- NPL backstop (Pillar 1 and supervisory expectations)
- EBA Guidelines on PD/LGD estimation (5% add-on to the discount factor for LGD estimation)
- interest rate risk in the banking book (supervisory outlier test under the net interest income perspective – so called NII SOT) and credit spread risk in the banking book (broader scope, including items accounted for at historical cost)
- EBA RTS on prudent valuation.

Another area concerns the calibration of macroprudential buffers. Although these tools share an EU policy foundation, National authorities in Member States frequently set buffer levels that diverge widely from each other, including cases of OSII and Systemic Risk Buffer requirements well above the ECB floor. These national decisions introduce additional capital surcharges that go beyond harmonised standards and result in different capital conditions for banks with similar systemic profiles.

A further example relates to the broad and heterogeneous application of the Systemic Risk Buffer, where National Authorities in some Member States impose general or sector wide surcharges that overlap with other prudential tools. This extends the capital framework beyond internationally consistent practices and creates additional national layers of requirements.

More generally speaking, a simplification and rationalization of capital buffers' structure is deemed necessary (see also the response to Q69 and subsequent).

The discretionary application of the intra-group large exposure framework constitutes an additional layer of fragmentation that hampers capital mobility and undermines the competitiveness of the Banking Union. Under the CRR, national competent authorities may fully or partially exempt intragroup exposures from large exposure limits or apply reduced risk weights to such exposures. Nevertheless, some Member States impose stringent limits on intragroup exposures within cross-border banking groups. Some countries set a given percentage on Tier 1 Capital or RWA, while others allow supervisors to evaluate exposure on a case-by-case basis.

As said, there are also instances where Level 2 regulation appears penalizing compared to Level 1 requirements, among which:

- operational risk, (e.g. calculation of the business indicator)
- remuneration policies (requirements about independence of the remuneration committee members for G-SIIs and O-SIIs).
- governance (draft EBA Guideline on Internal Governance and draft EBA Guideline on the Assessment of the Suitability of the Members of Management Body and Key Function Holders that contain additional constraints for the institutions that are not envisaged by the CRD VI Directive as a cooling-off expectation applicable to former executive directors – independence of mind – and very specific requirements on the mapping of duties, individual statements, reporting lines, and organisational structures).

An example of action exceeding regulation can also be found in the publication of EBA 2025 stress test results, based on "fully loaded" CRR III rules which will however only be applicable in 2033.

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

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

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
effectiveness (the extent to which authorities identify weaknesses and address them)	Supervisory authority						
	Macroprudential authority						
	Resolution authority						
risk-based (the extent to which authorities focus on the most material risks in a proportional way)	Supervisory authority						
	Macroprudential authority						
	Resolution authority						
efficiency (extent to which authorities are reacting	Supervisory authority						

timely and are outcome focused)	Macroprudential authority						
	Resolution authority						
Other							

Please explain.

(56) How would you rate the degree of accountability of various authorities responsible for banks?

	Low	Somewhat low	Adequate	Somewhat high	High	No opinion
Supervisory authority		X				
Macroprudential authority		X				
Resolution authority		X				

Please explain.

In addition to the absence of effective and rapid mechanisms to question from banks' side the supervisory and macroprudential measures applied, it should also be highlighted that the limited degree of ex ante guidance and of transparency about the criteria applied, and about the calibration, makes it often complex an effective challenge of measures.

Lacking full transparency regarding what leads to a supervisory decision, accountability is not feasible in practice.

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.

Based on the responses received from some Italian banks, in general intellectual property (IP) rights (patents, trademarks, designs) are not used either as stand-alone collateral or as collateral in addition to tangible 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
Regulatory capital treatment	x					
Valuation uncertainty	x					
Legal enforceability concerns	x					
Internal risk policies		x				
Lack of risk-mitigation instruments		x				

Other (please specify)						

Please explain:

In general, banks perceive IP-backed lending as constrained by a combination of prudential, valuation, legal and risk-management challenges, rather than by a single limiting factor.
In particular, under existing supervisory prudential framework, IP rights generally do not benefit from favourable mitigant regulatory capital treatment comparable to other traditional forms of collateral (e.g. mortgages, secured/unsecured guarantees etc.).
In addition, valuation remains another critical topic. IP assets are often highly specific, illiquid and dependent on future income streams which are uncertain and difficult to assess.
In summary, the issue is systemic and framework-related, rather than operational or institution-specific.

(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
Public guarantees covering part of IP-backed loans		X				
IP collateral protection insurance supported by public schemes		X				
EU-level standardised IP valuation methodologies						X
Securitisation frameworks for IP-backed loan portfolios						X
No measure would materially change our current approach						X

Please explain:

The recognition of IPs as credit risk mitigation instruments in the CRR is an important factor to promote their use as collateral. Therefore, government public guarantees could have positive impacts on increasing the loans against intellectual property assets.

3.2. Prudential framework

Banks must comply with capital requirements set out in the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). EU rules mostly derive from the Basel framework, which sets out minimum capital requirements for banks. These capital requirements are designed to ensure that banks are funded by sufficient capital to cover unexpected losses arising from these risks. EU law requires banks to always comply with several minimum Pillar 1 (CET1, Tier 1, total) capital ratios, set out as a percentage of the banks' total risk exposure amount. In addition, supervisory authorities may impose institution-specific Pillar 2 capital requirements and, where appropriate, Pillar 2 guidance, reflecting risks not adequately covered under Pillar 1, on the basis of the supervisory review and evaluation process. Apart from capital requirements, a bank must also meet leverage ratio requirements, liquidity requirements and large exposure requirements. The prudential framework is risk-based and risk sensitivity inevitably entails granularity and some complexity.

This section seeks stakeholders' feedback on the undue sources of complexity in the prudential framework and on potential measures to address them, while maintaining the resilience of the EU banking sector and the stability of the financial sector at large.

(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?

About CRR, the banking industry raised concerns about potential market disruption, unlevel playing field, lack of transparency, operational burden and constrained mortgage lending arising from the introduction of the "Property Value" (art. 229 CRR), replacing the market value and mortgage lending value. While it is clear that the principle of "prudent" valuation - which is already incorporated into the definition of market value and mortgage lending value - remains valid, it is also evident that it is impossible to assess the value of the property for the entire duration of the loan (which can even last more than 20 years). Furthermore, the definition of This context underlines the need to reassess the introduction of the Property Value in Article 229 CRR as a new valuation concept in place of the long-standing, well-established and transparent concepts of market value and mortgage lending value. The property value has not been adopted in jurisdictions such as the USA, UK and Switzerland, largely as a result of the concerns highlighted above.

Another topic to highlight is the definition of trade finance in CRR. The CRR definition of trade finance, when taken in conjunction with the newly amended CRR III Annex 1, dividing different types of off-balance sheet items into categories with various credit conversion factors (CCFs), leaves too rooms for interpretation.

Furthermore, the definition used in Art. 4 paragraph 1 CRR, point 80, which describes trade finance as having "short-term maturity, generally of less than one year" could be overinterpreted into transactions above 1 year (including technical guarantees) not being considered as trade finance instruments, thus making them ineligible for the 20% CCF (CRR III Annex 1, bucket 4). It should have an important impact on the export credit/trade financing which risks having a further impact on a sector already subject to negative effects deriving from the current geopolitical context. In order to solve this problem, it is suggested to replace "of fixed short-term maturity, generally of less than one year, without automatic rollover" with "irrespective of their maturity".

Another example of undue complexity is the obligation for the bank to conduct "due diligence" on external ratings. The latter seems redundant, given that prudential regulations only allow the use of ratings assigned by recognized ECAIs (External Credit Assessment Institutions) operating within a specific regulatory framework. The elimination of such obligation would represent a simplification that would not correspond to lower conservativeness of the prudential framework.

As regards internal models, it can be observed that the processes for approval and supervision are extremely long and operationally demanding for a bank. Streamlining the processes and ensuring higher continuity with the past decisions would be important. Moreover, the requirements that the models must satisfy are extremely detailed and technical, which in some cases could be simplified, increasing the focus on the overall ability of the models to correctly assess the risk.
With specific regard to internal models for market risk, it is necessary to address the complexity stemming from Level 1 and EBA RTS to ensure that the Internal Models Approach (IMA) remains viable.
An essential simplification is necessary with regard to the treatment of software. In the current increasingly digital landscape, strategic investment in software solutions has become critical for maintaining competitiveness, strengthening cybersecurity, and ensuring operational efficiency. To enable European banks to accelerate innovation, enhance customer service capabilities, and achieve greater efficiencies, investments into software should not be subject to capital deduction beyond what is reflected in standard financial accounting amortization or write-downs.
This adjustment 1) would establish a necessary level playing field (notably, with US) and 2) would harmonize the competitive landscape with FinTech entities, which operate outside traditional banking supervision and are not burdened by comparable capital deduction requirements for their software investments.

As regards the macroprudential framework, see also what said in the response to Q48.

Risk sensitivity

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

this disequilibrium be addressed?

No, unnecessary complexity can be found (see Q59) and, on the other hand, while the framework is highly risk sensitive in principle, in practice this sensitivity has been achieved through layering multiple parallel requirements, national discretions, and overlapping supervisory and macro prudential tools. The result is a complex system that might generate inconsistent outcomes.
Elements introduced in CRR III reduce the usefulness of the risk sensitive design, like the changes introduced in the field of internal models, in terms of constraints (the IRB input floor, but also the overly conservative FRTB internal models framework) and above all with the introduction of the output floor. Regulatory floors override the model outcomes, forcing banks to adopt higher RWAs and especially inflating low risk portfolios. This diminishes the value of granular risk modelling because refinements do not translate into a corresponding capital relief.

As to operational risk, having internal models been deleted, the new standardised approach determines increase of capital requirements even for banks with low operational-risk profiles (as the formula is largely size-driven and does not allow banks to reflect improved controls or to adequately consider the role of insurance and low loss histories, thus making the operational risk framework significantly less risk-sensitive). The CRR III mandate about the recognition of insurance policies should be put forward.

Legacy model-risk add-ons under Pillar 2 represent a duplication of requirements for the same risk, adding cost and complexity without improving accuracy. Also, the non-risk driven increases of RWAs through the Output Floor automatically raises P2R and P2G and macroprudential measures set as percentages of RWAs, even in absence of changes in underlying risk. A targeted simplification and a capital-neutral or capital-reducing recalibration that removes overlaps - particularly where CRR III already captures risks in Pillar 1 - and re-baselines P2R/P2G to avoid double counting is necessary.

Among areas where the capital requirements appear not aligned with actual risks:

- the treatment of trade finance, still attracting huge capital charges despite evidence of very limited losses. The framework should be amended (see Q59)

- other aspects of the CCF framework. The transitional measures for Unconditionally Cancellable Commitments (Art. 495d) should be made permanent, keeping CCF at 0%, and the floor to realised conversion factors in AIRB estimation (Art. 182(1)) should be deleted, as it represents an unjustified constraint that decouples estimates of prudential parameters from actual risk (and from estimates applied for accounting and management purposes), limits the ability of the models in reflecting improvements in proactive management practices and processes, and heavily affects the capital charge

- the treatment of leasing and factoring portfolios, whose asset-based nature and peculiarities, and the consequent very low risk associated with these exposures, are not acknowledged in the prudential framework

- certain aspects of the FRTB standardised approach (e.g. the treatment of funds) – expected to be addressed by the Commission as this framework is under scrutiny.

Even the treatment of moveable transport assets such as ships as collateral under Article 199 CRR does not adequately reflect the specific nature, economic reality, liquidity and risk profile. The value of such assets often cannot be considered for prudential purposes (treating exposures as unsecured) as the eligibility criteria are disconnected from economic reality and banks' financing practices. Repossession or forced sale remain exceptional, as banks prioritise more favourable restructurings (e.g. without enforcing collateral, encouraging refinancing or voluntary sale of collateral by the borrower).. If unaddressed, this may accelerate the withdrawal of EU banks from ship finance, increasing dependence on non-EU financiers (since non-EU banks can offer lower loan pricing based on collateral recognition) and weakening Europe's security and capacity to steer the maritime energy transition.
Also specialized lending projects (e.g. green electricity, new mobility, transport infrastructure) are treated with a slotting approach and conservative floors that do not reflect their actual risk profiles.

Other examples of overly risk-averse requirements can be found in the prudent valuation framework (and particularly in the EBA draft for revised RTS) and in the interim prudential treatment of crypto-assets.

These inconsistencies weaken the international competitiveness of the EU banking sector, forcing EU

banks to operate with higher capital levels than international peers and reducing their ability to compete globally in key activities such as investment banking, specialised lending, and financing the green and digital transitions.

(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.

See the response to Q60.

In addition, it has to be noted that the current framework results in a dual backstop regime, as both the output floor and the leverage ratio serve as backstop measures, aiming to constrain banks' exposures through capital requirements, albeit under differing conditions. These conditions vary and the constraints typically do not become binding simultaneously or under identical risk profiles: however, both measures ultimately complement the RWA measurement and entail operational complexity as a consequence of operating and reporting on two simultaneous backstop mechanisms.

Leverage ratio

The leverage ratio requirement is intended as a non-risk-based 'backstop' measure. Its purpose is to constrain the build-up of excessive leverage. The leverage ratio measures the amount of equity an institution has as a share of its assets or investments. The prudential regulation includes several exemptions in the calculation of the exposure measure. Apart from the minimum leverage ratio requirement of 3%, the EU has also introduced an additional requirement for global systemically important institutions and Pillar 2 leverage ratio requirements.

(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?

The leverage ratio framework should be aligned to international standards, therefore removing Pillar 2 Leverage Ratio add-on requirements. In addition, in the interest of consistency and simplification, no MDA trigger should apply to the leverage ratio. In this way, the leverage ratio can serve as a true backstop, where non-compliance with the leverage ratio will always meet the appropriate and disciplining response from markets and investors.

Pillar 2 capital components

Competent authorities shall impose an additional own funds requirement, a Pillar 2 Requirement (P2R) if a bank is exposed to risks or elements of risks that are not covered or not sufficiently covered by Pillar 1 requirements. In addition, competent authorities determine for each credit institution the overall level of own funds they consider appropriate to ensure that the institution's own funds can absorb potential losses resulting from stress scenarios, this is generally referred to as the Pillar 2 Guidance (P2G).

(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 Pillar 2 Requirements (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.

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 form the score. The ECB review of

the P2R methodology instead leads to increased role of supervisory judgement (while removing the link to ICAAP, which provided the bank-specific elements rendering the capital add-on more faithful to banks' specific risks). 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 for better understanding of Supervisors' assessment of risks and correct prioritization of issues.
One means of increasing transparency would be providing a quantitative breakdown in terms of how much each risk driver contributes to the overall Pillar 2 capital add-on (as already done in some other jurisdictions, e.g. the PRA).

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.

The Pillar 2 Requirement should be made more transparent, consistently calibrated and better delineated from other capital layers, ensuring it targets only institution-specific risks without duplicating Pillar 1 or macroprudential buffers, entailing double counting of the same risks and contributing to excessive complexity.

Clarity as regards the determination of the P2R is also necessary to properly address, after the introduction of the output floor, the issue of double counting between P2R and the risks covered by the output floor. In this regard, the draft EBA Guidelines, recently issued for consultation by EBA, seem to only consider the neutralization of the impact of the output floor on the part of the Pillar 2 requirements (P2R) that would be linked to "model deficiencies", and not (or not sufficiently) address possible other 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 necessary to identify such overlapping requirements.

The mechanical increase in the P2R amount due to the increase in unfloored RWA under CRR III should also be explicitly addressed.

In P2R calibration, coordination should be ensured by supervisors with CCyB, O-SII/G-SII and other macro buffers to avoid double counting cyclical or structural risks.

Regulations should specify that the capital measures P2R/P2G normally apply only at the consolidated level (see also the response to Q33).

As regards Pillar 2 risks, an area that deserves attention is the interest rate risk in the banking book (IRRBB) framework. The EU IRRBB framework is much more stringent than the Basel standards and what is envisaged other major jurisdictions (notably in the United States). 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 supervisory outlier test (SOT) under the net interest income (NII) perspective, de facto significantly raising the cost and complexity of the IRRBB management for EU banks. The broader scope of the assessment of the credit spread risk in the banking book (CSRBB), as outlined by the EBA, also poses significant issues and methodological challenges to EU banks. It is essential to avoid further tightening (e.g. the changes in the supervisory shocks recently decided by the BCBS) that would widen further the competitive gap faced by European banks, without any 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?

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, and namely the Systemic Risk Buffer (SyRB). An even more direct structural overlap also occurs between P2G and the Countercyclical Capital Buffer (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 therefore in principle be offset from the P2G.

In light of the above, a review intended to remove the overlapping aspects of macroprudential tools with the P2G is deemed warranted in the context of the general review of the macroprudential framework, that is expected to clarify the role and conditions for the application of the various buffers (and other measures), avoiding overlaps and considering the prudential framework as a whole (i.e. addressing also possible overlaps with the microprudential tools, like the P2G).

Management buffer

Most banks have excess capital over the capital requirements, often called a management buffer. Most banks set a specific target level, above capital requirements. Some banks also disclose this target level. Reasons to set a management buffer can include internal considerations such as managing unexpected risk and external considerations such as expectations from other stakeholders.

(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?

As a premise, the definition of management buffer opens various way of interpretation, i.e. it might be the minimum buffer that banks are supposed to maintain under any circumstances, above requirement, or the buffer which defines the capital target of an institution. Management buffers (meant as target buffer vs. requirement) tend to be higher than strictly necessary because banks face significant uncertainty about future supervisory expectations (as regards for example macroprudential buffers and P2R), and the interaction of the various capital layers, and therefore the natural reaction is to hold extra capital to avoid breaching thresholds unintentionally.

Management buffers represent a material share of the total capital banks maintain in practice, partly due to the structural complexity of the EU capital stack and the cumulative nature of requirements. Overlapping layers and backstops “hinder the ability of banks to make the most efficient use of their capital,” which inherently leads to oversized management buffers. A clearer and more predictable framework would help reduce these discretionary overlays.

Possible measures for this purpose can include:

(i) eliminate MDA triggers from leverage and gone concern stacks so that only the risk based CBR applies. This would significantly reduce uncertainty and buffer accumulation;

(ii) ensuring alignment of micro prudential, macro prudential and resolution decisions would reduce overlapping requirements that currently drive management buffer inflation.
Ultimately, enhancing the transparency and predictability of supervisory expectations strengthens both buffer usability and capital planning. This allows banks to run closer to their actual requirements, supporting a more efficient allocation of capital and increasing their ability to lend and invest.

In this way, a clearer framework for management buffers directly contributes to the competitiveness and agility of the EU banking sector.

Non-performing loans

In over a decade, the EU has adopted with success several measures to reduce the amount of NPLs in the economy to promote the stability of its banking system and free up capital for new lending, thereby restoring

market confidence to the benefit of the real economy. Among these were (i) the 'NPL-backstop', which requires banks to book minimum levels of provisions for NPLs and to apply a deduction to their capital if provisions fall short, (ii) the Credit Servicers (or NPL) Directive, which sets up a harmonised legal regime for credit purchasers and credit servicers, and (iii) the framework for Specialised Debt Restructurers, which further promotes NPL secondary markets by exempting institutions that are specialised in the acquisition and management of non-performing exposures from the NPL backstop.

(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.

The EU framework on NPLs was introduced when macroeconomic conditions had determined the pile up of a huge amount of non-performing exposure, often adopting measures disorderly and under a sense of urgency. Since then:

- the stock of NPLs in EU banks has fallen sharply,
- many rules and guidance ensure prudent approaches, e.g. EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06), EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06)
- credit risk management has continuously been a supervisory priority (and banks' asset quality review has been carried out), and detailed and thorough reporting has been introduced, to allow for careful monitoring of banks' asset quality by supervisors
- credit management practices greatly progressed, with improved expertise in the management of performing, forborne and non-performing loan.

Today, NPL ratios in the EU are at historic lows, and a broad set of tools—such as improved loan origination standards and stricter definitions of default—address the root causes of excessive NPL accumulation. Some elements of the current framework no longer seem aligned with today's environment and should be reconsidered.

The Pillar 1 NPL backstop has become an overly rigid tool. It was introduced at a time of exceptionally high NPL levels, but now imposes automatic capital charges despite very low NPL ratios. This can create unintended effects, such as: it may encourage banks to cut relationships with clients sooner than necessary instead of working on viable restructuring solutions; it interacts poorly with the newer LGD in default modelling requirements, creating overlaps between the backstop's rigid timelines and the models' data needs, which adds operational complexity while offering limited prudential value because the backstop ultimately overrides model outputs; and it does not exist in other major financial centres, creating a competitive disadvantage for EU banks.

From a competitiveness perspective, the backstop increases capital needs in situations where risk is already well managed. This means banks may have less room to lend, lower capacity to support businesses during temporary difficulties, and higher operational costs compared with peers in jurisdictions that have removed similar measures. Over time, this can weaken the attractiveness of the European banking sector and reduce its ability to finance growth.

The NPL backstop represents a competitive disadvantage for banks compared to non-banks operating in the NPL segment, therefore incentivizing the exit of NPL portfolios from the regulated market (with lower client protection).

All in all, the NPL backstop should be reconsidered.

Also the EBA Guidelines on the application of the definition of default should be reconsidered as to the treatment of forbearance measures (ie changing the payment schedule and/or other contractual terms and conditions of the loan, to help clients face temporary difficulties and remain solvent). Under the Guidelines, a forbearance measure extended towards an obligor that is experiencing or is likely to experience difficulties, resulting in a reduction of the net present value (NPV) of the credit by 1% or more,

triggers the identification of the obligor as defaulted. This rule leaves banks very little room to provide financial support to clients without incurring in their classification as defaulted, having severe consequences. Indeed, following the classification as defaulted, access to credit is sharply limited, as a bank shall manage the exposures towards that client taking into account their non-performing status. A bank would also normally not extend new credit to defaulted obligors, following policies intended to limit the amount of NPLs. The cost of credit for that client would reflect the higher cost for the bank, and the impact of a past default on the credit scoring will affect the cost of credit for that client even in the future. Moreover, the defaulted status may hinder the possibility of being eligible for public aids or benefits. Hence, while a forbearance measure is intended to improve the financial situation of the borrower in a moment of weakness, the classification as defaulted may result in a permanent deterioration, thus discouraging banks from offering forbearance measures breaching the threshold. In order to provide banks with some leeway to engage in proactive, preventive and meaningful debt restructuring, more flexibility in the definition of "diminished financial obligation", and namely a recalibration of the NPV threshold, is needed, as per the mandate included in Article 178(7) CRR III.

It is also necessary to avoid any automaticity in the application of the threshold in cases of general forbearance measures, granted in the occasion of natural disasters and other exceptional events, and in situations that deserve specific attention due to social relevance (such as suspension of payments for victims of gender-based violence).

Own funds instruments

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

The current structure of own funds instruments - CET1, AT1 and Tier 2 – is considered appropriate. Each layer plays a distinct and complementary role in absorbing losses, supporting market confidence, and allowing banks to manage their capital position efficiently. Replacing AT1 or Tier 2 with CET1 would significantly increase overall funding costs, reduce flexibility in capital planning, and require banks to rely more heavily on equity issuance, which is slower, less predictable and more expensive.

AT1 and Tier 2 instruments broaden the investor base and provide cost-effective forms of loss-absorbing capital. They also give banks the ability to adjust their capital mix more rapidly, which is particularly important in stressed or fast-moving market conditions. Maintaining this diversity of instruments ensures that the capital framework remains both resilient and economically efficient.

Overall, keeping the existing CET1/AT1/T2 structure supports a balanced, flexible and cost-effective capital stack. This helps banks maintain robust buffers while preserving their capacity to lend, invest and compete internationally - ultimately strengthening the competitiveness of the EU banking sector without compromising safety.

More generally speaking, simplification of the EU regulatory framework should not result in an increase in capital requirements at bank level as it would ultimately penalize the whole EU economy, and does not appear justified given that, as assessed and acknowledged by EU Authorities, banks are sufficiently capitalized to be resilient even in severe stress situations. Thus, we have strong concerns about proposals that would i) limit the role of non-CET1 instruments (AT1 and T2) in the capital stack and ii) replace them (partially or in full) with higher quality and more expensive CET1 capital.

Such a move would make EU banks less attractive as an investment option, exposing them to the risk of a significant decrease in market capitalization and share prices following to the need for further CET1 increases, that are not deemed necessary and would only imply constraints for banks, with detrimental consequences for the real economy and its need for financing growth.

(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
Increasing conversion trigger		X				

Imposing conversion instead of write-down					X	
Facilitate coupon cancellation by making them more automatic and common				X		
Review minimum distributable amount (MDA) triggers				X		
Other (please specify)						

Please explain.

In addition to what said in the response to Q67, it has to be noted that possible negative effects on the markets of outstanding issues should also be considered in case of changes as to AT1 and T2 instruments.

If refinements to AT1 are considered, they should focus on clarity and predictability, not on redesigning the instrument. Possible suggestions are:

• Clear, standardised rules on coupon cancellation - when it is expected to occur and how it is communicated - so investors can assess risk consistently, addressing the current fragmentation in practices across banks and jurisdictions that makes the likelihood of cancellation difficult to assess

• Harmonised conversion/write-down mechanics across the EU to minimise documentation variability and outcome risk in stress, as existing structures differ widely and create uncertainty about how instruments will absorb losses under pressure.

Better disclosure and more consistent supervisory practices would help stabilise demand, keep risk premia contained, and maintain a deep investor base for AT1. This preserves AT1's role as a cost-effective, loss-absorbing layer and avoids shifting the burden to more expensive CET1, thereby supporting banks' capacity to finance the real economy without undermining resilience.

Output floor

Implementing a key part of the final Basel III standards, the EU introduced the output floor as part of the banking package applying from January 2025. The output floor aims to limit the unwarranted variability in the own fund requirements produced by internal models relative to an institution using the standardised approaches. By setting a lower limit on the own funds requirements that are produced by institutions' internal models of 72,5% of the own funds requirements that would apply if standardised approaches were used by those institutions, the output floor limits the risk of excessive reductions in capital.

While the Basel III international standards suggest applying the output floor only at the highest level of consolidation of a banking group, in the EU the output floor applies at all levels of consolidation (consolidated level and individual level of each subsidiary). To avoid a disruptive impact on lending and to ensure its impact on own funds the application of the output floor is phased in over a sufficiently long period of time.

(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

The current rules introduced by CRR3 achieve the right balance - no need to revise the output floor framework				X		
Some or all of the transitional derogations related to the output floor should be prolonged	X					
Some or all of the transitional derogations related to the output floor should be made permanent	X					
The output floor should only apply at consolidated level	X					
The calibration of the output floor (72.5%) should be increased					X	
The calibration of the output floor (72.5%) should be made more risk-sensitive	X					
The calibration of the output floor (72.5%) should be reduced		X				
Other (please specify)						

Please explain:

The current implementation of the output floor creates several issues that affect the proportionality and risk-sensitivity of capital requirements. The framework was designed as a backstop, but its interaction with the standardised approach results in capital charges that do not always reflect underlying risk, especially for portfolios where the standardised risk weights are overly conservative. This becomes particularly visible as banks are already under scrutiny on a fully-loaded basis (e.g. stress test), even though the transitional arrangements formally extend to 2032. Furthermore, this situation is already influencing long-term financing decisions and may constrain lending capacity for corporates and households.

A key issue is that the flat 100% risk weight for unrated corporates in the standardised approach does not reflect the diversity of this exposure class. The vast majority of EU corporates are unrated, meaning that the framework treats investment-grade and non-investment-grade corporates identically, despite banks being fully capable of distinguishing between them through internal assessments.

The same applies to the treatment of receivables-based products, such as factoring. In this case, exposures associated with short-term, asset-based finance are treated as unsecured lending, without taking into account the strong risk mitigation provided by the purchased receivables. This contrasts with the IRB framework, which provides specific treatments for purchased receivables.

This lack of granularity makes the output floor disproportionately binding for banks with significant exposures to unrated but high-quality corporates and risks making financing more expensive for the real economy.

Similarly, the treatment of low-risk residential mortgages under the fully-loaded output floor does not sufficiently differentiate between structurally low-risk exposures and higher-risk residential lending. The current transitional parameters more accurately reflect the risk profile of these mortgages, but because they are only temporary, banks must increasingly price new lending as if the more conservative post-transition treatment already applied. This creates unnecessary pressure in mortgage markets, where affordability is already strained, even though authorities retain targeted macro-prudential tools to address local risks.

To improve the functioning of the framework, the EU should extend and embed key transitional

derogations into a more risk-sensitive standardised approach. For unrated corporates, a more granular treatment - distinguishing investment-grade from non-investment-grade exposures - would ensure capital requirements better match exposures risk profile, while preserving a level playing field between IRB and standardised-approach institutions. For low-risk mortgages, making the transitional treatment permanent and allowing its application more broadly within the standardised approach would support stable, predictable financing conditions for households and avoid unnecessary fragmentation of the single market.

Finally, applying the output floor at the consolidated level only would help reduce operational complexity and avoid distortions within cross-border groups, while preserving the backstop's overall prudential objective.

3.3. Macroprudential framework

The EU macroprudential framework and its implementation is multi-layered, involving both national and EU authorities. While macroprudential policies in the EU are largely national, their implementation at national level often requires the involvement of different EU bodies (European Commission, European Systemic Risk Board (ESRB), ECB) to preserve the integrity of the single market. However, in practices, the implementation of national measures leads to unwarranted heterogeneity and inconsistency across Member States.

The EU macroprudential framework for banks, which includes both capital-based measures and risk-weight tools, is perceived as being rather complex in international comparison. The capital buffers framework features five buffers, two of which are EU specific. The macroprudential framework also includes a risk-weight toolkit which allows national authorities to increase risk weights on bank exposures to tackle risks in specific sectors, particularly in the real estate sector. This toolkit is based on decentralised governance, which is unduly complex and creates inefficiencies such as potential overlaps, heterogeneous application and administrative burden.

Moreover, the interaction between macroprudential and micro-prudential requirements (which are often intertwined), and resolution requirements may hinder in certain cases buffer usability.

This section seeks stakeholders' feedback on the undue sources of complexity in the macroprudential framework and on potential measures to address them, while maintaining the resilience of the EU banking sector and the stability of the financial sector at large.

(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
The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks	X					
The calibration of macroprudential buffers	X					
The calibration of other macroprudential tools		X				

The heterogeneous application of some tools like Other Systemically Important (O-SII) buffers across the EU	X					
The current reciprocity arrangements		X				
The decentralised macroprudential governance framework and prominent role of national macroprudential authorities in setting measures.	X					
Other						

Please explain.

The current EU macroprudential framework creates significant inefficiencies and unnecessary complexity due to the combination of a high number of buffers and the different ways in which some of them are applied at national level, leading to overlaps in requirements also between micro and macroprudential tools. The coexistence of several macroprudential buffers—such as the CCyB, SyRB, O-SII/G-SII buffers and the CCoB—often results in overlapping coverage of similar risks and contributes to double-counting This is most evident in the systemic risk buffer, where systemic risks are not clearly defined in relation to other risk types or other buffers (such as credit risk, G-SII, O-SII). The risk of overlaps and double counting is particularly for cross-border groups that are subject to multiple micro-prudential and macroprudential authorities, where the approaches to covering risks differ. The system can lead to a highly complex buffer framework, where the overall capital requirement becomes misaligned with actual risk profiles.

Complexity and inefficiency also arise from the way buffers are calibrated and applied. In addition to a general lack of transparency in regard of the methodology for the calibration, in several jurisdictions buffers intended to be cyclical have taken on a quasi-structural character, including the use of "positive neutral" CCyB rates or Systemic Risk Buffers for the purpose to create "macroprudential space". This practice increases capital requirements across the cycle and reduces the ability of banks to adjust to changing economic conditions, contrary to the original purpose of countercyclical tools. In addition, the absence of a clear, predefined mechanism for buffer release and reinstatement creates uncertainty: institutions cannot reliably assume that buffers will be reduced in a downturn and/or will not be required to be replenished shortly after release, and therefore tend to treat them as permanent requirements. This undermines buffer usability and may lead to procyclical behaviour, such as unnecessary deleveraging in a stress scenario.

The heterogeneity in the application of O-SII buffers across Member States represents another major driver of fragmentation. Methodologies and calibration levels vary widely, leading to disproportionate requirements for some institutions and creating inconsistencies within the single market (and compared to systemically importance institutions in other jurisdictions). This variability reduces predictability for banks operating across borders and reinforces competitive imbalances.

Complexity is also amplified by the governance model. Macroprudential responsibilities are distributed across multiple national and European authorities, without a fully coordinated framework for assessing overlaps between micro- and macro-prudential measures, and consistent choice and calibration of measures. As a result, capital requirements reflect the accumulation of decisions made at different levels with limited alignment, making it difficult to ensure that risk is captured once and consistently. The lack of a unified EU-level approach to methodologies, calibration, and communication leads to uncertainty about future buffer levels and complicates banks' capital planning.

(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?

The macroprudential buffer framework could be significantly streamlined by reducing overlaps, clarifying the purpose of each buffer, and ensuring that risks are captured once and in a consistent way across the EU.

To avoid duplication, macroprudential measures should target risks that are systemic or cyclical and not already adequately covered by micro-prudential requirements.

Metrics and methodologies for setting macroprudential requirements, whether capital or borrower based, should be clearly defined and consistently applied across the EU/EEA.

A first step in streamlining the framework would be to simplify the buffer stack by merging buffers that target similar risks. It would be desirable that the structure were made of two components, addressing existing overlaps and improving the framework's transparency:

- a structural systemic buffer, covering structural risks also related to each bank's role in the financial system and therefore replacing the existing Capital Conservation buffer and the O-SII/G-SII buffers. Such buffer should be calibrated using consistent EU-wide principles (where G-SII institutions should not be subject to both G-SII and O-SII buffers); avoiding any double counting with P2R and ensuring that no buffer is imposed to cover risks addressed via P2G; and

- a buffer addressing cyclical vulnerabilities, replacing the Countercyclical buffer, aimed at constructing a cushion against possible downturns and which could predictably be released in face of significant adverse conditions. Transparent and harmonised rules should be outlined governing activation, release, and the build-up of capital through the cycle. This buffer should be clearly distinct from structural tools, ensuring that only genuinely cyclical risks are addressed through countercyclical capital requirements. Clear ex-ante release mechanisms would also enhance buffer usability during downturns and reduce procyclicality. If a positive neutral rate for the cyclical buffer were to be foreseen, that should be created offsetting existing buffers, in order to avoid that "positive neutral" rates function as de facto permanent surcharges. Attention needs to be paid to remove overlaps with the cyclical buffer and micro-prudential requirements and guidance such as the P2G.

In any case, EU-level coordination mechanisms for the application of discretionary buffers at national level should be strengthened, and clear justification and approval processes should be required, including proportionality in implementation guidance.

Before imposing a buffer requirement, the systemic nature of the risk, and the absence of double counting with other buffers and Pillars 1 and 2 requirements should be demonstrated. More generally speaking, the group level micro-prudential supervisor should ensure that the overall capital requirement is appropriate with regard to the group's riskiness and should have the power to adjust requirements downwards to remove double counting under a formal coordination with the macroprudential authority. Importantly, any simplification of the capital buffer framework must be carefully calibrated to ensure it does not result in (and is not likely to give rise in the future to) further increase in capital requirements for banks, which would negatively affect competitiveness.

(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?

- o Yes.
- o **No**
- o No opinion.

Please explain.

No. A dedicated sectoral buffer for real-estate exposures or sector-specific capital buffers are not deemed necessary. The macroprudential framework already contains tools addressing systemic and structural risks, and adding or maintaining further sectoral buffers would risk reinforcing the existing complexity and double-counting within the capital stack.

In practice, systemic risks arising from real-estate markets are already captured through a combination of micro-prudential measures, risk-weight requirements, borrower-based tools, and other instruments (e.g., higher or floored risk-weights/LGDs for specific mortgage segments; supervisory expectations on loan

origination and monitoring; CCyB; concentration/large-exposure limits).

Real-estate exposures, in particular residential mortgages, are a core component of bank lending and play a central role in supporting households and economic activity. The current prudential framework already embeds multiple safeguards, including conservative risk-weight floors, backstops, supervisory stress tests, and, where needed, national borrower-based measures. These tools are generally more precise, better targeted and more predictable than capital-based sectoral buffers, which tend to operate as blunt instruments and can easily become permanent add-ons. Introducing or preserving an additional sectoral buffer would not materially improve risk mitigation, but it would further increase capital requirements in a targeted area of lending that is already subject to conservative regulatory treatment. Applying a sectoral buffer on top of these existing mechanisms would therefore risk generating unnecessary capital inflation, constraining credit for households and real-economy investment.

Moreover, sectoral buffers tend to amplify heterogeneity across the EU. Their calibration and activation vary significantly by Member State, which leads to inconsistent capital requirements for similar portfolios, creates uneven competitive conditions, and complicates capital planning, particularly for cross-border banks. A more harmonised and streamlined macroprudential framework, with fewer overlapping buffers and clearer roles for each tool, would provide better clarity and ensure that systemic risks are addressed once, in a consistent way across the Union.

(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
The methodology for the identification of O-SIIs should be revised to ensure an enhanced cross-country consistency while considering national specificities.	X					
The O-SII buffer should be calibrated following a more harmonised methodology which ensures a better correlation of	X					
systemic importance with a defined range for the level of the buffer rate						
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.					X	
Other (please specify)						

Please explain.

Both the framework for identification of O-SIIs and the calibration of O-SII buffers should be improved, in order to reduce fragmentation, enhance proportionality, and ensure that systemic importance is reflected in a consistent and risk-sensitive manner across the EU. Today, clear divergences can be observed, with substantial variation in buffer levels, methodologies and supervisory practices across Member States. This has resulted in disproportionate outcomes for some institutions and created unnecessary competitive asymmetries within the single market.

First, the methodology for identifying O-SIIs should indeed be revised to achieve greater cross-country consistency. While national specificities should continue to play a role, the current approach allows for

wide discretion in both indicators and threshold-setting, leading to significant heterogeneity. Cross-border banking groups often find themselves designated as O-SIIs at different levels across jurisdictions based on methodologies that diverge not because of genuine differences in systemic relevance but because national practices vary. A more harmonised identification process - based on common principles, consistent indicator weighting, and transparent criteria - would better reflect the true systemic footprint of institutions while maintaining room for justified national adjustments.

Second, O-SII buffers should be calibrated using a more harmonised methodology, ensuring a stronger correlation between an institution's actual systemic importance and the buffer applied. In the current framework, buffer levels range widely across Member States, sometimes exceeding what would be justified by the relative systemic relevance of institutions. This disparity is not only difficult to reconcile with the objective of a single market but also complicates capital planning and undermines comparability of requirements between institutions with similar risk profiles. A more aligned calibration framework - with a clear, predefined range for buffer rates - would ensure proportionality and reduce the risk of excessive capital surcharges. This is particularly important given that other layers of the capital stack, including Pillar 2 requirements and stress-test-driven guidance, already capture institution-specific vulnerabilities.

By contrast, maintaining the current state of play while merely enhancing transparency would not sufficiently address these structural issues. While greater transparency is welcome, it would not resolve the underlying problems of inconsistent calibration, national gold-plating tendencies, and double-counting. More ambitious reform is needed to ensure that O-SII buffers are applied in a coherent and proportionate manner across the Union.

Overall, a reformed O-SII framework - with harmonised identification criteria, more consistent calibration principles, and clear alignment with other elements of the capital stack - would improve proportionality, strengthen the level playing field, and support the broader objective of reducing unnecessary complexity in the EU macroprudential framework while preserving resilience.

(73) Is the current share of releasable buffers[5] (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.

No. The current share of releasable buffers is not considered adequate to ensure that sufficient capital can be released in a downturn to support lending. This is based on the observation that theoretical releasability does not automatically mean actual release and the presence of conditions for usability of buffers.

Indeed, the volume of genuinely releasable capital – primarily the countercyclical capital buffer (CCyB) – is limited, inconsistently calibrated across Member States, and in many cases has been used in a quasi-structural manner rather than as a tool that fluctuates with the financial cycle. Several jurisdictions have indeed implemented "positive neutral" CCyB levels that function as permanent add-ons rather than cyclical buffers. Moreover, the systemic risk buffer (SyRB), which formally counts as a releasable component under the current structure, does not in practice operate as a releasable buffer. It is typically set to address long-term structural vulnerabilities, with wide national discretion and without predefined release conditions. Its nature as an EU-specific, non-Basel element also contributes to over-layering of capital requirements.

The actual use/usability of such buffers in downturns is thus questionable.

Compounding these issues, the absence of clear, predictable, and harmonised release mechanisms undermines the usability of releasable buffers as a whole. Banks cannot rely on timely buffer release because national authorities apply different criteria, decision processes, and communication practices. As highlighted during recent periods of stress, uncertainty about the conditions under which buffers can be released leads banks to treat them as non-usable, which reduces their ability to maintain lending during downturns. The same reasoning also applies as regards predictability and availability of sufficient time before the replenishment of the buffers will be required.

Finally, the interaction between macroprudential buffers and microprudential requirements—particularly Pillar 2R and stress-test-driven Pillar 2G—further limits effective releasability. Even when the CCyB is released, banks often cannot fully use the freed-up capital because other requirements automatically rise when RWAs increase during periods of stress. As a result, the benefit of the buffer release is partly cancelled out by higher capital needs elsewhere.

A more effective approach would involve relying on a single genuinely cyclical buffer with harmonised rules for build-up and release, and ensuring better coordination with microprudential requirements to avoid the erosion of releasable capacity in stress periods. This would materially improve the buffer framework's ability to support lending during downturns while maintaining resilience.

(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?

The risk-weight toolkit under Article 458 CRR could be fine-tuned by clarifying its purpose, focusing it on genuine structural or cyclical vulnerabilities, and ensuring that it is used as an exceptional, targeted instrument rather than as a substitute for systemic buffers. In the current framework, Article 458 measures coexist with multiple layers of macro- and micro-prudential capital requirements, often addressing similar risks through different channels. This can lead to overlapping or cumulative effects, especially when risk-weight measures are applied in parallel with Pillar 2 requirements, macroprudential buffers, or stress-test-driven capital expectations.

A more streamlined buffer framework — particularly one with a single structural buffer and a single cyclical buffer — would require a clearer definition of the role of Article 458. Rather than serving as an additional, quasi-permanent layer of conservatism, Article 458 tools should be reserved for specific, well-identified vulnerabilities where risk weights are demonstrably insufficient to capture systemic risk, and where other components of the capital framework are not the appropriate tools.

To achieve this, Article 458 should be fine-tuned in three main ways:

- Clarify its exceptional nature and avoid structural use - Article 458 should be deployed only when structural or cyclical risks cannot be addressed through harmonised buffers or microprudential requirements. This would prevent it from becoming an additional structural add-on, which would undermine the simplification of the overall framework.
- Improve coordination with Pillar 2 and macroprudential buffers - The application of Article 458 often interacts with Pillar 2R, Pillar 2G and buffer requirements in ways that lead to de facto double-counting. Formal coordination mechanisms across authorities would help ensure that risk-weight measures are not layered on top of requirements already calibrated for the same risk.
- Introduce clearer and more transparent criteria for activation - A harmonised, evidence-based framework for using Article 458—related to specific metrics, such as deviations in credit standards or demonstrable under-representation of risk in existing RWAs—would enhance predictability and reduce fragmentation across jurisdictions.

In a simplified macroprudential framework where structural risks are captured by a single structural buffer and cyclical risks by a harmonised CCyB, the role of Article 458 would naturally become more narrow, targeted and exceptional. It would remain available as a flexible tool for temporary or unusual circumstances, but it would no longer need to compensate for structural gaps in the buffer framework or for inconsistencies in national buffer calibration. This would reduce unnecessary capital inflation, improve consistency across the Single Market, and maintain the ability of authorities to address specific emerging risks when justified.

3.4. Crisis management framework

The crisis management framework, governed by the BRRD, the Single Resolution Mechanism Regulation (SRMR) and the DGSD, which has recently been revised by the crisis management and deposit insurance (CMDI) package agreed in June 2025, aims to ensure financial stability, resilience, minimise reliance on public funds and protect depositors in case of bank failures. It is a multi-layered framework, involving both national and EU authorities, with dedicated rules to frame very different forms of public intervention, preventively or upon failure, and increase the preparedness of the banking sector.

The resilience of the framework is also ensured by the availability of tools and resources to deal with bank

failures, such as resolution funds and deposit guarantee schemes. In this context, crisis management and prudential rules are intertwined, as the effectiveness of the crisis management tools at the disposal of the relevant authorities can directly affect the design of the prudential rules.

This section seeks stakeholders' feedback on potential undue sources of complexity in the crisis management framework and on potential measures to address them, while maintaining the resilience of the EU banking sector and the stability of the financial sector at large.

[5] Releasable buffers are designed in a way to ensure that they can be built-up and released (countercyclical buffer) or discontinued (systemic risk buffer), upon agreed triggers and process by designated authorities and ensure that capital is made available to sustain lending to the economy in a downturn. Non-releasable buffers are not expected to be released in downturns and are designed to address risks related for instance to the systemic nature of banks, e.g. global systemically important institutions (G-SII)/O-SII buffers). Banks can dip into these non-releasable buffers but breaching buffers triggers consequences (e.g. restrictions to distributions) which banks may be unwilling to bear.

(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?

Yes, certain areas of the crisis management framework have become increasingly complex over time. The recent revision of the Crisis Management and Deposit Insurance (CMDI) framework, while strengthening the resilience of the system, has added further layers of rules, procedures and interdependencies. This is partly due to the cumulative nature of reforms adopted since the global financial crisis and partly to the political context in which the CMDI reform was conceived. At the time, the focus was on refining and expanding the existing framework ("maintenance and enhancement"), whereas the current policy environment places greater emphasis on simplification, competitiveness and coherence. Several elements contribute to undue complexity:

- The interaction between resolution, prudential and deposit insurance rules, which may generate overlapping requirements and legal uncertainty in stress situations
- The multiplicity of procedural steps and conditions for the use of resolution tools and safety nets
- The layered governance involving national authorities, the SRB, the Commission and, in some cases, the Council
- The evolving and highly granular MREL framework, which interacts with capital buffers and leverage requirements.

While a certain degree of complexity is inherent in a framework designed to safeguard financial stability and limit moral hazard, further simplification and proportionality could be considered without undermining resilience.

Minimum requirement for own funds and eligible liabilities (MREL)

MREL is a cornerstone of the crisis management framework, providing necessary loss-absorbing capacity to resolve banks and, where appropriate, recapitalise them to protect critical functions for the economy. Inspired from the total loss absorbing capacity (TLAC) concept introduced by the Financial Stability Board, MREL has developed over time into a particularly complex set of rules, without sufficient consideration of its impact on other parts of the framework. This may have important effects on buffer usability, compliance costs and the ability to implement, monitor and enforce the requirements by authorities, banks and market participants.

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

The MREL framework has significantly strengthened the credibility of the EU crisis management regime and enhanced resolvability across the banking sector. In that respect, the framework can be considered broadly effective in supporting the objectives of financial stability and market discipline.
However, from an operational and market perspective, the current rules for determining MREL targets remain complex and, in some cases, insufficiently predictable — particularly for medium-sized and smaller institutions; also, the provisional CMDI texts regarding the PIA are questionable in this sense. Several elements contribute to these concerns:

- The multi-layered calibration methodology, including the interaction between loss absorption amount, recapitalisation amount, market confidence buffers and adjustments related to resolution strategies
- The significant degree of case-by-case discretion in target setting
- The interaction between MREL and other prudential requirements, including capital buffers and leverage ratio constraints
- The evolving guidance and supervisory expectations over time.

While such granularity may be justified for large, complex and internationally active institutions, it can generate uncertainty and compliance burdens for smaller and medium-sized banks whose resolution strategy may be less complex.

In particular, medium-sized and smaller banks may face tangible market constraints in issuing MREL-eligible instruments. In less liquid domestic markets, investor appetite may be limited and issuance costs

materially higher, raising affordability concerns. In this respect, proportionality and affordability should remain key guiding principles in the calibration of MREL requirements, as also highlighted on several occasions by national authorities, including the Bank of Italy. Therefore, while the framework is broadly effective, its efficiency, clarity and predictability could be improved, especially for institutions with simpler business models and limited systemic footprint. Greater transparency in calibration methodologies, enhanced proportionality, and careful consideration of market capacity would contribute to maintaining resilience while avoiding undue burdens on certain segments of the banking sector.

Furthermore, the current rules for determining MREL targets do not fully achieve effectiveness, efficiency, clarity or predictability. Over time, the framework has become layered and complex, and the interaction among its different components makes outcomes difficult to anticipate. As a result, requirements can shift in ways that are hard to understand for both institutions and market participants.

A clear example is the link between the capital a bank must hold in normal times and the amount required for resolution. When day-to-day capital requirements rise, MREL can automatically rise as well (even with some time lag), because part of the resolution requirement simply mirrors these operating requirements (the mirror effect means that raising one layer often raises the other). This can leave a bank with a significantly higher MREL target even though nothing has changed in its risk profile or in the credibility of its resolution plan. It makes the framework harder to read and can lead to sudden shifts that are challenging to plan for.

This automatic link also reduces transparency. It becomes unclear whether a higher MREL target reflects a genuine concern or is merely the mechanical outcome of the rules. Faced with such uncertainty, banks frequently behave cautiously and hold more capital than necessary (the fear that a small supervisory adjustment could trigger a higher MREL encourages conservative behaviour). This increases cost and complexity without contributing meaningfully to resilience.

(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
Better align MREL to TLAC, by making the calibration more automatic, predictable and transparent, and subject to less discretions by resolution authorities		X				
Better align MREL to TLAC by allowing MREL to be complied with more subordinated instruments					X	
Make the MREL framework for medium-sized and smaller banks more proportionate	X					
Introduce a minimum debt requirement where MREL should be complied with non-CET1 instruments				X		
Other (please specify)						

Please explain.

As highlighted in the previous questions, the current MREL framework is more complex than necessary,

mainly because it operates alongside the global TLAC standard rather than being fully aligned with it. A Coherent alignment with TLAC would significantly reduce this complexity. If MREL calibration were made more automatic and predictable, with fewer national discretions, institutions would have greater certainty over how requirements evolve and could plan accordingly (greater predictability reduces the need to hold additional buffers "just in case"). Aligning MREL with TLAC would also help reduce the competitive gap between EU banks and peers in other major jurisdictions, where only a single framework applies.

Removing the MREL Maximum Distributable Amount (M-MDA).

Proportionality should be further embedded in the MREL calibration framework. For medium-sized and smaller institutions — especially those with simpler business models and limited systemic footprint — the current methodology can generate disproportionate complexity and market constraints. In particular, access to sufficiently deep and liquid markets for issuing eligible liabilities may be limited, and funding costs can be materially higher, raising affordability concerns. A more proportionate approach could include:

- simplified calibration methodologies for institutions with transfer or liquidation strategies;
- careful assessment of market capacity when setting subordination requirements;
- clearer and more stable medium-term expectations.

Such adjustments would not undermine resilience. On the contrary, a proportionate and realistic calibration enhances credibility and compliance capacity, thereby strengthening the effectiveness of the framework.

Prior permission regime

The MREL framework contains specific rules to require prior authorisation before a bank can redeem an eligible liability. Inspired by a similar mechanism in place for the redemption of own funds instruments, these rules are set in the CRR.

(78) Do you consider that the prior permission regimes for the redemption and replacement of MREL resources should be simplified?

- o **Yes**
- o No
- o No opinion

Please explain.

The current prior-permission regime for redeeming or replacing MREL-eligible instruments is more complex than necessary and often burdens both institutions and authorities without adding clear benefits for resilience. The rules were originally inspired by the framework for own-funds instruments, but they now apply in a much broader and more operationally demanding context. As a result, the system can feel rigid and administratively heavy, especially when institutions need to manage their liability structure in a timely and efficient way (the approval requirement can slow down even routine refinancing actions).

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. In many cases, redemptions are fully matched by new issuances or take place within a well-defined funding plan. Under such circumstances, requiring prior authorisation adds delay without improving the bank's loss-absorbing capacity (routine refinancing does not change the amount of resources available in resolution). Simplifying the process - particularly where the replacement instrument is at least of equal quality - would therefore reduce unnecessary administrative steps while preserving the intended safeguards.

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.

Simplification would not undermine resilience. Authorisation could still apply where actions genuinely affect compliance, but low-risk, like-for-like substitutions could follow a more standardised or even automatic route. This would maintain protection for the system while reducing operational burden and increasing flexibility for banks to manage their liabilities.

Prior permission could be waived for the redemptions or repurchases of eligible liabilities no more than one year prior to final maturity, since the instruments are naturally excluded from eligible liabilities items one year prior to final maturity.

For these reasons, a simplified prior-permission regime would enhance efficiency and clarity, allowing banks to manage their funding structures more effectively without weakening the robustness of the resolution framework. Further, the maximum authorization 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 authorization.

Use of safety nets

Resolution actions may require the use of external funding to support the effective implementation of the resolution scheme. The use of financing from resolution funds is subject to strict rules, in particular the need to bail-in shareholders and creditors for an amount at least equal to 8% of the total liabilities and own funds of the entity subject to resolution. This requirement is essential to address moral hazard and reduce the risk of using taxpayers' money. However, it creates rigidity and may not be suited in all circumstances, for example when this minimum bail-in condition would have led resolution authorities to impose losses on depositors and where such action would have been detrimental to financial stability. It should be noted that other jurisdictions have different systems where such condition either does not exist or can be lifted in exceptional circumstances.

(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?

Reaching the 8% of the total liabilities could be burdensome and problematic for some categories of banks. This is why the DGS contribution to resolution could be useful, especially if declined in a more clear and straight forward way than what the provisional CMDI texts are showing. Therefore, a simplification effort is strongly needed.

In fact, the current rules governing the use of resolution funds, and in particular the requirement that at least 8% of total liabilities and own funds be bailed-in before the fund can be accessed, are well-intentioned but not always proportionate or sufficiently flexible. The purpose of the rule is clear: to ensure that shareholders and creditors absorb losses before public or industry-funded resources are used. However, the way this threshold operates in practice can create challenges, especially in cases where the bank's size, structure or failure scenario does not justify such a rigid minimum.

A key concern is that the 8% threshold may not always reflect the actual needs of the resolution strategy or the nature of the institution. In some situations, reaching 8% can require bail-in well beyond what is necessary to stabilise the bank, leading to outcomes that feel disproportionate (the fixed percentage can overshoot the amount of loss-absorbing capacity actually required for a credible resolution). This can also complicate market confidence at the moment when clarity and speed are essential.

The current design also raises level playing field concerns. Other major jurisdictions do not impose an equivalent fixed 8% threshold before public or industry-funded resources can be used. As a result, EU banks may face harsher or more rigid conditions than their international competitors, which could distort competitive dynamics (different jurisdictions apply different resolution funding conditions, making the EU approach comparatively stricter). This discrepancy becomes particularly visible in cross-border contexts,

where investors compare resolution outcomes across systems.

Finally, the combination of the 8% rule with existing high levels of loss-absorbing requirements means that EU banks are often required to pre-position substantial amounts of bail-in-able instruments, sometimes beyond what is strictly necessary for a credible resolution. This can reduce flexibility in liability structures and increase funding costs without delivering a corresponding increase in resilience (the interaction between the threshold and high MREL/TLAC needs can compound the burden).

For these reasons, the current rules would benefit from a more proportionate and adaptable approach. Allowing access to the resolution fund based on an assessment of the actual loss-absorbing needs of the case - rather than a fixed numerical threshold - would maintain the integrity of the regime while improving its flexibility. Such an approach would also help mitigate competitive disadvantages vis-à-vis other jurisdictions and ensure that the framework functions effectively across a wide range of bank sizes and failure scenarios.

3.5. Interactions across parts of the framework

The prudential, macroprudential and crisis management parts of the framework are closely interlinked. The complexity of these interactions also stems from the coexistence of requirements that may seek to address similar challenges or the coordination, or lack thereof, among relevant authorities in setting, monitoring and enforcing these rules. One particularly relevant topic is the capital stacks created by the various prudential, resolution and macroprudential capital requirements.

This section seeks stakeholders' feedback on the undue sources of complexity in the interaction across the three parts of the framework and on potential measures to address them, while maintaining the resilience of the EU banking sector and the stability of the financial sector at large.

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

Please explain.

As also highlighted in the previous questions, there are several areas where the interaction between the

prudential, macroprudential and resolution frameworks creates unnecessary complexity and limits the effectiveness of the overall system.

A first issue is the presence of overlapping requirements that address similar or identical risks. Different elements such as P2R, P2G and certain macroprudential buffers often end up covering the same vulnerabilities in parallel. This makes the structure heavier than intended and complicates both compliance and supervision.

A second area of complexity relates to limited buffer usability, largely due to double-counting of CET1. CET1 buffers are meant to be drawn in stress, but in practice they are restricted by minimum requirements in other parts of the framework, such as the leverage ratio or MREL. This reduces their real usability, because institutions fear that using them would bring them closer to breaching another constraint (the same CET1 is counted in both a buffer and a minimum requirement, reducing flexibility). As a result, buffers do not provide the countercyclical function they are meant to deliver.

A further complication arises from the multiplicity of MDA triggers. Each layer - prudential, macroprudential and resolution - comes with its own trigger for distribution restrictions, and these triggers are not always aligned. This patchwork of thresholds makes it difficult to understand which one will be binding in a particular scenario, and can create situations where restrictions are applied for reasons not necessarily linked to the bank's actual condition (different triggers create a fragmented signalling system). This undermines the clarity and credibility of the overall framework.

Coordination challenges between frameworks also play an important role. Governance and data-sharing issues often slow down decision-making and complicate the implementation of measures. Since different authorities oversee different parts of the framework, the absence of fully aligned processes and information flows makes it harder to form a coherent view of a bank's position (fragmented oversight can lead to inconsistencies in how risks are assessed and addressed). This can ultimately reduce the effectiveness of both preventive and crisis-management actions.

Taken together, these elements - overlapping requirements, double-counting of capital, multiple MDA triggers and coordination gaps create a framework that is more complex than necessary and sometimes difficult to navigate. Simplifying the interactions across prudential, macroprudential and resolution components would improve predictability, enhance buffer usability and strengthen the system's ability to operate as intended during periods of stress, while still maintaining resilience.

In crisis management, a simplification of resolution planning and testing is necessary, 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.

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

See the response to Q69 and subsequent.

(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?

The interactions across the prudential, macroprudential and crisis-management frameworks could be simplified by creating clearer boundaries between their respective roles and by improving coordination among the authorities involved. Much of today's complexity stems from the fact that these frameworks evolved separately, leading to overlaps, differing methodologies and governance processes that do not always fit neatly together (independent decisions can unintentionally compound one another).

A more streamlined capital structure would help reduce duplication. Ensuring that each layer of the capital stack serves a distinct purpose - and is calibrated with an awareness of what other layers already cover - would limit the risk of the same vulnerability being addressed multiple times. This would make the overall system easier to understand while maintaining the necessary safeguards.

Stronger cooperation and more consistent information-sharing between prudential, macroprudential and resolution authorities would also improve coherence. When decisions are taken in closer coordination, unintended interactions and conflicting signals become less likely (misalignment often comes from timing and communication rather than policy intent). A common platform for discussing capital-related measures could therefore play an important role in reducing complexity.

Finally, greater transparency around how decisions are calibrated and sequenced would increase predictability for institutions. By aligning methodologies where appropriate and ensuring that the impact of one requirement on another is assessed in advance, the framework would become both clearer and more manageable without compromising resilience.

Overall, simplifying the interactions across the different parts of the system requires clearer boundaries, better coordination and more transparent calibration- all of which can be achieved without weakening financial stability

(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?

3.6. Proportionality

The EU Single Rulebook for banks addresses the need for proportionality throughout the current bank regulatory framework. Certain banks meeting a set of size and risk-based criteria can apply a lighter regime compared to the regime applicable, by default, to all banks. Notably, small and non-complex institutions in the CRR[6] benefit from lighter reporting and disclosure requirements, while the bulk of capital, liquidity, corporate governance requirements apply across the board. In the crisis management domain, banks under simplified obligations are subject to lighter resolvability expectations, etc.

This section seeks stakeholders' feedback on the current levels of proportionality in the banking regulatory framework and how to further improve it.

(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
				X	

[6] Defined in Article 4(1), point (145) of CRR.

Please explain.

Smaller banks face, compared to their size, a very huge amount of obligations and requirements resulting in proportionally higher compliance cost, whether they are direct costs (internal regulatory project costs or external consultancy) or indirect costs (staff involved in Internal Control Functions / total staff). Nevertheless, it has to be noted that the question is formulated in a way to strictly link proportionality to the size of the banks, which is not considered sufficient. Instead, proportionality regards all banks, as it is core to risk-based banking supervision and should be based to the nature, scale and complexity of institutions and their risks.

For this purpose, the concept of proportionality should be clarified. 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 regards 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. 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 (either connected to its size and complexity, to its business model or to other idiosyncratic aspects relevant to that risk, which might also be the case for large banks). The peculiarity of specific group structures (such as Italian cooperative groups) should also be addressed.

It might be worth reminding that current legislation already recognizes the need to address the issue of proportionality, as per Article 519f CRR, which mandates the EBA to provide an assessment report on the overall prudential framework for small and non-complex institutions, also having regard to banking groups and specific business models, as well as to the protection of diversity for maintaining financial stability and credit provision in local communities.

As also explained in the answers to the following questions, size should not be the only driver of simplified measures, as a bank's complexity and its own specificities should be taken in due account.

This also applies to EBA and ECB Guidelines, that seem often to adopt a "one size fits all" approach rather than considering risks managed by single banks.

The principle of proportionality should also be applied within the internal model framework. All internal models submitted for regulatory approval are currently expected to satisfy very demanding requirements and directed to the same type of supervision process and level of scrutiny. The materiality of models should be taken into account to avoid entailing for lower materiality models an undue burden for first submission and on-going maintenance.

(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.

Rather than discussing the merits of a specific regime for small banks and its features, it is deemed necessary to highlight the need for clear explanations in Level 1 and Level 2 texts of how proportionality should be applied in practice (e.g. specific methodological approaches; explicit identification of expectations applicable to small and non-complex institutions or, more generally, graduation of expectations based on banks' characteristics and exposure to risks). Materiality threshold should be applied whenever possible to

avoid compliance burden associated to negligible issues (e.g., the need to resubmit reporting data for low differences).
As examples of areas and possible interventions:

- In the context of a general simplification of the requirements related to the preparation of reports and data requested for supervisory purposes (ICAAP/ILAAP reports, other documents such as the Recovery Plan and the Funding Plan) – reassessing the scope of these reports and the related documentation - the possibility should be considered of applying reduced obligations (such as exemption from the Recovery Plan) under certain conditions
- the possibility of requesting an exemption from EBA or SSM stress test exercises if the methodology does not appropriately address the specific vulnerabilities of the bank. In this regard, it is suggested to consider the absence of capital depletion in the last stress test exercises as an objective criterion for exemption. More generally speaking, flexibility could be allowed to JST/JRTs as regards the exercises that a bank shall carry out, also envisaging the possibility to exclude a bank
- introducing a materiality threshold for the need to request authorization for the reduction of own funds in accordance with Article 77 CRR "Conditions for the reduction of own funds and eligible liabilities." It is proposed that authorization be required only for operations exceeding a certain threshold (in absolute value and/or as a percentage of own funds) The introduction of a materiality threshold would reduce the number of cases submitted to the Supervisory Authority by banks, with benefits for both the latter and the Supervisory Authority, which could focus its attention on most significant transactions. This issue is particularly relevant in the context of cooperative banks, where there are often restrictions on the number of shares that can be held by individual members and where, therefore, the amounts subject to authorization for repurchase of own shares by the bank (resulting, for example, from withdrawal, death, or loss of eligibility of an individual member) are often immaterial when compared to the total capital of the bank.

(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?

- o Yes
- o No
- o No opinion

If your reply is Yes, please explain how such set of requirements should be framed.

(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?

It would be appropriate to enlarge the scope of banks that should be considered “small” for the purpose of simplified obligation targeting institutions of limited size and complexity, by: raising the threshold based on total assets, applying it at individual level, and considering as eligible small banks belonging to large groups (on a voluntary basis).

Also the ECB (in its document “*Simplification of the European prudential, regulatory, supervisory and reporting framework*”, Dec. 2025) recommends expanding the degree of proportionality by means of increasing the scope of eligible small banks through an increase of the €5 billion threshold of the SNCI regime, as well as extending the scope of the simplified rules.
The following point is worth to be discussed:

- Increasing the size threshold: Raise the size threshold from EUR 5 billion to around EUR 8–10 billion just 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 Member States: When determining the SNCI criteria, the different situations of the Member States must be adequately considered, that is, in a risk-appropriate manner to better tailor requirements the risk profiles an operational reality of institutions from this Member States.

3.7. Corporate governance

The CRD and CRR aim at ensuring the sound and prudent management of financial institutions. To that end, they contain specific provisions on corporate governance of financial institutions.

This section seeks stakeholders' feedback on the effectiveness of current corporate governance rules and their impact on the EU banking sector.

(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

Please explain.

Regarding Executive Directors and Material Risk Takers, recent changes in non-EU countries such as - among others - UK / CH - including the removal of the variable pay cap and adjustments to deferral periods, the cash/share mix, and materiality thresholds – present significant competitiveness challenges in the global market for top talent, which warrant close and ongoing monitoring. Within the EU regulatory framework, a clear divergence emerges among sectors as well. While banks remain subject to the CRD bonus cap and its related constraints, investment firms (under the IFD/IFR regime) and asset managers (under UCITS V and AIFMD) face no mandatory variable-to-fixed pay ratio limits. Despite competing for similar talent pools, these entities operate under significantly different remuneration frameworks which results in an uneven competitive landscape from a compensation standpoint.

(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?

For instance, to reward over-performance, providing flexibility for a higher variable-to-fixed cap and/or less stringent deferral periods when variable remuneration is paid with a higher share of financial instruments compared to the regulatory minimum (e.g., reduced retention period, etc.).

Moreover, about the rules on internal governance, generally speaking, reducing documentation and internal reporting requirements across all Levels of the EU legislation could help simplify regulatory burdens without undermining the institutions' sound and prudent management.
For example, in the EBA Guidelines on Internal Governance EBA/GL/2021/05 (under review), it would be appropriate to simplify the set of information required on exposures granted to related parties, making it more consistent with the information required in the context of the ECB's F&P Questionnaire, thereby reducing the compliance burden in the presence of non-significant exposures. In any case, it is suggested to raise the current threshold to determine the relevance of exposures for which additional information is required, currently set at euro 200.000.
Moreover, as mentioned above (see question 24), in the draft revised EBA Guidelines on internal governance

there are some provisions of additional constraints for the institutions that are not envisaged by the CRD VI Directive. An example is the inclusion - in the Draft Guidelines - of very specific requirements on the mapping of duties, individual statements, reporting lines, and organisational structures.
This level of prescriptiveness risks turning compliance into a rigid boxticking exercise rather than fostering effective governance.

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

The issue of requirements and fit and proper criteria for members of the management body, as well as for heads of key internal control functions and the related assessment process, is of particular relevance with regard to banks affiliated with a parent undertaking that exercises direction and coordination over them, within which specific prerogatives also exist in relation to corporate governance.
Generally speaking, the 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.
It is further proposed to allow Member States to take into account the (including qualitative) characteristics of credit institutions, such as those recognised as entities of the social economy, also having regard to the provisions set out in Article 519-f of Regulation (EU) No 575/2013, point (a).

3.8. Reporting and disclosures

Public disclosure by banks is important to ensure transparency and market discipline. Supervisory reporting is about giving the supervisor the necessary data to monitor banks and if necessary, intervene. Supervisory reporting and public disclosure requirements related to prudential, macroprudential and crisis management have evolved over time and are sometimes split across different Implementing Technical Standards developed by the EBA.

Co-legislators have recently amended the provisions empowering EBA to draw up reporting templates moving from a tabular way of reporting, whereby banks fill in templates and send them to supervisors, to a data element focused reporting, whereby banks produce data that are then sent digitally to supervisors. A number of initiatives have been developed in relation to disclosures of information to the public, in particular through a centralisation of disclosures and a greater role for EBA in line with the Pillar 3 data hub and ESAP rules. In addition, in 2025 the Commission has put forward a series of simplification initiatives aimed to boost competitiveness and reduce administrative burdens for businesses. Key proposals in the 'Omnibus I' package on substainability reporting have been agreed upon by co-legislators, and work is ongoing to finalise the implementing measures of the revised Corporate Sustainability Reporting Directive (CSRD) on which a political agreement was reached in December 2025. Technical work is also ongoing in relation to the European Sustainability Reporting Standards (ESRS) as well as the Climate and Environmental Delegated.

(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?
Please explain.

To streamline supervisory reporting, improvements should focus on reducing the number of required data elements and ensuring better alignment of reporting requirements. Standardisation through the use of a common financial language is also essential. XBRL-CSV is a suitable format for integrated reporting thanks to its simplicity, widespread adoption, and strong compatibility with existing tools. Its plain text structure supports the efficient handling of large datasets and facilitates data processing, making it well suited to modern reporting needs.

Among the policy measures already implemented by EU Authorities or currently planned, two initiatives have potential to reduce undue complexity and reporting burden for EU banks:

1. Follow up work on the EBA Feasibility Study on Integrated Reporting (2021).

The activities launched after the feasibility study represent the most meaningful step toward simplification.

Modernisation can only be achieved through true semantic and syntactic integration of supervisory, resolution, and statistical reporting.

Harmonised definitions, a common data dictionary, common validation rules, and shared technical standards across authorities are essential to eliminating duplicated data requests and reducing transformation efforts for institutions.

2. The ESCB's IReF (Integrated Reporting Framework) project.

IReF is a key driver for simplification in statistical reporting. By moving towards a single, fully harmonised EU wide reporting framework, the project will remove national divergences and enable maximum harmonisation, provided that local reporting requirements are progressively decommissioned when no longer relevant.

When it comes to the ESG framework, the simplification of the CSRD and CSDDD represent a significant step in the direction of reducing complexity in EU sustainability reporting and due-diligence requirements. Simplifying the ESRS is essential to decrease the burden on preparers, including banks. It is important that the European Commission retains the key simplifications proposed by EFRAG and builds on this work to address the remaining challenges faced by the financial sector. The possibility of early application of the ESRS revised standards on a voluntary basis (from FY2026) is expected to be timely confirmed.

Moreover, although several EU Taxonomy simplification measures adopted in the recent Sustainability Omnibus Delegated Act are welcome, Taxonomy reporting remains onerous for banks - and by extension their clients - and the EU remains an outlier globally. The "optional relief" for GAR reporting included in the Delegated Act offers limited practical benefit, and the changes introduced only partly address concerns about the design and usefulness of the GAR. It is therefore important that the European Commission takes further steps to simplify EU Taxonomy reporting, including reviewing the GAR methodology and removing the KPIs for the trading book and fees and commissions, to effectively reduce undue complexity and operational burden for banks.

(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
Number of data points			X	
Frequency of changes of the reporting obligations			X	
The difficulty of using regulatory reporting for internal risk management purpose	X			
Ad hoc reporting requests from supervisory authorities			X	
Frequency of submission of reporting obligations		X		
- Other Lack of harmonization Lack of data sharing among Authorities			X	

Please explain.

When it comes to simplification and reduction of administrative burdens, the volume of reporting and information requests frequently received by banks - in a more or less structured and recurring form - comes into focus. This clearly represents an area where rationalisation is possible, and we are actively contributing

to the work that Authorities have already activated in this area.

Beyond specific interventions, some cross-cutting considerations may apply. For example, it could be envisaged, where possible, to request reporting only at the consolidated level rather than also at the individual level, and to calibrate requests proportionately to the bank's risk profile.

Furthermore, in addition to reporting and specific data requests (already in scope of initiatives to reduce administrative burdens), it would be appropriate to reassess the necessity, scope, and potential areas of overlap of the many reports, statements, and plans that banks are required to produce (ICAAP, ILAAP, Recovery Plan, Funding Plan, …).

In some instances, similar but not identical information are required by supervisors, macroprudential bodies and resolution authorities, with timelines or formats that may diverge depending on the requiring body. Even apparently small differences in terms of substantive data as well as of formats/templates may have significant implications for intermediaries (e.g need to re-adapt processes/devices, to make them mutually fungible etc.) This lack of coordination creates additional reporting burden for institutions and raises the risk of providing inconsistent information.

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).

(93) What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

Two key policy measures could significantly modernise EU reporting and reduce the burden on institutions:

1. Implement effective data sharing across authorities.

The EBA feasibility study on integrated reporting (Art. 430c CRR) highlighted that duplicated data collections remain the main source of inefficiency. Authorities should systematically share collected data, use a common data dictionary, and apply harmonised validation rules so that each data element is submitted only once and reused for supervisory, statistical, and resolution purposes.

2. Strengthen cooperation frameworks beyond the current JBRC mandate.

The JBRC's advisory-only role limits its ability to ensure alignment across EU and national authorities. Its mandate should be reinforced—moving towards a more binding coordination function—to prevent overlaps, ensure consistent definitions and timelines, and streamline new reporting requirements.

Together, these measures would provide the greatest impact in reducing fragmentation, improving data quality, and lowering the reporting burden for EU banks.

3. Continue reducing sustainability-related reporting requirements for the financial sector. Key priorities include:

- Building on ESRS simplification efforts (see also the response to Q91).
- Further simplifying EU Taxonomy reporting for banks, intervening on the Green Asset Ratio. Current Taxonomy reporting does not meet the Commission's policy objectives, offers limited value to investors, and imposes significant burdens on banks and their clients.
- Streamlining Pillar 3 ESG disclosure requirements, moving to annual reporting only and aligning the scope with the CSRD, including through changes to Level 1 legislation if needed. In this regard, the need for actual changes should be assessed after knowing the outcome of the revision of Pillar

3 disclosure ITS that EBA is expected to release in next weeks.

(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.

An area where the requirements for banks entail a huge burden for clients is represented by the ESG reporting (and, more generally, the prudential ESG regulatory framework and supervisory expectations for banks). Banks are facing challenges to gather the numerous and various information on the ESG profile of clients that are necessary to comply with all regulations, as producing such information is complex and costly for firms. See also the answer to question 95.

[7] See also the work on nature risks by the Network for Greening the Financial System, such as the supervisory work related to nature related risks and a proposed risk assessment framework, or the ECB, such as *Nature at risk: Implications for the euro area economy and financial stability*, ECB Occasional Paper Series No 380, and *The impact of the euro area economy and banks on biodiversity*, ECB Occasional paper Series No 335.

(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?

The ESG reporting requirements for all institutions provided for in CRR III (Capital Requirements Regulation) should be scrutinised in light of the Omnibus ESG process so that companies can be effectively relieved of bureaucratic burdens and unnecessary burdens in a consistent timing. The reduction in the number of companies obliged to report on sustainability might create a data gap. It is essential that bank-specific reporting and disclosure obligations are adjusted in parallel to ensure that banks can be compliant while reductions in the burden on companies actually take effect and a trickle-down effect is avoided

Given the substantial changes underway in EU sustainable-finance legislation, including revisions to the CSRD delegated acts, the Taxonomy framework and the SFDR, there is a clear need to reassess elements of the prudential ESG framework to ensure coherence, proportionality and operational feasibility. As the Omnibus package significantly narrows the scope of corporate sustainability reporting, several existing requirements in CRR III and CRD VI risk becoming misaligned with the data that companies will actually be required to disclose. Banks could continue to face obligations to collect detailed ESG information from counterparties that no longer report it, leading to non-standardised data gathering, higher reliance on estimates and unnecessary operational burdens without providing commensurate risk-management benefits.

A recalibration of ESG prudential rules is therefore needed to align supervisory expectations with the simplified ESRS standards and the revised CSRD perimeter. Ensuring that prudential requirements correspond to reliable and legally available data is essential to maintaining proportionality and supporting the competitiveness of the European banking sector. In addition, concentrating the prudential framework on climate and environmental risks - where methodologies and supervisory practices are significantly more mature - would avoid broad, under-defined expectations on the “S” and “G” profiles, that add complexity without meaningful risk-capture value.

Also, the ongoing EBA consultation on amendments to the Guidelines on the Systemic Risk Buffer (SyRB) deserves attention. The proposal aims to enable macroprudential Authorities to address climate-related systemic risks by introducing more granular sectoral and geographical classifications, including refined NACE Level 2 segmentation and new geographical identifiers such as Local Administrative Units (LAU). While these enhancements align with the broader supervisory focus on climate risk, they raise practical and conceptual questions. Operationally, banks may be able to work with NACE Level 2, but sourcing and managing LAU-level data is less straightforward and may require substantial new efforts.

More importantly, the timing and direction of the proposal warrant careful reflection, as the introduction of a climate-related SyRB appears in contradiction with the broader EU objective of simplifying and streamlining the capital buffer framework. Expanding the use of the SyRB for climate-specific purposes - especially with new granular classifications - adds regulatory complexity precisely when the overall buffer system is intended to become simpler and more coherent. The proposal also appears not coherent with the current European policy agenda focused on regulatory simplification (e.g. Omnibus legislative package) and more generally on the competitiveness of the EU financial sector.

Finally, ESG disclosure requirements under Pillar 3 should also be streamlined. Many templates depend on information unlikely to remain available under the revised CSRD scope or duplicate disclosures already captured under traditional risk categories. Aligning disclosure expectations with the availability of audited sustainability information and reducing frequency to an annual basis would materially ease operational pressure while maintaining supervisory relevance.

It is also important to ensure that, together with the revision of SFDR, the revision of “MiFID sustainability preferences” is also carried out, in order to identify a new definition which is more understandable for clients and applicable to all financial instrument with sustainable characteristics, even if non included within SFDR.