SFL's answers to the EC consultation on banking competitiveness

FINEXUS
CREATE, CONNECT, CONVEY.

1. Banking competitiveness in the EU and globally

1.1. Contribution of the banking sector to the EU economy

Question 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.

EU banks remain the backbone of European corporate finance. Bank loans account for approximately 75% of EU corporate borrowing and 30% of total external funding, with banking sector assets reaching 290% of EU GDP. This intermediation role is structurally larger than in the US, where capital markets play a proportionally greater role. Banks support growth through credit allocation to firms and households, payment services, and risk transformation, particularly for SMEs, which remain heavily bank-dependent.

https://journals.sagepub.com/doi/10.1177/10245294261431901

However, fragmentation constrains the sector's contribution. Cross-border bank lending has declined since 2014, and mergers and acquisitions remain predominantly domestic. National ring-fencing of capital and liquidity prevents efficient allocation across Member States, raising borrowing costs in smaller and peripheral economies. The coexistence of national and European layers of prudential requirements makes the EU capital stack unusually complex and impedes efficient intermediation.

https://www.europarl.europa.eu/RegData/etudes/STUD/2025/764188/ECTI_STU(2025)764188_EN.pdf

EU banks are also less profitable than their US peers (US banks' ROE was 12-18% compared to EU banks' of 10.5% in 2024). This reflects not only regulatory fragmentation but also the lower profitability of European businesses themselves. ROE pressure reduces appetite for risk-taking and long-horizon lending. Empirical evidence from mission-driven banks shows consistently lower NPL ratios (1.61% vs 1.81% for significant banks), suggesting that forward-looking risk integration improves credit quality and is not merely a compliance burden. ECB research confirmed tightening credit standards, partly reflecting macroeconomic uncertainty from global trade tensions.

https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2025q4~379c8b7d7d.en.html

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

https://www.eba.europa.eu/publications-and-media/publications/profitability-1

The green transition illustrates the mismatch between EU growth priorities and current bank business models. The EU banking sector's green asset ratio stands at only 2.76%, while 90% of EU banks face high climate transition risks. Banks currently derive over 60% of non-financial corporate interest income from the 22 most GHG-intensive industries. The prudential framework thus needs to explicitly recognise double materiality: banks are not only exposed to environmental risks, but also contribute to their build-up through financing misaligned activities (increasing system-wide transition and physical risks over time). Transition plans are a key tool to address this gap: by assessing portfolio alignment, they link strategy to risk and support forward-looking supervision that goes beyond compliance.

https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-key-indicators-climate-risk-eueea-banking-sector

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.bankingsectoralignmentreport202401%7E49c6513e71.en.pdf

https://sustainablefinancelab.nl/paper/closing-the-gap/

Three structural barriers explain this gap: first, bankability, as many green projects do not generate sufficient near-term cash flows to meet standard credit criteria, especially under current interest rate conditions. Second, business model, as banks' traditional preference for physical collateral disadvantages green and digital investments, which are typically asset-light. A shift towards cash-flow-based and impact-linked lending is needed. And finally, regulation, since existing prudential frameworks do not adequately price climate transition risk. Plus, the absence of a dedicated green lending channel limits banks' capacity to absorb first-loss risk on green projects.

Similar dynamics apply to the digital and social transitions: intangible-intensive digital firms and social-purpose borrowers are systematically underserved by collateral-based credit models. Various options could be implemented to correct these fallacies.

First, completing the Banking Union would structurally unlock cross-border intermediation. Establishing EDIS, enabling consolidated-only supervision for cross-border groups under the ECB, and creating a genuine single market for retail banking would reduce fragmentation premia and improve capital allocation.

Second, targeted regulatory reform can close the green banking gap: recognising transition-risk-adjusted collateral values, developing standardised green loan

taxonomies compatible with prudential rules, and expanding EIB/EIF first-loss guarantees to crowd in private bank lending to green SMEs.

Third, reforming credit assessment frameworks, particularly for SMEs, to incorporate forward-looking and sustainability criteria would enable banks to serve the growth sectors of the EU economy more effectively, including cleantech, digital infrastructure and social housing.

Question 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 credit demand is structurally underserved in several segments, though the future path of (private) credit demand is uncertain. In difficult economic conditions, demand for survival credit may rise while investment credit falls. The most recent ECB Economic Bulletin reports a 3% bank loan financing gap, though non-bank financial intermediation has grown steadily over the past decade, partly substituting for bank credit.

Four supply-side barriers account for the most significant gaps.

Credit risk methodology and innovative businesses. Current assessment practices rely on historical data, placing innovative and transition-oriented enterprises at a structural disadvantage despite their long-term viability and contribution to EU competitiveness. This also creates portfolio risk: excessive risk premia for innovative companies suggest that systemic risks arising from economic transitions are not properly priced in.

Collateral requirements and the services sector. EU banks' preference for physical collateral disadvantages platform-based businesses and new-economy sectors with limited fixed assets. Intangible assets such as intellectual property are rarely accepted as security, which is a business model issue more than a regulatory one. The ECB Bank Lending Survey Q4 2025 confirms that higher perceived risk and lower risk tolerance were the primary drivers of tighter credit standards, with banks citing industry-specific situations and the general economic outlook as tightening factors.

https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2025q4~379c8b7d7d.en.html

Cost base and small business lending. EU banks' compensation structures, persistently above those of most other sectors, create a fixed overhead per lending contract largely independent of loan size. This raises the minimum economically viable loan to a level that excludes a substantial share of small-business credit demand: below this threshold, a loan is loss-making before credit risk is even priced in.

Profitability pressures and risk appetite. Listed EU banks' focus on ROE constrains risk appetite. High share buyback volumes, even among banks the ECB considers capital-surplus, suggest that regulatory headroom, akin to the 'excess capital' created under the Solvency II review, is not translating into additional real-economy lending but is instead returned to shareholders. As in Solvency II, where capital above the Solvency Capital Requirement is expected (but not required) to support productive investment despite functioning primarily as a prudential buffer, this limits the effective contribution of the banking sector to financing the climate transition and digitalisation.

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32026R0269

https://www.tandfonline.com/doi/full/10.1080/14693062.2025.2575778

Banks also raise two supply-side complaints: administrative costs and capital regulation. The first is legitimate, high admin costs do constrain credit supply to SMEs. The second deserves pushback: looser regulation would merely shift risk to governments, as the 2008 Global Financial Crisis demonstrated.

Medium- and long-term outlook. The ECB BLS Q4 2025 shows that trade policy uncertainty and tariff changes are already tightening bank risk tolerance, particularly in Germany and France. Combined with persistently high energy costs, this is reducing the pool of creditworthy investment projects, reflecting a shortage of sufficiently profitable opportunities driven by regulatory fragmentation and policy uncertainty within the single market, rather than a capital shortage.

https://data.ecb.europa.eu/data/datasets/BLS/BLS.Q.U2.ALL.O.E.Z.B3.ZZ.D.WFNET

Sectors where access could most be improved: (i) innovative and knowledge-intensive enterprises relying on intangible assets; (ii) micro and small enterprises below the minimum viable loan threshold; (iii) services and platform-based sectors with non-standard collateral profiles; and (iv) green transition projects with long payback horizons and limited historical default data.

For EU priority areas, appropriate analysis extends beyond bank credit to identify what type of funding is needed, by size and risk profile, and what combination of private and public actors could address it.

Question 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?

b. An SME

As the Bundesbank has often noted, the binding constraint to bank financing for SMEs is insufficient demand for credit that fits banks' current risk profiles. The deeper problem is structural: EU banks' risk appetites are calibrated to business models with long track records and physical collateral, systematically excluding the innovative, transition-oriented and intangible-intensive SMEs that represent the EU's stated growth priorities. Unlike the US, where venture capital absorbs risks that

banks cannot, the EU lacks deep alternative financing channels, making bank credit the dominant (and often only) option for SMEs at the frontier of the green and digital transitions. Banks' inability to extend their risk appetite to these clients suppresses fee income and profitability, compounding the competitive gap with international peers.

The core obstacle is the design of credit assessment frameworks. Basel risk weights are estimated on a one-year horizon using historical data, structurally rewarding businesses with established balance sheets and penalising innovative or transition-oriented ones with limited track records. This is not a neutral calibration: research has shown that model-based capital requirements tied to historical credit risk data systematically underweight transition-oriented lending, creating a financing gap that is partly regulatory in origin.

https://www.researchgate.net/publication/379506224_Model-based_financial_regulations_impair_the_transition_to_net-zero_carbon_emissions

EU banks compound this by systematically favouring physical collateral over cash-flow-based or resilience criteria, a practice that disadvantages green, digital and innovative SMEs whose value resides in intangibles, future cash flows, or transition trajectories rather than tangible assets. The result is a mismatch between banks' credit assessment models and the actual risk-return profile of the SME segments the EU economy most needs to finance.

Investor pressure reinforces the problem. The prioritisation of dividend payouts and share buybacks crowds out investment in longer-term cashflows associated with transition finance, further narrowing the effective risk appetite banks bring to SME lending.

A leverage-based framework with forward-looking scenario assessment would reduce the distortion created by backward-looking risk weights and better align capital requirements with the actual risk profile of transition and innovation-oriented lending. Reform of credit assessment frameworks to incorporate cash-flow-based and resilience criteria, supported by EIB/EIF first-loss guarantees, would extend banks' effective risk appetite without requiring additional capital, and without exposing them to undue risk.

https://journals.sagepub.com/doi/10.1177/10245294261431901

The complexity of the EU regulatory framework creates an additional structural disadvantage relative to jurisdictions with simpler capital stacks, particularly for banks financing innovative or longer-term SME projects. Simplification of the capital stack (i.e. reducing the number of overlapping requirements and aligning calibration methodologies) would lower compliance costs and free up analytical capacity for more sophisticated, forward-looking credit assessments.

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

The EU economy benefits substantially from a diversified banking sector, and the evidence supports preserving this diversity across two complementary layers: larger, pan-European groups capable of financing innovation and cross-border investment, and smaller, region- or community-focused institutions (cooperatives, ethical banks, savings banks, focused retail banks) whose distinct business models anchor financial stability and serve borrowers that larger banks routinely underserve.

https://www.tandfonline.com/doi/full/10.1080/02692171.2022.2090521

https://www.ecgi.global/sites/default/files/working_papers/documents/bankingstabilityfinal.pdf

Evidence suggests that greater banking diversity is associated with lower NPL ratios and provides a buffer in periods of financial stress. The mechanism is straightforward: heterogeneity in institutional models, ownership structures and risk appetite leads banks to diversify along different dimensions, thereby reducing correlated exposures and lowering the likelihood of simultaneous failure. By contrast, homogeneity breeds fragility. Beyond stability considerations, diversity also enhances financial inclusion: borrowers underserved by the dominant business model are more likely to access finance in diverse systems, improving both risk-sharing and overall resilience.

Research shows that financial sector heterogeneity declined prior to both the Global Financial Crisis and the COVID-19 recession, as large institutions increasingly converged in their investment, funding, and lending strategies. The erosion of heterogeneity may amplify the impact of systemic shocks. In periods of instability, investment- and market-oriented banks contribute significantly more to systemic risk, while retail banks consistently exhibit lower exposures across crises. Banks that shift from market- to retail-oriented models during downturns have been shown to reduce systemic risk, underlining that no single model prevails and that diversity itself acts as a stabilising agent.

https://openaccess.city.ac.uk/id/eprint/34852/1/BBM_Systemic_Risk_February2025.pdf

To allow for more diversity, we therefore suggest among others an amendment of Article 28 (1)(h)(iii) CRR, removing the obligation of dividend distribution to allow banks wishing to use non-extractive, long-term-oriented and future-proof models to do so, scaling up the diversity of the EU banking sector. The definition of own funds in article 28 CRR could be further simplified in order to keep the genuine

loss-absorption function of own funds, without prescribing the contract details of the share. We further recommend the creation of a small bank regime tailored to the needs and true risk profiles of smaller institutions, to support them in approaching risks differently and catering their communities that would otherwise be considered unbankable.

In a similar line of thought, the restriction of article 27 CRR to allow for cooperative structures only within member states could be removed, so cooperative structures could be used by banks operating cross border as well.

Question 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 make a genuinely complementary contribution, one that commercial banks cannot replicate on their own, and that public institutions cannot make by acting alone. Their investment behaviour is also a driver of capital flows from the private sector, setting them as market-shaping actors.

The investment gap in the EU's transition to a sustainable, competitive economy cannot be filled by public or private finance in isolation (EBF, 2025). Many transition projects that are socially necessary lack viable business cases under current market conditions: they carry high upfront risk, long payback horizons, and regulatory or administrative complexity that commercial banks cannot absorb within standard credit frameworks. Public de-risking is essential to make these projects bankable, not to substitute for private capital, but to catalyse it.

https://www.ebf.eu/ebf-media-centre/updates/report-to-increase-bankability-of-clean-industrial-deal-and-green-transition/

NPBs and public guarantee institutions intervene at precisely this juncture. There exists a range of complementary instruments through which they do so: preferential loan conditions, credit guarantees, grants, subsidies, and tax relief. Of these, credit guarantees are identified as the most actionable product category: they provide capital relief, reduce risk-weighted assets, and directly expand the lending capacity of commercial banks without displacing them. The EIF's InvestEU Sustainability Guarantee illustrates the leverage this generates, budgetary guarantees have achieved an average multiplier of more than 15x, mobilising private capital far greater than the public resources deployed.

Concrete examples reinforce the complementarity. The Banco Português de Fomento has structured blended finance instruments specifically for green and inclusive economy lending, channelling public resources through commercial bank balance sheets. The Nordic Investment Bank deploys sustainability-linked loans and guarantees through the InvestEU framework, again using commercial banks as distribution partners rather than competitors.

The same relationship can be enjoyed at the systemic level. Public financial institutions, in particular the EIB and EIF, are not mere gap-fillers but architects of the financial system itself: uniquely positioned to de-risk transformative innovation, reshape market conditions, and signal investment direction to private actors. InvestNL, the Dutch national financing and development institution, exemplifies this role: it invests directly in enterprises with funding needs exceeding €10 million, deploying up to 50% of total funding requirements through venture debt, equity and blended finance instruments, while simultaneously building investment coalitions with the EIB, EIF and private co-investors.

https://www.clubofrome.org/pillars/material-transformations/rewiring-finance-transformative-innovation/

The central structural problem, however, is not the absence of public or private capital, but the coordination gap between them: public and private finance operate in parallel rather than in concert, and the blended finance ecosystem remains excessively fragmented and complex. The implication for policy is clear: NPBs and guarantee institutions could be positioned as orchestrators of multi-actor financing ecosystems rather than standalone lenders, with simplified access to public guarantee instruments and clearer co-financing frameworks that allow commercial banks to deploy capital alongside them at scale. The action by governments reveals their commitment to a transition agenda, and it's that certainty that businesses need.

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

Cross-border bank consolidation: ***to a large extent***

Domestic bank consolidation: ***to a small extent***

Banking services offered across the single market: ***neutral***

Digitalised banking services: ***to a large extent***

The EU banking market remains highly fragmented despite the following integration milestones: the Second Banking Directive (1989), the introduction of EMU (1999), and the launch of the Single Supervisory Mechanism (2014). In each case, expectations of cross-border integration were not fully realised. Banking M&A activity remains predominantly domestic; despite policy-makers calling for cross-border deals, they do not happen due to local interference and the protection of national champions.

https://www.oliverwyman.com/our-expertise/insights/2025/may/5-themes-driving-european-banking-mergers-acquisitions-2025.html

If appropriate EU-level conditions are put in place, the benefits of cross-border bank consolidation could be very large. The US experience after the Riegle-Neal

Interstate Banking Act of 1994 is instructive: substantial cross-state mergers created nationwide banks (e.g. JPMorgan Chase (13%) and Bank of America (11%) of the market). Enhanced competition from integration reduces lending rates for firms and raises deposit rates for savers. Realising these benefits requires removing barriers to cross-border M&A, including national supervisory interference in merger approvals (e.g. the UniCredit-Commerzbank episode) and solo supervision requirements that trap capital at the national subsidiary level.

https://www.cambridge.org/core/books/financial-markets-and-institutions/F902F75198BE61602BAC5D392924C6E8 (Chapter 6)

In many Member States, domestic markets are already concentrated. Further domestic bank consolidation can improve cost efficiency, but should not displace the priority of cross-border integration.

On banking services, the single passport formally enables cross-border banking, but retail banking remains highly national in practice. Fragmented tax regimes, product adaptation requirements, consumer preferences for local brands, and lack of common digital identity frameworks limit real cross-border reach.

In this sense, digitalisation is a powerful enabler of cross-border provision. Digital banks can acquire and serve customers across borders without a physical branch network, directly reducing the overhead cost disadvantage that currently makes small-business lending uneconomical across borders and limits access to credit for the S in SMEs.

The scaling up of cross border, genuinely European groups, could, however, be accompanied by a flourishing group of smaller, community-oriented banks. The diversity of the banking landscape is crucial for the resilience of the system against any thinkable and non-thinkable shock. To this end, smaller banks must be able to protect themselves from being bought by the larger ones. This requires amending articles 27 and 28 CRR, which need to allow for a diversity of ownership forms for banks, while always respecting the loss absorption function of capital.

Question 8: What are in your view the main risks faced by EU banks today?

Climate-related systemic risks have both exogenous and endogenous dimensions, requiring distinct policy responses. The exogenous dimension stemming from chronic physical risks and abrupt transition shocks necessitates sufficient loss-absorbing capacity to cover future losses, while the endogenous dimension relates to how financial system structures amplify these risks.

https://www.finance-watch.org/policy-portal/sustainable-finance/a-prudent-approach-to-climate-risk/

Structural weaknesses in the banking system reinforce these vulnerabilities. Bank capital ratios have remained structurally low (around 6% since the 1950s, compared to ~15% before the 1930s), reflecting a long-term erosion of market discipline driven by implicit guarantees such as deposit insurance and ‘too-big-to-fail’ expectations.

The continued reliance on IRB models creates incentives to underestimate risk and minimise capital requirements, while the increasing complexity of Basel III liquidity rules may interact with capital requirements in unpredictable ways. Large banks systematically exploit modelling discretion under IRB frameworks to reduce equity levels, amplifying systemic risk. Greater institutional and physical distance between banks and supervisors further weakens effective oversight. Taken together, these dynamics suggest that EU banks may be less resilient than headline capital ratios imply.

https://www.mdpi.com/1911-8074/13/4/73

https://www.annualreviews.org/content/journals/10.1146/annurev-financial-082123-110117

Climate risks compound these structural fragilities. Work by institutions and supervisors establishes that climate risks fall squarely within supervisory mandates. Physical risks, both chronic (e.g. rising temperatures, sea-level change) and acute (extreme weather events), impair collateral values and borrowers' repayment capacity. Transition risks arise from abrupt policy shifts, such as carbon pricing or regulatory tightening, which can strand assets and weaken the creditworthiness of carbon-intensive sectors. In delayed and disorderly transition scenarios, default risks are particularly elevated. These dynamics are by some referred to as 'green swan' events: systemic shocks marked by radical uncertainty and severe, non-linear impacts that are inherently difficult to model. The ECB further shows that most euro area banks remain significantly misaligned with EU climate objectives, leaving substantial transition risks embedded and largely unhedged in credit portfolios.

https://www.ngfs.net/system/files/import/ngfs/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

https://www.bis.org/publ/othp31.pdf

https://www.bis.org/bcbs/publ/d517.pdf

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.bankingsectoralignmentreport202401%7E49c6513e71.en.pdf

Beyond climate, other borderless risks are intensifying. The ECB identifies geoeconomic fragmentation as a defining financial stability challenge. Rising geopolitical tensions, trade fragmentation, and regulatory divergence generate uncertainty that transmits to bank balance sheets through disrupted trade and investment flows, sectoral reallocation, and tighter credit conditions. Evidence from the Russian invasion of Ukraine illustrates how such shocks can rapidly affect euro area lending and exposures, while US policy uncertainty creates additional spillovers. These risks are difficult to price or hedge using conventional tools and can generate significant tail-risk scenarios.

https://www.ecb.europa.eu/pub/pdf/other/ecb.report202601_financialstabilityrisks.en.pdf

An additional, emerging source of systemic risk is nature and biodiversity loss. ECB research applying a Nature Value-at-Risk framework shows that ecosystem degradation reduces productivity, disrupts supply chains, and increases vulnerability to shocks, with direct implications for bank credit portfolios. Biodiversity loss also contributes to inflationary pressures, creating indirect monetary and financial stability risks. As these risks remain largely unpriced and unmodelled, they represent a significant blind spot for banks in current prudential frameworks.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5850073

Question 9: What are in your view the main risks stemming from EU banks today?

Climate-related financial systemic risks have two key dimensions, exogenous and endogenous, which needs to be addressed with appropriate tools. The endogenous dimension requires preventive measures.

At the micro-level, the endogenous impact of any individual bank's financing decisions on climate is limited, but at the macro-level, the aggregate financing choices of the banking sector directly impact temperature trajectories, chronic physical risks and the speed and dynamics of the transition. This logic underpins the case for a macroprudential buffer calibrated to the sector's aggregate contribution to systemic climate risk. Banks are not only exposed to these risks, but they also contribute to their build-up through financing misaligned activities (double materiality). Empirical evidence confirms this is prudentially significant: mission-driven banks with lower carbon exposures consistently maintain lower NPL ratios (1.61% vs 1.89%).

https://www.finance-watch.org/policy-portal/sustainable-finance/a-prudent-approach-to-climate-risk/

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

Other structural financial stability risks stemming from European banks include contagion created by interconnected banks. The GFC illustrated this vividly, with the collapse of Lehman Brothers triggering shock amplification into a systemic crisis. Undercapitalisation further exacerbates vulnerabilities, as it can lead to a contraction of lending during a crisis, with direct effects for an EU economy heavily reliant on bank credit. Thin capital buffers also increase the likelihood of bailouts, transferring risk from shareholders and creditors to the public. At the same time, the continued reliance on IRB frameworks, allowing risks to accumulate in good times, leaves the largest and most interconnected institutions exposed to deleveraging spirals that amplify, rather than absorb, shocks when conditions deteriorate. Their extensive links to NBFIs (securitisation, SPVs, ownership and liquidity dependency) remain a persistent source of opacity and contagion risk.

https://www.mdpi.com/1911-8074/13/4/73

These risks extend beyond climate. Nature-related risks, digital infrastructure dependencies, and social inequality represent equally material systemic risks not yet fully reflected in prudential frameworks. Transition plans, required under Article 76a CRD, are a key tool for portfolio alignment monitoring they require banks to identify financing misaligned with climate objectives, set time-bound targets, and integrate this into risk management. Supervisors could actively use transition plans and monitor progress and challenge business models, not merely accept them as compliance documents. This supervisory approach could be extended to nature-related risks, reflecting their growing financial materiality.

What banks need is a data architecture that supports continuous adaptation. As scientific evidence evolves, firms must be able to update their business models and transition plans. This requires authorities to share macro-level data openly, and financial institutions to share micro-level data confidentiality with supervisors, enabling both to shift from static compliance to dynamic risk management.

https://sustainablefinancelab.nl/wp-content/uploads/sites/506/2026/01/260130POL-Making-prudential-plans-matter-1.pdf

1.2. Competitiveness and competition in the EU banking sector

Question 12: How would you assess the current level of competition in the banking sector within the single market?

EU banks face high levels of competition within their Member State of establishment: ***somewhat disagree***

EU banks face high levels of competition in the EU market: ***neutral***

EU banks face high levels of competition in global markets: ***somewhat agree***

Traditional banks are challenged by new developments: ***somewhat agree***

Other: **structural competition concerns**

Competition conditions vary significantly across Member States. In more concentrated markets such as the Netherlands and Belgium, authorities have raised concerns that higher policy rates have not been passed on to depositors, pointing to limited competitive pressure. National responses, including investigations by the Dutch competition authority and the issuance of higher-yielding Belgian government bonds, highlight the structural barriers to switching and limited cross-border alternatives in the Single Market.

Despite the existence of the Single Market, fragmentation continues to limit effective competition. Regulatory, legal, and political barriers restrict cross-border consolidation and the emergence of pan-European banking groups, as highlighted in the Letta and Draghi report, among others.

https://www.europarl.europa.eu/RegData/etudes/STUD/2025/764188/ECTI_STU(2025)764188_EN.pdf

On the global level, EU banks face strong competition, particularly from their US counterparts. Their global asset share declined markedly after the financial crisis, while US banks maintained their position. In investment banking, EU banks' share in EMEA fell from 54.7% in 2005 to 46% in 2015, with US banks gaining ground, before partial recovery by 2025. Liberalisation under the WTO framework has further intensified competition from foreign banks operating under different regulatory and economic conditions, contributing to an uneven playing field. EU banks remain competitive in niches such as infrastructure and green finance.

https://www.bruegel.org/policy-brief/united-states-dominates-global-investment-banking-does-it-matter-europe

https://www.somo.nl/nl/wp-content/uploads/sites/2/2010/12/Business-as-Usual_web.pdf

Digital banks and FinTech firms are increasing competitive pressure in specific segments, particularly payments, though their overall market share remains limited. Their expansion is constrained by regulatory fragmentation across Member States. Fragmentation, not regulation per se, remains the key obstacle to scaling EU champions. Incumbent banks are responding through digitalisation, but dependencies on a small number of US cloud providers create new concentration risks, potentially undermining both competition and resilience.

https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/773731/ECTI_BRI(2026)773731_EN.pdf

https://multimedia.europarl.europa.eu/en/webstreaming/committee-on-economic-and-monetary-affairs-ordinary-meeting_20260319-0900-COMMITTEE-ECON

https://www.somo.nl/nl/wp-content/uploads/sites/2/2023/03/Fintechs-Red-Flags.pdf

Ownership structures further shape competition dynamics. The four largest US asset managers (BlackRock, Vanguard, State Street Global Advisors, and Fidelity Investments) hold significant stakes (around 11% on average) across major EU banks. This common ownership may dampen competitive incentives and contribute to more homogenous governance and risk profiles. Current supervisory frameworks remain siloed and focussed on individual institutions and only partially capture these cross-institutional interconnections, pointing to the need for greater transparency and a more system-wide supervisory perspective.

https://www.bruegel.org/policy-brief/risks-europe-us-dominance-global-asset-management

https://www.balancedeconomy.org/latest/big-financial-power-global-warming

https://shareaction.org/reports/voting-matters-2024

1.3. Banks and other institutions as enablers of capital markets

Question 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?

Limited scale and inefficiency of EU capital markets: ***fully agree***

Macroeconomic environment: ***fully agree***

Limited growth and scaling-up prospects due to market fragmentation: ***fully agree***

Underinvestment in new technologies: ***fully agree***

Supervisory practices: ***fully agree***

Internal factors (low risk appetite, bank governance/culture): ***somewhat agree***

Uncertain or ineffective market exit for inefficient or distressed banks: ***fully agree***

European banks have traded below a price-to-book (P/B) ratio of 1.0 for over a decade, a gap that has widened relative to US banks since the GFC and has not closed even as cost efficiency has improved. The discount persists across all levels of cost-to-income ratio, indicating that undervaluation reflects forward-looking investor concerns about growth and profitability rather than current operational shortcomings. P/B ratios of European and US banks diverged markedly over 2007–2017, driven by a combination of structural and cyclical factors specific to the European banking landscape.

https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/764378/ECTI_IDA(2025)764378_EN.pdf

https://www.sciencedirect.com/science/article/abs/pii/S1544612319313509

The most important structural explanation is the fragmentation of the European financial market, which directly suppresses investor expectations of future earnings growth. US banks operate in a large, integrated single-jurisdiction market, while European banks face a patchwork of national regulatory regimes that de facto confine most to their domestic markets. Banking sector concentration is substantially higher in the US, allowing the largest institutions to realise economies of scale that remain out of reach for most EU banks. Completing the Banking Union and the SIU is thus essential precisely because it would extend the relevant market from the individual member state to the EU, fundamentally altering growth expectations.

https://www.sciencedirect.com/science/article/pii/S1059056025002709

https://www.sciencedirect.com/science/article/pii/S0378426620302119

Non-interest income (primarily investment banking, fees, and trading) is the single largest driver of the profitability gap between EU and US G-SIBs, whose ROE exceeded their EU counterparts by approximately 5–6%. European banks remain primarily oriented toward credit intermediation, with a business model more exposed to the interest rate cycle. European banks have also largely missed out on growth in investment banking revenues precisely because a fragmented domestic capital market does not provide sufficient scale. Market fragmentation also reduces the ownership dispersion of banks compared to their US counterparts, leading to insufficient funding flexibility. This leaves them exposed to political influence, often from foreign countries, as it has been found that the four largest US asset managers hold significant stakes in all EU G-SIBs and other EU financial services.

https://www.bruegel.org/policy-brief/governance-and-ownership-significant-euro-area-banks

https://www.balancedeconomy.org/latest/big-financial-power-global-warming

Macroeconomic conditions have compounded these structural disadvantages. Some research identifies GDP growth and the NPL ratio as the most reliable medium-term determinants of euro area bank profitability, while others find that persistently low and negative policy rates directly reduced net interest margins and weighed on European bank valuations, with no equivalent effect found for US banks. Further research has confirmed that banks operating in stronger macroeconomic environments achieve systematically higher valuations.

https://www.researchgate.net/publication/315239250_A_Tale_of_Two_Banking_Systems_The_Performance_of_US_and_European_Banks_in_the_21st_Century

https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op327~0d50b9136f.en.pdf

Larger European banks have been disproportionately affected by post-GFC regulatory changes. The resolution framework, while well-designed in principle, still lacks a fully mutualised fiscal backstop, and the complexity of MREL requirements creates uncertainty that investors discount into EU bank equity. Regulatory changes following the GFC and the sovereign debt crisis also fundamentally altered the value of bank franchises.

The evidence above shows a significant negative impact of NPL ratios on P/B ratios, while other experts observe that even under a cyclical upswing, a significant share of banks in the weakest tail of the profitability distribution would likely continue to struggle, implying that market exit of unviable institutions, rather than improved macro conditions alone, is necessary to restore sector health. The absence of a truly credible resolution mechanism contributes to the zombie bank problem, depressing sector-wide investor confidence.

Addressing the valuation gap will require structural reforms, including the completion of the Banking Union, a deeper SIU, and NPL resolution, alongside continued operational improvements at the bank level. Concretely, increasing the

leverage ratio (e.g. to 8-15%) leads to banks being perceived as safer, boosting their valuation.

https://onlinelibrary.wiley.com/doi/pdf/10.1111/fmii.12185

Question 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.

The prudential framework does not adequately account for the activities and complexity of NBFIs, as several interlocking gaps are weakening the current architecture.

Regulatory treatment of NBFIs is fragmented and uneven. Dedicated supervisory frameworks exist for insurance but are far less comprehensive for most other NBFI categories. The Financial Conglomerates Directive (FICOD) applies supplementary supervision only to bancassurance groups, leaving wealth managers, asset managers, broker-dealers, market infrastructure providers and other financial services entities largely outside its scope. Most EU G-SIBs in fact operate as financial conglomerates incorporating banks, insurers and various non-bank entities; within such groups, risk management frameworks and modelling assumptions are centralised, meaning a blind spot in one entity can propagate throughout the entire group. The current architecture thus fails to capture how banks and NBFIs are linked through ownership ties, creating risk concentrations that no single supervisor currently monitors.

https://www.bruegel.org/book/breaking-deadlock-single-supervisor-unshackle-europes-capital-markets-union

https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/16795-Competitiveness-in-the-single-banking-market/F33379943_en

Research shows that financial intermediation has transformed rather than migrated between sectors: risks remain in the banking system in a different form through senior loans to private credit firms, mortgage REITs, CLOs, warehouse financing and credit lines to NBFIs. The regulatory perimeter used for control purposes inexorably ceases to be useful for control purposes, as activity flows around it. The quantitative stakes are significant: IMF stress tests show that if nonbanks fully drew on existing bank credit lines, 10% of US banks and 30% of European banks by assets would see CET1 ratios fall by more than 100 basis points. Many individual bank exposures to nonbanks already exceed Tier 1 capital, and nonbanks account for approximately half of daily FX market turnover, underlining their systemic role in market functioning.

https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp3130~4a8f118165.en.pdf

https://www.bis.org/publ/work972.pdf

https://www.nber.org/system/files/working_papers/w32316/w32316.pdf

https://www.imf.org/en/blogs/articles/2025/10/14/growth-of-nonbanks-is-revealing-new-financial-stability-risks

Moreover, the current supervisory architecture targets individual entities and lacks macro-prudential tools for system-wide dynamics such as correlated deleveraging, margin spirals and cross-sector funding chains. Treating NBFIs as a monolithic category compounds this problem: the sector spans money market funds, hedge funds, pension funds, broker-dealers, commodity trading firms and fintech firms, each with distinct business models and risk profiles; blanket approaches risk mis-calibrating policy responses to specific subsector vulnerabilities. Bail-in credibility concerns are also more acute for NBFIs, which lack deposit insurance and have less developed resolution frameworks.

https://www.delorscentre.eu/en/publications/detail/publication/a-macro-prudential-framework-for-nbfi-in-the-eu

https://www.fsb.org/2026/01/sense-and-sensibility-in-nonbank-regulation-a-thoughtful-approach-to-nonbank-financial-regulation/

A further gap arises from ownership structure. The four largest US asset managers (BlackRock, Vanguard, State Street Global Advisors and Fidelity Investments) hold on average 11.35% of shares in European G-SIBs (up to 14.83% combined), with comparable or higher stakes in financial services firms and insurers. When these investors simultaneously hold stakes across banks, insurers, market infrastructure providers and other NBFIs, they align governance signals and risk assumptions across the entire system, creating a form of systemic interconnectedness the prudential framework is not designed to capture.

https://www.balancedeconomy.org/latest/big-financial-power-global-warming

https://shareaction.org/reports/voting-matters-2024

https://www.bis.org/publ/qtrpdf/r_qt2112_foreword.pdf

The sources converge on the "same activity, same risk, same regulation" principle as the necessary foundation, requiring subsector-specific calibration, minimum liquidity buffers, reduced reliance on redemption-on-demand structures, leverage reporting and limits, enhanced data on repo exposures and cross-sector credit lines, and stronger cross-border coordination to avoid the creation of systemic risk concentrations. Central bank liquidity backstops do not substitute for prudential requirements, as reliance on emergency support creates moral hazard. Stronger group-level supervision, an updated FICOD scope to cover the full range of modern financial conglomerates (as defined in the Basel framework) and forward-looking

scenario analysis embedded in supervisory practice are the necessary complements.

Question 15: How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

Competition between banks and non-bank financial intermediaries has intensified over the past decade with mixed outcomes. In payments and retail financial services, competitive entry has improved consumer outcomes and accelerated innovation. In securities and capital markets, however, MiFID-driven competition has produced a fragmented market structure that undermines price discovery, weakens liquidity aggregation, and prevents EU trading venues from reaching the scale needed to compete globally.

Two decades of venue competition reduced execution costs but failed to produce deeper, more liquid markets. In 2024, the ratio of total traded notional to GDP stood at 94% for Europe versus 378% for the US. Lit primary venue trading accounts for only around 30% of total EU equity volumes, with 70% split across MTFs, dark pools, SIs, and OTC channels. When MiFID II required banks to reregister private crossing networks as SIs, SI volumes grew from around 13% of on-exchange volumes in early 2021 to approximately 25% by end-2023, redistributing liquidity toward less transparent channels and weakening price discovery. Intra-market fragmentation, liquidity on a single stock split across venues, is the most acute dimension of this problem. This has direct implications for bank competitiveness: research shows that European banks trade at lower price-to-book ratios than US peers at every level of operational efficiency, partly because shallow capital markets prevent them from generating comparable investment banking and trading revenues. Further evidence in fact confirms that non-interest income is the single largest driver of the EU–US profitability gap.

https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/764378/ECTI_IDA(2025)764378_EN.pdf

https://www.sciencedirect.com/science/article/pii/S0378426620302119

The 2024 MiFIR Review mandated consolidated tapes for bonds and equities, and the December 2025 Market Integration and Supervision Package (MIP) introduced Pan-European Market Operator (PEMO) status, allowing venues to receive a single ESMA authorisation to operate across Member States without duplicative national licensing. These are meaningful structural steps, though their impact will take years to materialise. Notably, without mandatory order routing comparable to the US Reg NMS framework, the consolidated tape will improve market information but may not fully consolidate liquidity.

Payments represent the clearest competitive success. PSD2 opened bank infrastructure to third-party providers, the Instant Payments Regulation mandates instant payments at standard cost from January 2025, and PSD3 strengthens fraud prevention and data-sharing. However, large technology platforms continue to operate under lighter regulatory obligations than licensed payment institutions, a gap that raises unresolved systemic risk concerns.

The deeper structural problem lies on the demand side. As the Draghi Report highlighted, some €10 trillion sits in low-yield bank deposits in the EU. EU pension fund assets stood at only 32% of GDP in 2022, versus 142% in the US, reflecting the dominance of pay-as-you-go systems in the EU. Pension funds are by design long-term, equity-oriented investors and a critical source of demand for IPOs, venture capital, and infrastructure finance. Their absence weakens capital market depth for all participants, and no amount of supply-side venue competition can substitute for this deficit.

On digital assets, MiCAR establishes a unified framework for crypto-asset service providers, and the 2025 MIP ensures technological neutrality for tokenised securities, creating a regulatory foundation that could improve settlement efficiency and reduce post-trade costs at scale. Meanwhile, US-domiciled principal trading firms provide a significant share of EU equity market liquidity, introducing a cross-border supervisory dependency whose resilience during stress events falls outside the EU's direct regulatory architecture.

Overall, the EU's multi-venue competitive model has reduced trading costs but produced excessive liquidity fragmentation. The EU's combined stock market capitalisation stood at approximately 73% of GDP in 2024, against 270% in the US. US G-SIBs dominate global investment banking by leveraging domestic market depth and technological scale, a system-level disadvantage that EU banks cannot overcome through operational improvements alone. The Commission's MIP and PEMO framework are important steps, but their impact depends on parallel demand-side reforms: developing funded pension systems, simplifying retail investment access, reviving securitisation markets, and completing the Banking Union.

https://www.fese.eu/app/uploads/2025/07/the-liquidity-matrix-addressing-fragmentation-in-european-equity-markets-july-2025.pdf

1.4. Cross-border activities in the EU banking sector

Question 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.

Retail banking for households and SMEs remains largely segregated along national borders, with integration confined mainly to back-office operations and interbank

markets. This home bias produces significant divergence in the cost of credit across the EU, reflecting limited competition and unequal access to bank financing. Smaller banks are still supervised at the national level, risking an uneven playing field. Concentration risk is a further consequence, though back-office risk-sharing mechanisms can partially offset it.

https://www.cambridge.org/core/books/financial-markets-and-institutions/F902F75198BE61602BAC5D392924C6E8 (Section 6.1 and graph 6.1)

The costs of current limited integration are substantial. Segmented retail banking markets sustain high lending margins; mortgage margins in the Netherlands, for example, are significantly above those in comparable European markets, directly reducing household disposable income and raising borrowing costs for businesses. Banks are also constrained in their ability to diversify risk geographically or to allocate capital where it is most productive.

Deeper cross-border integration would enhance competition in retail markets, compress lending margins, and improve risk-sharing across countries. The ECB estimates that approximately 80% of idiosyncratic GDP shocks in the euro area remain unsmoothed; expanded cross-border asset holdings and credit flows would substantially reduce this gap. Further integration would also support the SIU by channelling EU household savings more efficiently towards productive investments.

https://www.ecb.europa.eu/press/fie/pdf/ecb.financialintegrationineurope201805.en.pdf

The principal risk is cross-border contagion: an integrated financial system transmits shocks more rapidly. The global financial crisis and the euro-area sovereign debt crisis both triggered sharp retrenchment in cross-border banking activity, with most market segments still below pre-crisis integration levels. Addressing these risks requires completing the Banking Union and specifically introducing a European Deposit Insurance Scheme, the ECB as lender of last resort for cross-border banking groups, and a fiscal backstop to the Single Resolution Fund. These are the preconditions for a stable, deeply integrated single banking market.

Prior to the financial crisis, differences in government bond yields among euro-area countries never exceeded 50 basis points, a benchmark for what deep integration can achieve. Today, the sovereign home bias of euro-area banks stands at a median of 71%, reinforcing the bank-sovereign nexus and illustrating how far integration still must travel. https://www.bruegel.org/book/europes-banking-union-ten-unfinished-yet-transformative

Question 18: What factors prevent EU banks from engaging in more cross-border activity within the EU or make cross-border activity more costly?

Non-harmonised macroprudential buffers: ***fully agree***

National discretion in intragroup large exposure limits: ***strongly agree***

Absence of economies of scale from engaging in cross-border activities: ***somewhat agree***

While member states hold the most granular knowledge of their own risks, such as physical climate risks (e.g. the Netherlands on river flooding, Portugal on wildfires), the application of macroprudential buffers for those risk needs to be harmonised uniformly across all EU banks. The current coordination mechanism through the ESRB, operationalised via Articles 133 and 138 CRD, creates a false sense of understanding and coverage of risks: macroprudential risks are fundamentally uncertainties, not quantifiable risks, and the costly apparatus of coordinated assessments and institution-specific buffers is poorly suited to managing them. Scenario-based stress testing across a range of adverse conditions would better prepare banks for those uncertainties at lower costs and would reduce the supervisory fragmentation that makes cross-border activity more burdensome.

Beyond the buffer framework, supervisory information asymmetries add a further barrier to cross-border engagement. A continuous, real-time data-sharing regime, analogous to the model operated by the Banco Central do Brasil (BCB) with its supervised groups, would give both banks and their supervisors a dynamic, system-wide view of exposures. This would allow institutions to actively manage their activities against multiple scenarios rather than relying on periodic, static assessments, while continuing to finance the economic activity that a climate-uncertain environment demands.

Related-party transactions (RPTs) constantly flow through banking groups and across borders, especially within the Single Market. The Basel Principles on supplementary supervision require a continuous monitoring of RPTs to identify both contagion channels and compliance with arm's length conditions in intragroup financing. In the EU, however, monitoring of RPTs beyond individual bank licenses and national borders is only governed by Article 8 of Financial Conglomerates Directive (FICOD), and only for groups that fall within that Directive's outdated scope.

https://www.bis.org/publ/joint29.htm

Aligning the definition of 'financial conglomerate' with the Basel standard (i.e. any group that combines at least one financial services license with any other financial services activity) would bring all complex cross-border groups within the scope of Article 8 FICOD. This would enable consistent, EU-wide monitoring of RPTs, close existing supervisory blind spots, and provide regulators with a meaningful instrument to monitor and contain intragroup contagion risk.

Two features of the current capital framework structurally discourage cross-border engagement, each affecting a different type of institution.

For cooperative and savings banks, Article 27 CRR permits capital instruments that protect against extractive investor behaviour (i.e. prioritizing institutional soundness over short-term profit distribution) but only where the bank does not operate cross-border. Banks with stable, mission-aligned ownership structures are therefore effectively penalised for expanding within the Single Market.

For larger, international institutions with the balance sheet capacity to finance major transition projects, Article 28 CRR imposes shareholder-friendly capital conditions, including a prohibition on dividend caps under Article 28(1)(h)(iii). The resulting investor pressure towards predictable short-term cashflows discourages precisely the longer-duration, higher-uncertainty financing that the green and industrial transition requires.

1.5. International playing field

Question 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?

Scale is the central constraint. JPMorgan Chase and Bank of America, as nation-wide banking groups, each hold approximately 10–13% of the US market, giving them the capacity to lead financing for large-scale infrastructure, transition and defence projects as sole or lead arrangers. No single EU bank approaches a comparable EU-wide market share, owing to the fragmented, nationally-oriented structure of European banking.

Complex structures compound the problem. Operating across multiple national regulatory environments, with solo supervision imposing standalone capital and liquidity requirements at subsidiary level, raises overhead relative to US peers who operate under a single consolidated framework. Legacy IT infrastructure and compliance with divergent national rules further consume resources that could otherwise be deployed in large-scale project finance.

Risk appetite also diverges. US banks, backed by a deeper capital market and broader pool of institutional investors, can more readily originate and distribute large exposures through syndication. EU banks face a more fragmented investor base, limiting their capacity to structure large loans or novel instruments such as green transition bonds or defence procurement facilities.

Regulatory conditions add a further structural drag. The combination of ECB group-level supervision and parallel national solo supervision of subsidiaries reduces deployable capacity for large project finance. As part of a completed

Banking Union, moving to consolidated-only supervision, with solo-level as a double check, would directly expand EU banks' financing capacity.

Beyond structural fragmentation, EU banks' limited capacity to finance transition, digitalisation and defence projects reflects two compounding problems: risk frameworks that systematically undervalue long-term opportunities, and a policy environment that fails to make long-horizon investment viable. Current IRB models assess credit risk using historical data and do not capture the long-term benefits of transition-aligned lending.

https://www.researchgate.net/publication/379506224_Model-based_financial_regulations_impair_the_transition_to_net-zero_carbon_emissions

Energy-efficient properties, for instance, are treated identically to non-efficient ones in credit risk calculations, forgoing more productive lending and failing to price stranding risk correctly. https://data.europa.eu/doi/10.2833/532126

This is not a capital supply problem. As the Bundesbank frequently notes, the binding constraint is insufficient demand for credit that fits banks' current risk profiles, not a shortage of capital. In the US, venture capital absorbs the risks banks cannot. EU banks' inability to extend their risk appetite to innovative and future-proof projects suppresses fee income and profitability, compounding the competitive gap with international peers.

Three policy conditions are needed for transition-oriented businesses to commit to transformative investment. First, credible and enforceable governmental commitments to transition trajectories: sectoral pathways, regulatory predictability, aligned tax incentives, and insurance arrangements for physical risks that are becoming uninsurable (a protection gap is already constraining both businesses and banks https://climate.ec.europa.eu/news-other-reads/news/have-your-say-shape-europes-future-world-affected-climate-change-2025-12-01_en). Second, a data architecture enabling firms and supervisors to shift from static compliance to dynamic risk management as scientific evidence evolves. Third, public risk-sharing instruments (i.e. guarantees, first-loss tranches and blended finance from development finance institutions) to crowd in private finance for projects that exceed commercially viable risk-return thresholds.

Banks willing to finance future-proof businesses require: regulatory certainty anchored in credible sectoral pathways; forward-looking supervision that rewards alignment with long-term objectives rather than historical track records; DFI-backed blended finance with tenors matched to loan maturities rather than political budget cycles; and an extension of Article 501a CRR beyond infrastructure to cover all longer-term projects, enabling risk assessments calibrated to full project horizons and treating explicit public commitments as risk-mitigating factors in prudential calculations.

1.6. Digitalisation

2. The single market and the banking union

2.1. The impact of prudential requirements on market integration

Question 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?

The current framework presents a fundamental structural tension. The ECB supervises significant institutions at the consolidated group level, yet subsidiaries are simultaneously supervised by national competent authorities (NCAs). NCAs can impose standalone solo or sub-consolidated solvency and liquidity requirements. This dual-track architecture effectively traps capital and liquidity within national subsidiaries, preventing efficient group-level balance sheet management.

On the other hand, host-country solo supervision offers meaningful protections. Local depositors and creditors benefit from a dedicated national safety net, and NCAs are better positioned to monitor jurisdiction-specific risks and respond swiftly to domestic conditions. In the absence of a completed Banking Union, one equipped with full risk-sharing instruments, this layer of national oversight retains a legitimate prudential rationale.

However, the costs of fragmentation are significant. Capital and liquidity locked at the subsidiary level reduce the operational efficiency and international competitiveness of EU banking groups relative to their US peers, who operate under a single consolidated framework with genuine group-level capital mobility. Cross-border consolidation remains equally constrained: merger approvals are de facto domestic affairs, as illustrated most recently by the UniCredit-Commerzbank episode. Underlying this is a structural political economy problem: national governments and supervisors remain attached to national champions, making reform politically costly even where it is economically warranted.

The case for moving toward group-level capital and liquidity management is compelling in theory: it would improve allocation efficiency and give supervisors a more accurate picture of systemic risk across the group. However, several concerns temper this view.

The most immediate risk is contagion. A parent entity could, in a stress scenario, drain capital or liquidity from subsidiaries to shore up its own position, leaving local creditors and depositors exposed. This concern is real but addressable — its resolution lies in completing the Banking Union, specifically by establishing the European Deposit Insurance Scheme (EDIS), clarifying the ECB's mandate as lender of last resort for Emergency Liquidity Assistance to cross-border groups, and activating the ESM as a common fiscal backstop. With these instruments in place,

the case for retaining national solo supervision as a host-country protection mechanism is substantially weakened.

https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/16795-Competitiveness-in-the-single-banking-market/F33379521_en

Beyond contagion, group-level structures introduce additional supervisory challenges. They multiply the opportunities for IRB model gaming, with even less transparency than at the solo level, making it harder for supervisors to assess true risk-weighted asset quality. The complexity of Basel III liquidity requirements, already demanding at the entity level, is amplified significantly when applied and reconciled across multiple legal entities and jurisdictions. Finally, intragroup exposures create 'who owes what to whom' ambiguities that obscure true capital adequacy: when a subsidiary encounters distress, loss absorption responsibilities within the group structure can be genuinely unclear, potentially masking vulnerabilities that solo-level reporting would otherwise surface.

https://www.mdpi.com/1911-8074/13/4/73

Thus, on the one hand, there is a true need to reform the reporting system, making sure that constant data-sharing between the supervisor and the supervised takes place through an appropriate architecture, controlling for intragroup exposures. On the other hand, macro risks need to be captured more effectively, thus consolidated-level supervision needs to be reinforced to inform micro-level risk models.

Question 33: What are your views regarding the most efficient way of applying prudential requirements within EU cross-border banking groups?

Other: ***fully agree***

Option 2 (prudential requirements should only be applied at the highest EU consolidated level of the banking group) but only if option 3 (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) is met in a proportional manner.

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).

The most efficient application of prudential requirements differs by requirement type, and the starting point is simplification across the board.

For capital, a simple, high leverage ratio of 8–15% applied at the entity level is preferable. Group-level consolidation or netting introduces complexity without commensurate prudential benefit, and bail-in credibility concerns in Europe mean

that robust safeguards for group-level capital management are difficult to deliver in practice. https://www.mdpi.com/1911-8074/13/4/73

For liquidity, the LCR could be replaced by a simpler liquidity indicator, also monitored at entity level. While liquidity may legitimately need to move quickly within a group under stress, simplicity and transparency at the solo level offers more reliable protection than extensive group-level flexibility, which is harder to supervise and can obscure emerging vulnerabilities.

Group-level application of prudential requirements at the highest EU consolidated level with a secondary solo-level check could be justified, but only if three conditions are simultaneously met: the ultimate parent entity bears full legal liability for all decisions throughout the group, regardless of its own authorisation status; depositors and creditors benefit from EU-wide protection through a common deposit insurance scheme; and the definition of own funds accommodates diverse ownership forms, including cooperatives and steward-ownership structures. This last condition is essential both to preserve a varied banking landscape capable of withstanding a range of future scenarios, and to ensure smaller banks are not structurally disadvantaged relative to larger competitors. A diverse banking landscape guarantees financial stability by guaranteeing heterogeneous risk appetites and inclusive access to credit, facilitating better risk sharing across the economy.

https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/ucfoundation/WorkingPapers/2021/WP170_Pisicoli_9th-SUERF-Best-Paper-Prize.pdf

On the definition of own funds specifically, Article 28 CRR could be simplified to the core loss-absorbing features established under Basel (paid-up, fully loss-absorbing, fully subordinated, perpetual, and with a minimum ownership commitment period) while Article 27 CRR could be permitted to apply across borders, removing the current penalty on community-oriented banks that wish to operate within the Single Market.

Question 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?

Current prudential rules rest on the assumption that risk models based on historical data provide adequate guarantees for future resilience. This is no longer sufficient. Forward-looking scenarios of up to ten years have been introduced under Pillar 2, yet Pillar 1 capital requirements remain anchored in historical data, leaving them blind to emerging risks (i.e. climate, geopolitics and cyber) that are by nature borderless. Supervisory reporting compounds this problem: it documents past behaviour rather than anticipating future vulnerabilities. A more effective architecture would partially replace backward-looking reporting with real-time data sharing: banks sharing micro-level data with supervisors, and central banks

sharing macro-level data with authorised institutions, along the lines of the model operated by the Banco Central do Brasil.

https://www.bcb.gov.br/en/financialstability/open_finance

Basel risk weights, estimated on a one-year horizon using historical data, systematically reward businesses with long track records and disadvantage innovative or transition-oriented ones. This structural bias is reinforced by investor pressure to prioritise dividend payouts and share buybacks, crowding out the longer-term cashflows associated with transition finance.

https://www.researchgate.net/publication/379506224_Model-based_financial_regulations_impair_the_transition_to_net-zero_carbon_emissions

Pillar 1 risk weights by asset class could be replaced by a general leverage ratio, widely estimated at 8–15% of unweighted total assets, framed within concentration limits calibrated to adverse scenarios such as a carbon budget, and supplemented by a macroprudential add-on where excess risk concentrations are identified. Banks would retain discretion over risk-taking within this framework, consistent with their business models. Resilience against future scenarios would be tested through a range of stress tests, with results translated into a preparedness add-on rather than a static capital buffer.

https://www.mdpi.com/1911-8074/13/4/73

The risks macroprudential buffers are designed to address (climate, cyber, geopolitical fragmentation) do not respect national borders. While Member States hold the most granular knowledge of their domestic physical risks, calibration for aggregated cross-border risks would be more efficient if uniform across the Union. The current ESRB coordination mechanism (Articles 133 and 138 CRD) creates a false sense of precision: macroprudential risks are fundamentally uncertainties rather than quantifiable risks, and the elaborate apparatus of national assessments and institution-specific buffers is costly and poorly suited to managing them. Scenario-based stress testing across a range of adverse conditions would better prepare banks for that uncertainty, reduce supervisory fragmentation, and lower the cost of cross-border activity.

The key structural reform is to move from dual-level (solo plus consolidated) supervision to consolidated-only supervision for significant institutions. This would allow capital and liquidity to be managed at group level, enabling EU banking groups to compete globally. In practice: standalone capital and liquidity buffers for national subsidiaries could be eliminated where they exceed the consolidated requirement; group-level internal capital allocation models could be assessed by the ECB without national override; and merger approval authority could be relocated fully to the European level, removing the ability of national supervisors or governments to block cross-border M&A on non-prudential grounds. The fiscal precondition is the completion of the Banking Union's risk-sharing architecture:

the EDIS, ECB emergency liquidity assistance for cross-border groups, and the ESM as a fiscal backstop for the resolution fund.

Efficiency gains from greater cross-border integration must be matched by safeguards that preserve resilience and reassure all member states. These include group-level requirements anchored by clear parental liability for all decisions throughout the group, and an own funds framework accommodating diverse ownership forms, including cooperatives and steward-ownership structures, to retain the variety of business models needed to withstand a range of future scenarios (amending Article 27 and 28 CRR). Real-time supervisory data sharing replacing backward looking reports is itself a safeguard: it replaces periodic static assessments with a continuous supervisory signal, enabling earlier intervention and preventing risks from migrating undetected across borders.

2.2. Market consolidation

Question 35. Do you consider that the EU economy benefits from the presence of large, cross-border banks active across the single market?

Same as question 36

Question 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?

Market consolidation through cross-border mergers is a credible path to achieving scale, but not the only one. Episodes like the UniCredit-Commerzbank situation show how competitiveness remains perceived as a national prerogative by Member States' governments, a major obstacle to scale and a perpetuating cause of market fragmentation. Cross-border M&A oversight could be a common responsibility of the member states, which would enhance the block's competitiveness and foster the emergence of truly competitive European ones.

That said, particular attention must be paid to the competitive advantages resulting from the European banking sector's diversity and its capacity to cater heterogeneous needs. Sectoral heterogeneity is a fundamental pillar of systemic resilience and financial stability.

A homogenous system, where most institutions converge on the same 'optimal' investment and funding strategies, creates a fragility trap. When banks diversify according to identical principles, they simultaneously become exposed to the same tail risks. A heterogeneous system, by contrast achieves what may be called 'diverse diversification': different institutions, with different risk appetites and different clienteles, make the sector as a whole less sensitive to systemic contagion and risk concentrations.

https://www.tandfonline.com/doi/full/10.1080/02692171.2022.2090521

A bank's business model also shapes its contribution to systemic risk, especially during periods of instability. Investment- and market-oriented banks are often regarded as drivers of competitiveness, given their resemblance to the models Europe seeks to rival. Yet retail-focussed, regionally-oriented banks equally contribute to competitiveness, by serving clienteles that would traditionally be considered unbankable and thereby reinforcing the resilience of the broader system. Evidence further suggests that as banks shift from diversified, market-oriented models towards more retail-oriented structures, their contribution to systemic risk tends to decrease, particularly during financial distress.

https://openaccess.city.ac.uk/id/eprint/34852/1/BBM_Systemic_Risk_February%202025.pdf

It has also been observed that banking heterogeneity declined in the lead-up to the Global Financial Crisis and other episodes of systemic stress, suggesting that rising homogeneity can serve as a precursor to systemic vulnerability. When shocks are endogenous to the financial sector, market-oriented banks have shown particular vulnerability, while smaller, community-oriented institutions retained the capacity to sustain credit provision to the real economy throughout the same periods.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

https://www.ecgi.global/sites/default/files/working_papers/documents/bankingstabilityfinal.pdf

Cross-border mergers could be encouraged and governed at the EU level, but with deliberate care to preserve the independence of smaller, community-focussed institutions that maintain the social fabric of the EU and approach systemic risks from heterogeneous perspectives. Achieving this balance requires more proportionality and a dedicated small bank regime, in line with ECB simplification recommendations, alongside the broader market consolidation agenda within the Banking Union.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

2.3. Non-prudential barriers to market integration

Question 37: what are the main non-prudential barriers that impede cross-border activities?

Divergent national tax treatment attached to certain banking products (mortgages, savings accounts, deposits) or banking operations (VAT, corporate and personal income taxation: **fully agree**

more generally, lack of unified banking product offering across EU or sub-regions, forcing product adaptation to each national market: **somewhat agree**

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: **neutral**

preference by local customers of local bank brands: **somewhat agree**

divergent insolvency laws and collateral foreclosure rules: **somewhat agree**

consumer protection laws and client specific documentation: **neutral**

divergent (non-prudential) reporting requirements: **neutral**

language barriers: **somewhat agree**

The non-prudential barriers to banking market integration identified above call for the following actions.

First, strict European merger control. The UniCredit-Commerzbank episode demonstrated how national governments retain de facto veto power over cross-border bank mergers, using ownership stakes and political pressure to block transactions on non-prudential grounds. Cross-border M&A oversight could be a common responsibility of the member states, which would enhance the block's competitiveness and foster the emergence of truly competitive European ones.

Second, binding limits on sovereign concentration. The median sovereign home bias of euro-area banks stands at 71%, entrenching the bank-sovereign nexus that amplifies home-country bias and reinforces national fragmentation. Binding diversification requirements for sovereign bond holdings would weaken this nexus and support genuine cross-border integration.

https://www.bruegel.org/book/europes-banking-union-ten-unfinished-yet-transformative

Third, reform of credit assessment frameworks to serve transition and intangible-intensive businesses. EU banks systematically favour physical collateral and track records, disadvantaging the green, digital and innovative businesses that constitute the EU's growth priorities. Updating credit assessment models to incorporate cash-flow-based and resilience criteria, supported by EIB/EIF first-loss guarantees, would extend banks' effective risk appetite without requiring additional capital.

https://journals.sagepub.com/doi/10.1177/10245294261431901

Fourth, completing the Banking Union. The structural precondition for all other integration measures is completing the Banking Union's risk-sharing architecture: the EDIS, a reliable ECB emergency liquidity assistance facility for cross-border groups, and the ESM as a fiscal backstop for the Single Resolution Fund. Without these instruments, the case for retaining national ring-fencing of capital and liquidity, which is the ultimate source of most non-prudential fragmentation costs, remains compelling, and reform will stall.

2.4. Protection of depositors

2.5. Liquidity in resolution

2.6. Sovereign exposures and risk reduction

3. Complexity and effectiveness of the regulatory framework

3.1. General assessment

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

Effectiveness (the extent to which the framework achieved its objectives: ***somewhat low***

Proportionality (the extent to which the objectives of the framework are achieved at minimal cost: ***somewhat low***

EU added value (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone: ***medium***

Relevance (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone: ***medium***

Coherence (extent to which policy/intervention is internally consistent and externally consistent with other EU policy: ***somewhat low***

Question 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?

The overall framework: **somewhat high**

The minimum capital requirements (Pillar 1): **high**

The supervisory measures (Pillar 2): **somewhat high**

The macroprudential requirements: **medium**

The resolution requirements: **somewhat high**

Other (reporting and disclosure): **high**

Our assessment reflects the perspective of smaller, non-complex, deposit-funded institutions.

For non-complex institutions, Pillar 1 is the primary source of undue complexity. The IRB/standardised approach asymmetry, which inflates risk weights for institutions locked out of internal model authorisation under Article 143 CRR, means that the framework's risk sensitivity works against the institutions it is meant to serve most. Risk weights of 38.72% on mortgages and 87.56% on corporate lending, compared to 13.94% and 54.46% for large banks using IRB models, reflect a measurement asymmetry built into the architecture of the framework itself. The output floor adds

a further layer of complexity that is structurally irrelevant for standardised-approach institutions. Because of this, we propose an amendment to Article 92 CRR3 to introduce an opt-in leverage-ratio-based Pillar 1 track for strictly eligible institutions.

While not explicitly listed in the grid, reporting and disclosure obligations represent the second highest source of undue complexity for small and non-complex banks. The parallel production of Pillar 3 disclosures and supervisory reporting, the volume of data points generated by successive CRR/CRD iterations, and the resubmission burden for immaterial errors collectively consume operational capacity that community banks would otherwise deploy in lending. Because of this we propose deriving Pillar 3 from supervisory reporting and operationalising the 'request once' architecture already established in Article 430(9) and (10) CRR3.

Fixed-frequency supervisory processes and bottom-up stress testing requirements calibrated for complex institutions generate further compliance costs without producing risk insights that would change supervisory decisions for banks with simple, stable balance sheets. The P2G framework can generate additional capital requirements as a consequence of disproportionate stress testing processes, compressing lending headroom without a corresponding improvement in systemic resilience. Thus, we propose supervisor-led top-down stress testing with diverse scenarios replacing bottom-up burdens, and an improvement to P2G calibration.

The macroprudential framework creates undue complexity primarily through the interaction between buffer requirements and the capital stack, which can reduce buffer usability and create uncertainty about the actual capital available to absorb losses in a downturn. For non-complex institutions, the macroprudential framework is less burdensome in absolute terms, but the lack of consistency between macro-prudential and micro-prudential requirements means that a proportionate Pillar 1 regime loses much of its value if macroprudential buffers continue to be calibrated for systemic institutions.

MREL requirements designed for bail-in resolution of large cross-border groups are disproportionate for institutions whose resolution is fundamentally simpler and more amenable to standard insolvency procedures. Proportionate MREL calibration for non-complex community banks does not require new primary legislation, but consistent application of existing proportionality provisions in the crisis management framework, with explicit supervisory guidance.

The overall framework is coherent in design but insufficiently differentiated in application. Its complexity is appropriate for the institutions it was primarily designed for. For smaller, non-complex institutions, the same framework generates compliance costs disproportionate to the supervisory value produced. The solution is the coherent opt-in proportionate tier, combining a leverage-ratio-based Pillar 1, integrated reporting derived from supervisory data, top-down stress testing replacing bottom-up processes, and a simplified liquidity toolkit for deposit-funded

institutions, available on a voluntary basis with conservative calibration, strict eligibility criteria, and supervisory override retained in full.

Question 49: Which type of instrument adds the most undue complexity to these parts of the frameworks?

International standards (Basel, FSB): ***somewhat low***

Level 1 EU legislation (i.e. regulations/directives): ***somewhat low***

Level 2 EU legislation (i.e. technical standards): ***medium***

Level 3 EU measures (i.e. EBA guidelines, Q&As, etc.): ***medium***

Supervisory guidance/practices: ***somewhat high***

Implementation differences og EU legislation at national level: ***high***

Interaction with other national legislation: ***somewhat high***

Interaction with other EU legislation: ***somewhat high***

Undue complexity in the regulatory framework comes primarily from fragmented EU implementation and the layering of overlapping instruments across EU and national levels. Undue complexity in regulation creates an uneven playing field on two dimensions: international, where differences in national interpretation and added requirements hamper the completion of the banking union and on size, where small banks are placed at a disadvantaged because of the economies of scale in following complex regulation.

We believe that international standards and level 1 directives itself are less of a problem, because complexity here reflects risk-sensitive supervision that is justified to maintain a resilient financial system. It is important that simplification of complex rules does not impair supervisory capacity and leads to increased financial fragility.

Where complexity can be reduced is in restoring the hierarchy of regulatory sources envisaged by the Lamfalussy framework and harmonizing definitions and taxonomies.

https://ebi-europa.eu/wp-content/uploads/2026/01/the-EBI-SIMPLIFICATION-REPORT-16-January-2026-FINAL.pdf

Question 50: Would you support less complexity in the bank regulatory framework even if this means…

… less risk sensitivity within risk-weighted requirements: ***fully agree***

… increase in capital requirements: ***fully agree***

… less consideration for EU specificities: ***somewhat agree***

…less consideration for national specificities: ***somewhat agree***

… higher contributions to safety nets (DGS and resolution funds): ***neutral***

... less resilience/financial stability: ***fully disagree***

https://www.mdpi.com/1911-8074/13/4/73

We fully support reducing complexity in bank regulation. More than three decades of Basel accords have led to a situation that is too difficult to supervise and too easy to game. These lacunae are interconnected, and the solution must be too: simpler rules, a higher leverage ratio, and data-sharing instead of reporting as a package.

The IRB models introduced under Basel II were designed to align capital more precisely with risk. In practice, they created room for optimisation that sophisticated institutions could exploit to minimise capital while remaining technically compliant. Academic warnings about this dynamic existed from the early 2000s, but took decades to act. The output floors in Basel III finalisation were a politically negotiated correction. The preferable alternative is a simple, uniformly applied leverage ratio, explicitly not risk-sensitive, precisely because its simplicity makes it resistant to the gaming that risk sensitivity enables. The theoretical cost of treating all assets equally is outweighed by the practical benefit of a requirement that cannot be engineered away.

European bank capital ratios declined from roughly 15% in the early 1930s to around 6% from the 1950s onward. This long erosion was enabled by implicit government guarantees (e.g. deposit insurance and too-big-to-fail) combined with regulatory frameworks that allowed banks to compress required capital through increasingly sophisticated modelling. Post-Basel III, ratios in Europe have improved. A Tier 1 equity or leverage ratio of 8–15% would reflect today's available capital levels. Simplification and higher baseline capital are complementary: removing model-based mechanisms is precisely what would allow capital to rise to levels the system actually needs.

A simple high leverage ratio and a simple liquidity indicator would be universal. The empirical pattern of capital levels has been consistent across European countries with substantially different banking systems, which itself argues against the view that national specificities require fundamentally different approaches to the core problem. EU and national adaptations of global standards have not always served stability well, the January 2008 capital reduction being the most glaring example. Europe's bank-based financial system does give banking regulation particular systemic importance, providing a legitimate, if limited, basis for some EU-level considerations.

Simplification is not in tension with financial stability, it is a precondition for it. The current framework's complexity has actively undermined stability by enabling capital to remain artificially low if investors' preferences so ask, by producing interaction effects between capital and liquidity requirements that neither regulators nor bankers fully understand, and by generating the false sense of security that sophisticated risk management can mask rather than reduce fragility. A simpler framework with higher capital requirements would deliver substantially

more resilience than the current one. Accepting reduced stability as the price of simplification would invert the entire logic of this reform agenda.

Question 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?

For black-and-white calculations or protocols without interpretation, Regulations are always preferred for black-and-white calculations or protocols without interpretation. This would apply to macroprudential buffers and to TLAC/MREL, as well as the procedures for Pillar 2 (SREP checklist).

But for legal provisions that need to be embedded in national frames, such as property law, insolvency law and criminal law, directives work better.

Question 55: how would you evaluate the various authorities responsible for banks in terms of:

The ECB, the EBA, and national competent authorities have built, over the past decade, a supervisory infrastructure of genuine quality.

The most significant opportunity we identify is in the consistent application of the risk-based approach across institution types. Supervisory authorities have made important progress in this direction, the ECB High-Level Task Force on Simplification and the EBA's ongoing work on proportionality standards are examples of this commitment in action. The next step is translating this direction into supervisory practice for smaller, non-complex institutions, where the intensity of supervisory processes does not always reflect the actual risk profile and systemic relevance of the institutions concerned. Where this gap exists, it is a consequence of framework design rather than supervisory choice and addressing it through the proportionate regime we propose would allow authorities to concentrate their resources more effectively on the institutions and risks that genuinely warrant intensive oversight.

One area where we see particular opportunity for development is in the supervisory understanding of relationship-based, community-oriented banking models. The standard supervisory toolkit, risk-weight frameworks, profitability metrics, stress testing scenarios, was developed primarily with reference to institutions whose business model is oriented toward shareholder return and financial market activity. Applied to banks whose primary objective is the generation of social value for depositors, borrowers, and communities, these tools can produce systematically misleading readings. The paradox documented in the 8th Report of Ethical and Value-based Finance in Europe (2025), where ethical banks appear riskier by RWA metrics yet consistently outperform on NPL ratios and performance stability, is

precisely the kind of signal that a supervisory framework attentive to model diversity would be designed to interpret, rather than overlook. Developing supervisory methodologies that can read the risk profile of mission-driven institutions accurately is a condition for supervision to be genuinely risk-based across the full diversity of the EU banking sector.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

3.2. Prudential framework

Question 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?

Capital requirements are the cornerstone of financial stability, allowing banks to absorb losses without amplifying shocks. By far, no research has supported the industry push for lower capital requirements to increase bank lending: better-capitalised banks are more reliable lenders during downturns and benefit from lower funding costs. Maintaining capital requirements at current levels is therefore paramount for EU banking sector stability.

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

https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op376.en.pdf

Complexity arises from three sources: the opacity and variability of IRB models, which allow banks to self-estimate risk parameters and create incentives to minimise required capital; the plethora of prescriptive rules specifying high-level principles with granular mandates (the EU single rulebook exceeds 15,000 pages); and the bluntness of the standardised approach, which can fail to capture idiosyncratic risk profiles.

https://www.bruegel.org/working-paper/quickly-fading-memory-why-and-when-bank-capital-important

https://www.mdpi.com/1911-8074/13/4/73

Several reforms could reduce this complexity without weakening standards. The output floor introduced by Basel III, which limits the capital relief banks can derive from internal models by anchoring requirements at 72.5% of standardised calculations, plays a central role in preserving risk sensitivity in the system as a whole. In light of this, the EU shall refrain from mirroring the US approach of removing the output floor. At the same time, proportionality regimes can

streamline Pillar 1 requirements for smaller institutions, while more risk-sensitive standardised risk weights could reduce reliance on complex internal modelling.

For smaller, non-complex institutions, undue complexity is concentrated in four structural features that interact and compound each other.

First of all, smaller institutions do not have a choice other than using the standardised approach for their risk management: they apply risk weights of 38.72% on mortgages and 87.56% on corporate lending, compared to 13.94% and 54.46% for large banks using IRB models, not because their actual risk is higher, but because the more accurate measurement method is inaccessible to them. Data from the 8th Report on Ethical and Value-based Finance in Europe (2025) confirms the distortion: ethical banks show higher RWA density (46.54% vs 33.78%) despite lower NPL ratios and more stable profitability. The remedy is an opt-in leverage-ratio-based Pillar 1 track under Article 92 CRR3.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

The same underlying data must be compiled and reconciled through two entirely separate processes, Pillar 3 and supervisory reporting, tapping into staff and IT resources without additional supervisory benefit. This can be eliminated by deriving Pillar 3 from supervisory reporting via the implementing technical standards delegated to the EBA under Article 430(4) CRR, without requiring new primary legislation. The 'request once' architecture of Articles 430(9) and (10) CRR could be operationalised through binding technical standards.

Mandatory stress testing processes designed for institutions with trading books and complex funding structures generate compliance costs for deposit-funded banks without producing risk insights that would change supervisory decisions. Supervisor-led top-down stress testing with diverse scenarios would generate equivalent supervisory intelligence at a fraction of the cost. P2G could be set on this basis for eligible non-complex institutions.

The NSFR was designed to address wholesale funding risk that does not exist in deposit-funded community banks. A simpler toolkit (e.g. a loan-to-deposit cap combined with a liquid asset floor) would maintain prudential discipline while eliminating compliance costs that serve no supervisory purpose, requiring an amendment to Articles 411–428 CRR3.

The way to reduce complexity without deregulating is to offer strictly eligible institutions a coherent opt-in simplified regime, combining a leverage-ratio-based Pillar 1, integrated reporting derived from supervisory data, top-down stress testing, and a simplified liquidity toolkit, with conservative calibration, strict eligibility criteria, and supervisory override. Institutions that require the full framework remain subject to it; those whose risk profile does not warrant it are no longer penalised by it. This has been the choice of the Brazilian central bank, applying five levels of supervision depending on the size & complexity of the institutions.

https://www.bcb.gov.br/en/financialstability/regulation

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

The prudential framework does not currently strike the right balance between risk sensitivity and complexity. IRB models have introduced opacity and incentives to game capital estimates, which is why preserving Basel III's 72.5% output floor is fundamental. The EU single rulebook now exceeds 15,000 pages of prescriptive rules, while overlapping buffer requirements (CCyB, O-SII, and Pillar 2A) are often calibrated independently using similar measures, creating redundant layers. Hence, complexity is too high for the somewhat low risk sensitivity of the current models.

https://www.bruegel.org/working-paper/quickly-fading-memory-why-and-when-bank-capital-important

The framework also penalises smaller and non-complex institutions for a problem they do not have, while rewarding larger ones for a complexity they have chosen.

Data from the Report on Ethical and Value-based Finance in Europe (2025) illustrates this clearly. Ethical and alternative banks report RWA/total assets of 46.54%, compared to 33.78% for significant banks, making them appear riskier under Pillar 1 metrics. Yet actual performance tells the opposite story: their NPL ratio (1.61%) is lower than that of significant banks (1.89%); their return on assets has outperformed in eight of the last ten years (0.75% vs 0.64% in 2023); and their results have remained consistently stable across the economic cycle, with no negative years, while significant banks have exhibited sharp cyclical swings.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

This divergence between measured and actual risk stems from the IRB/standardised approach asymmetry. Large banks can apply IRB models with risk weights as low as 13.94% on mortgages and 54.46% on corporate lending. Smaller banks must apply standardised weights of 38.72% and 87.56% to the same asset classes, not because they are riskier (the NPL data confirms they are not), but because supervisory authorisation under Article 143 CRR3 demands validated model architectures, extensive historical data, and dedicated internal governance. However, these requirements are all calibrated on the size and resources of large institutions, while smaller banks have the only option of using the standardised approach for their risk management.

Moreover, risk-weight formulas measure expected credit losses but disregard the indirect risk reduction that comes from integrating environmental, social, and governance factors into credit decisions – the assessment of social risk, climate risk, and borrower resilience that small, responsible banks embed in their lending processes, as required by Articles 74(2) and 87a CRD VI. This integration does not

lower RWA. It lowers actual default rates, which is why these banks' credit quality consistently outperforms what their regulatory risk weights would predict. This shows that in some cases risk sensitivity is too high because it's miscalibrated.

We therefore propose an amendment to Article 92 CRR3 (currently establishing risk-weighted capital ratios, with the leverage ratio as a secondary backstop) to introduce an opt-in track under which strictly eligible institutions may use the leverage ratio as their primary Pillar 1 requirement instead of risk-weighted approaches, subject to conservative calibration and supervisory override. This would align capital requirements with what the empirical record shows: institutions with stable performance, low credit losses, and conservative funding structures, whose capital adequacy is better captured by a simple equity-to-exposure ratio than by risk weights derived from a methodology they cannot access and that was never designed for them.

Question 61: Does the prudential framework strike the right balance between risk-weighted requirements and backstops (output floor, leverage ratio) or Pillar 2 requirements?

No. The current framework treats the leverage ratio primarily as a backstop to risk-weighted approaches, rather than as a potential primary requirement for institutions whose risk profile makes RWA granularity structurally inappropriate. For non-complex institutions, this hierarchy produces the wrong outcome.

The output floor (72.5% of standardised RWA) was introduced to limit variability in IRB model outputs, a legitimate concern for large institutions using complex internal models. For smaller institutions that use only the standardised approach, the output floor is structurally irrelevant: they cannot game their risk weights through modelling choices.

Empirical data from 8th Report on Ethical and Values-based Finance in Europe (2025) confirms this misalignment: ethical banks show higher RWA density (46.54% vs 33.78% for significant banks) despite lower actual credit deterioration (NPL 1.61% vs 1.89%) and stable profitability (ROA 0.75% vs 0.64%). This paradox stems from the structural asymmetry: ethical banks cannot access IRB models, so their risk weights are mechanically inflated relative to their true risk profile.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

We propose an amendment to Article 92 CRR3 to introduce an opt-in leverage-ratio-based Pillar 1 track for strictly eligible institutions, with conservative calibration, supervisory override, and clear entry, exit, and transition rules. The eligibility criteria would ensure that only institutions with genuinely simple, stable, non-speculative business models can access this track. This reform would not weaken the framework for institutions that genuinely require the granularity of risk-

weighted approaches, it would create a proportionate alternative for those that do not.

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

Yes, the leverage ratio framework would benefit from structural improvement, both in its design logic and its application to non-complex institutions.

On design: the current reliance on risk-weighted approaches creates three compounding problems. First, information asymmetry, as supervisors cannot fully observe the processes and assumptions behind internal model outputs. Second, opacity, because those outputs are difficult to challenge from the outside. Third, regulatory capture, because overcoming model complexity requires technical expertise, regulated entities are the primary interlocutors shaping regulation, which is increasingly tailored to their interests. A simple, transparent leverage ratio of 8–15% of unweighted total assets, combined with a simpler liquidity indicator, would reduce these distortions while maintaining prudential soundness.

https://www.mdpi.com/1911-8074/13/4/73

On application: the leverage ratio could be available as a primary Pillar 1 requirement on an opt-in basis for eligible non-complex institutions, rather than serving solely as a backstop to risk-weighted approaches. The Report on Ethical and Value-based Finance in Europe (2025) documents that small, responsible banks (with low performance volatility, NPL ratios of 1.61%, and an average loan-to-deposit ratio of 82.4% over 2014–2023) do not require the granularity of risk-weighted capital calculations to be adequately supervised. The Brazilian proportionality framework demonstrates that a leverage-ratio-based primary requirement is workable at scale and compatible with financial stability.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

https://www.bcb.gov.br/en/financialstability/prudential_regulation

Implementing this would require two legislative interventions: an amendment to Article 92 CRR3 to introduce an opt-in Pillar 1 track for strictly eligible institutions, and a dedicated provision, either a new article or an additional paragraph within the existing proportionality architecture of CRR3, specifying eligibility criteria, calibration standards, supervisory override mechanisms, and entry, exit and transition rules. Eligibility could be defined by business-model complexity and risk profile, rather than by size alone. Embedding these safeguards in legislation, rather than leaving them to supervisory discretion, provides certainty for institutions and ensures consistent application across Member States.

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

The current own funds framework contains two structural tensions that together constrain both the diversity of the banking landscape and the capacity of EU banks to finance long-term projects.

Articles 27 and 29 CRR permit cooperative and savings banks to use ownership structures that prioritise institutional soundness over short-term profit distribution (e.g. through caps on dividend distributions) thereby shielding the bank from extractive investor behaviour. However, these provisions only apply where the bank does not operate cross-border. Institutions with stable, long-term oriented ownership structures are therefore effectively penalised for expanding within the Single Market, creating a regulatory asymmetry that works against the very ownership diversity the framework seeks to preserve, despite the importance of diversity for financial stability.

https://www.tandfonline.com/doi/full/10.1080/02692171.2022.2090521

For banks that do operate at the international scale, Article 28 CRR imposes capital conditions that entrench short-term investor pressure, including for example an explicit prohibition on dividend caps under Article 28(1)(h)(iii). The resulting focus on dividend payouts and share buybacks forces large banks to prioritise short-term, predictable cashflows and structurally discourages the longer-duration financing that climate transition, digitalisation and other large-scale investment programmes require.

Two targeted adjustments would address both problems. First, Articles 27 and 29 CRR could be permitted to apply to cross-border expansion, removing the current disincentive for community-oriented and cooperative banks to expand within the Union. Second, Article 28 CRR could be simplified to the core loss-absorbing features established under the Basel framework: instruments must be paid-up, fully loss-absorbing, fully subordinated, perpetual, non-redeemable, and subject to a minimum ownership commitment period. Stripping Article 28 CRR back to these essentials would eliminate the provisions that currently embed short-termism into large banks' capital structures, without compromising the prudential integrity of the CET1 definition.

Together, these changes would allow the EU banking landscape to accommodate a genuinely diverse range of ownership forms, including cooperative and steward-ownership models, better positioning the sector to withstand a range of future scenarios and to finance the long-term projects the European economy requires.

Question 67.1: If you see issues with AT1 instruments, what measures would you recommend for improving the functioning of AT1 instruments?

Increasing conversion trigger (***fully agree***)

Imposing conversion instead of write-down (***fully agree***)

Facilitate coupon cancellation by making it more automatic and common (***somewhat agree***)

Review MDA triggers (***fully agree***)

The fundamental purpose of own funds instruments is to absorb losses without exception. Any instrument that specifies conditions under which loss absorption does not occur cannot be regarded as genuine own funds. Banks may issue such instruments, but they would better not count towards the regulatory capital buffer.

This issue exposes a structural problem with AT1 instruments. The ECB High-Level Task Force on Simplification has recently questioned their value in the going-concern capital stack, noting that their going-concern loss-absorbing capacity is unclear. This ambiguity undermines both the prudential logic of the framework and transparency for investors and creditors, and it is the lens through which the specific reform options could be evaluated.

The first option is to enhance the loss-absorption features of AT1 instruments to make their going-concern capacity unambiguous, clarifying trigger mechanisms, write-down or conversion terms, and the conditions under which they absorb losses before a bank reaches the point of failure. This would be Basel-compliant and would not alter the overall architecture of the capital stack but would not resolve the overlap between going-concern and gone-concern requirements. https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html

The second, more radical option is to remove non-CET1 instruments from the going-concern stack entirely, either by replacing them fully or partially with CET1, or by eliminating them without replacement. Full replacement with CET1 would simplify the framework considerably, leaving a single instrument type in going concern, and reduce the complex interactions between the going and gone-concern layers. However, unless non-CET1 instruments were fully substituted with CET1, this would raise questions about maintaining resilience and Basel compliance. It would also affect regulatory CET1 demand and raise capital neutrality concerns.

We would add that both options, as framed by the ECB, remain within a conventional going/gone-concern architecture. A more fundamental simplification, replacing the layered AT1/Tier 2 structure with a single high leverage ratio of 8-15% applied uniformly, would achieve greater transparency and remove the ambiguity around loss-absorption triggers altogether, at the cost of departing more significantly from the Basel framework as currently configured.

Question 68: What are your views on the following considerations regarding the EU implementation of the output floor?

In view of recent developments in US regulation considering a removal of the output floor, we strongly recommend not to follow suit, because keeping capital requirements calculated via complex IRB from falling below 72.5% prevents model-gaming and preserves appropriate risk sensitivity.

https://www.mdpi.com/1911-8074/13/4/73

https://www.bruegel.org/working-paper/quickly-fading-memory-why-and-when-bank-capital-important

Alternatively, to remove the issue of model gaming altogether, and given abundant academic literature about the added value of RWAs based capital requirements versus leverage ratios, we are also in favour of replacing the RWA ratio with a non-weighted leverage ratio of 8-15%, which would make the output floor redundant.

3.3. Macroprudential framework

Question 69: In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks: ***somewhat agree***

The calibration of macroprudential buffers: ***strongly agree***

The calibration of other macroprudential tools:

The heterogeneous application of some tools like Other Systemically Important (O-SII) buffers across the EU:

The current reciprocity arrangements: ***strongly agree***

The decentralised macroprudential governance framework and prominent role of national macroprudential authorities in setting measures: ***strongly agree***

Other: ***strongly agree***

The current EU macroprudential framework creates inefficiencies primarily through fragmentation and the absence of an integrated, system-wide perspective. The framework combines internationally agreed Basel standards with country-specific requirements, resulting in a fragmented and overlapping capital stack where buffers are calibrated for discrete risks but lack a holistic view. Each macroprudential capital buffer focuses on a narrow set of risk sources — credit cycle dynamics (CCyB), systemic institution importance (O-SII/G-SII surcharges), structural non-cyclical risks (SyRB) — and relies on heterogeneous calibration methodologies that are difficult to compare or aggregate. These calibration differences generate inherent inconsistencies across the stack, a problem the ECB has itself identified in proposing to consolidate buffers into a simpler two-buffer structure.
https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

A deeper source of inefficiency is the earmarked approach's failure to account for interactions between risk sources, a sort of 'fallacy of composition'. When shocks compound (e.g., climate-related and other borderless risks co-occurring), adding earmarked buffers together underestimates aggregate unexpected losses because it ignores amplification channels and feedback loops within the financial sector and between the sector and the real economy. Compound losses are greater than the sum of their parts; stacked earmarked buffers therefore systematically miscalibrate the total buffer requirement. This argues not for adding new instruments to an already complex stack, but for ensuring that any consolidated buffer structure, such as the releasable buffer proposed by the ECB, is calibrated on borderless macro-risks too rather than treating each source in isolation.

https://cetex.org/wp-content/uploads/2025/09/A-macroprudential-approach-to-compound-climate-risks.pdf

Climate systemic risk illustrates the calibration gap starkly. Climate-related risks exhibit all characteristics of systemic risk: widespread common exposures, potential for severe asset repricing, and financial sector amplification. While CRD VI now explicitly mentions climate-related risks among those that SyRBs can address, no jurisdiction has yet deployed this provision, and climate risk remains absent from macroprudential buffer calibration in practice. A holistic calibration of a consolidated releasable buffer could therefore explicitly account for climate-related and other borderless risks, including geopolitical tensions and AI-related developments, if the reformed framework is to avoid replicating the same blind spots in a simpler structure.

https://www.cepweb.org/a-macroprudential-response-climate-systemic-risk-four-essential-pillars/

The decentralised governance structure compounds these inefficiencies. Each national supervisor is responsible for implementing measures under the European framework independently, leading to divergences in SyRB calibration and application and creating room for regulatory arbitrage (e.g. high-emission lending could shift toward jurisdictions with less stringent requirements). On reciprocity, the absence of a mechanism for SyRBs has historically left a coordination gap; the ECB's proposal to introduce automatic reciprocity up to a threshold is a step forward, though its effectiveness will depend on the degree of standardisation achieved in its application across Member States. More broadly, the ECB's proposal for the Macroprudential Forum to take a holistic view of overall capital demand across the banking union addresses the coordination deficit directly, and the quality of that assessment will hinge on whether calibration methodologies are sufficiently harmonised and whether compound risks are embedded in the analytical framework from the outset.

Finally, buffer usability remains undermined in practice: banks are reluctant to draw on non-releasable buffers even in stress, due to market stigma, automatic distribution restrictions and unclear supervisory signals. Consolidating the buffer stack, as proposed by the ECB, could reduce this stigma by simplifying the framework and improving transparency, but only if the resulting structure comes with clearer guidance on release conditions and supervisory expectations.

Question 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?

Streamlining the macroprudential buffer framework while preserving resilience requires two complementary shifts: moving from an earmarked to a more consolidated approach to buffer calibration, and ensuring that forward-looking, dynamic systemic risks, including climate-related and other borderless risks, are embedded in the calibration of any reformed architecture from the outset.

A substantive structural reform would be the shift from stacked earmarked buffers to a consolidated approach. When shocks compound, as climate-related and other borderless risks increasingly do, the earmarked approach underestimates aggregate unexpected losses because it ignores interaction and amplification effects. A consolidated macroprudential buffer taking a holistic view of prospective losses corrects this miscalibration. The ECB has proposed precisely this direction: consolidating the buffer stack into a non-releasable buffer (merging the capital conservation buffer with the higher of O-SII/G-SII buffers) and a releasable buffer (merging the CCyB and SyRB), calibrated through common methodologies including a single stress-testing exercise.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://cetex.org/wp-content/uploads/2025/09/A-macroprudential-approach-to-compound-climate-risks.pdf

SFL supports this consolidation direction. However, streamlining should not mean reducing the analytical scope of what the releasable buffer is calibrated against. The key question is not whether to retain the SyRB as a separate instrument, but whether the consolidated releasable buffer is calibrated to capture structural, non-cyclical systemic risks, including climate-related transition and physical risks, that the current earmarked stack systematically underweights. Embedding climate systemic risk into the calibration of the consolidated buffer, rather than treating it as outside the framework, is both analytically sounder and architecturally simpler. This is consistent with the four principles identified in the literature: absorption (sized to cover unexpected losses from climate shocks); prevention (incentivising institutions to support the transition); individualisation (institution-specific components proportional to climate risk exposure); and recalibration (periodically adjusted to the observed transition path).

https://www.cepweb.org/a-macroprudential-response-climate-systemic-risk-four-essential-pillars/

https://www.cepweb.org/wp-content/uploads/2024/10/Ikeda-Monnin-2024.-Principles-for-addressing-climate-systemic-risks-with.pdf

At the more incremental end, making the CCyB more dynamic, pre-emptive and rules-based, including through adoption of a positive neutral rate above zero in normal times, would expand the releasable share without adding new instruments. This complements consolidation by reducing stigma and ensuring released buffers are actually usable in stress.

International coordination remains an enabling condition. Extending automatic reciprocity, as the ECB proposes for macroprudential measures up to a threshold, to the consolidated releasable buffer would preserve a level playing field while permitting calibration flexibility across Member States with heterogeneous physical and transition risk profiles.

Question 72: What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks?

The methodology for the identification of O-SIIs should be revised to ensure an enhanced cross-country consistency while considering national specificities: ***strongly agree***

The O-SII buffer should be calibrated following a more harmonised methodology which ensures a better correlation of systemic importance with a defined range for the level of the buffer rate: ***strongly agree***

The current O-SII identification framework focuses on structural dimensions (size, interconnectedness, substitutability, complexity, and cross-border activities) and calibrates the buffer on a score derived from these metrics. This approach reflects banks' structural role in the system, but does not capture forward-looking or climate-related risk drivers. The result is a buffer that measures static systemic footprint but does not create dynamic incentives for risk reduction, as an institution's buffer is determined by its systemic importance, not by what it finances.

https://cetex.org/wp-content/uploads/2025/09/A-macroprudential-approach-to-compound-climate-risks.pdf

https://www.cepweb.org/a-macroprudential-response-climate-systemic-risk-four-essential-pillars/

SFL supports the ECB's call for a more harmonised calibration methodology. Harmonisation is a precondition for addressing two further limitations. First, the methodology does not account for institutions' exposure to climate-related systemic risk or their contribution to risk build-up through financing misaligned activities. An institution-specific component reflecting climate risk exposure, as proposed in the literature, would mean that a bank with a portfolio concentrated in high-emitting, stranding-risk sectors faces a higher calibration, not on grounds of size alone, but because of forward-looking systemic vulnerability. This would also create a direct financial incentive to reduce climate-related exposures over time, consistent with prudential objectives.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://www.cepweb.org/wp-content/uploads/2024/10/Ikeda-Monnin-2024.-Principles-for-addressing-climate-systemic-risks-with.pdf

Second, the calibration relies on backward-looking structural metrics. Transition plans, which provide forward-looking information on how firms intend to reduce emissions and climate exposures, have potential to inform systemic institution buffer calibration as a basis for both risk assessment and incentive differentiation. The design proposed in the literature for a common non-divestible systemic base complemented by institution-specific add-ons, frequently recalibrated to reflect each institution's evolving risk profile is compatible with the ECB's harmonisation agenda and would make the framework more responsive to evolving systemic risks.

Question 73: Is the current share of releasable buffers5 (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?

No. The current share of releasable buffers in the combined buffer requirement is likely insufficient to ensure adequate shock absorption in downturns, particularly in the context of structural climate-related and other borderless systemic risks. The evidence and analysis from the literature points in this direction on several grounds.

The first ground is empirical. Following the COVID-19 experience, evidence emerged that banks are reluctant to draw on non-releasable buffers even when losses materialise. Market stigma, automatic distribution restrictions triggered by buffer breaches, and unclear supervisory signals about when dipping into buffers is permissible all contribute to this reluctance. Releasable buffers, by contrast, can be released by macroprudential authorities with immediate effect. The practical implication is that the effective shock absorber in the system is the releasable portion of the stack, principally the CCyB, and that increasing this share is necessary to make the framework function as intended. This is consistent with the ECB's proposed consolidation of the CCyB and SyRB into a single releasable buffer, which would expand the releasable share and reduce the stigma associated with breaching multiple separate requirements.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://cetex.org/wp-content/uploads/2025/09/A-macroprudential-approach-to-compound-climate-risks.pdf

The second ground is structural. A larger releasable buffer built up in stable periods creates macroprudential policy space that can be deployed rapidly when structural shocks, including compound climate and other borderless shocks, hit the financial system. A positive neutral CCyB, maintained above zero in normal times rather than

only activated cyclically, would expand this releasable space without adding complexity, and would help overcome policy inaction biases by reducing the perceived irrevocability of activation decisions.

The third ground concerns climate systemic risk. The consolidated releasable buffer proposed by the ECB could be calibrated dynamically against forward-looking climate scenarios: if the transition progresses, the buffer can be reduced; if it stalls, it increases to reflect higher physical and transition risks. Italy's activation of a SyRB to provide macroprudential space releasable in the event of climate-related systemic stress illustrates the kind of climate-responsive calibration that the reformed framework should systematically support, not as a separate national instrument, but as part of the common calibration methodology for the consolidated releasable buffer. This would improve both buffer usability and the responsiveness of the macroprudential framework to evolving climate, geopolitical and AI-related systemic risks.

https://www.cepweb.org/a-macroprudential-response-climate-systemic-risk-four-essential-pillars/

Question 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 complexity of the current macroprudential buffer stack under Article 458 reflects its origins: a framework designed at a time when Member States were unwilling to cede assessment of macroprudential risks to a supranational authority. That reluctance is understandable, as member states do hold the most granular knowledge of their own structural and physical climate risks for example, but it has produced a fragmented, costly architecture that is poorly suited to managing risks that are inherently borderless.

The appropriate division of responsibility is not for each member state to set its own buffers, but for Member States to inform the risk assessment while the ESRB determines the buffer calibration uniformly across the Union. Local expertise on flood risk in the Netherlands or wildfire risk in Greece could feed into a common analytical framework, rather than generating divergent national capital requirements for the same underlying exposure.

In the context of a streamlined buffer framework, the role of Article 458 would diminish significantly. Replacing the layered capital stack with a uniform leverage ratio of 8-15% of unweighted total assets supplemented by a macroprudential add-on calibrated to a bank's preparedness across a range of adverse scenarios, would achieve greater simplicity, transparency and consistency. Banks would retain discretion over their risk-taking within this framework, including the freedom to finance innovative or higher-risk activities, while the macroprudential add-on would ensure that systemic risk concentrations are addressed uniformly rather than through a patchwork of national measures.

This structural reform could be accompanied by a shift in the supervisory information architecture. Scaling back backward-looking regulatory reporting in favour of real-time micro-data sharing between banks and their supervisors would enable genuinely forward-looking risk management by both institutions and authorities, and would provide the dynamic, continuously updated risk signal that a scenario-based macroprudential framework requires to function effectively.

3.4. Crisis management framework

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

https://www.mdpi.com/1911-8074/13/4/73

A consistent finding across regulatory experience is that frameworks combining high complexity with substantial supervisory discretion tend to produce outcomes worse than simpler, more rule-based approaches. Discretion in calibration creates scope for inconsistent application across institutions and jurisdictions, and for optimisation by the regulated banks. A more formulaic and transparent MREL calibration with less room for case-by-case adjustment would reduce both risks. The qualification is that automatic calibration is only as good as the underlying formula: locking in a poorly designed baseline would compound rather than solve the problem. Any move toward greater automaticity should therefore be accompanied by a robust, independently validated calibration methodology.

The credibility of loss absorption through bail-in of subordinated and unsecured debt instruments has been called into question by actual resolution experience. In several European cases, systemic risk exemptions and precautionary recapitalisation were invoked precisely to avoid applying bail-in when it mattered. If these instruments cannot be reliably written down or converted under stress conditions (legal, political, and market pressures permitting) then increasing their role in MREL compliance creates the appearance of resilience without the substance. The appropriate response to this credibility gap is stronger equity capital buffers, which absorb losses unconditionally, rather than expanded reliance on instruments whose effectiveness remains contingent on conditions that have proven difficult to meet in practice.

The full architecture of MREL, designed primarily for the orderly resolution of large, cross-border groups, is disproportionate when applied to institutions whose failure mode is fundamentally simpler and more amenable to standard insolvency procedures. Complexity imposes real costs: institutions with limited regulatory capacity struggle to navigate requirements calibrated for globally systemic banks, and the resulting compliance burden may crowd out resources better deployed elsewhere. Proportionate MREL calibration for non-complex institutions does not

require new primary legislation, it requires consistent application of existing proportionality provisions in the crisis management framework, supported by clear supervisory guidance. One caveat applies: interconnectedness can make apparently smaller institutions systemically significant in ways that are not always visible in advance, and proportionality frameworks could be designed with this in mind.

Finally, the MREL framework was designed to solve a real problem: ensuring that the costs of bank failure fall on shareholders and creditors rather than taxpayers. That objective should not be compromised in the name of simplification. But complexity that is not matched by supervisory capacity to enforce it, or by market and legal conditions that make the instruments functional under stress, does not deliver on that objective either. There could be a smaller set of requirements that are genuinely credible, robustly calibrated, consistently applied, and actually loss-absorbing when tested, rather than a comprehensive framework that works well on paper and inconsistently in practice.

Question 79: rules on resolution funds and the 8% minimum bail-in

The 8% minimum bail-in threshold reflects the same underlying complexity that characterises the broader capital framework: multiple overlapping requirements, calibrated on historical data and fragmented national assessments, that together obscure rather than reinforce the fundamental purpose of bank capital, absorbing losses and maintaining the financing function.

The threshold's proportionality is undermined by the complexity of the stack it sits within. When own funds are composed of instruments of varying quality and loss-absorption capacity, and when the buffers above them are set through divergent national processes, the 8% figure offers precision without clarity. A simpler foundation, e.g. a uniform leverage ratio of 8-15% of unweighted total assets, combined with governance requirements, decision-maker liability, and real-time data sharing, would make the bail-in trigger more meaningful, compliance more straightforward, and supervisory intervention more timely.

On level playing field concerns, the complexity of the EU framework creates a structural disadvantage relative to jurisdictions with simpler capital stacks, particularly for banks financing innovative or longer-term projects. Research has shown that model-based capital requirements tied to historical credit risk data systematically underweight transition-oriented lending, creating a financing gap for innovative companies that is partly regulatory in origin. A leverage-based framework with forward-looking scenario assessment would reduce this distortion and better align resolution preparedness with the actual risk profile of the bank's activities.

https://www.researchgate.net/publication/379506224_Model-based_financial_regulations_impair_the_transition_to_net-zero_carbon_emissions

3.5. Interactions across parts of the framework

Question 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?

Overlapping requirements addressing the same or similar risks (P2R/P2G/certain macroprudential buffers: ***fully agree***

Limited buffer usability resulting from double counting CET1 both in macroprudential buffers and in other minimum requirements (leverage ratio, MREL): ***somewhat agree***

Multiplicity of MDA restrictions with varying triggers stemming from prudential and resolution frameworks: ***somewhat agree***

Cross-framework governance and coordination issues and data sharing: ***fully agree***

Other:

SFL agrees that all four areas generate complexity, but not all complexity is undue. The relevant test is whether complexity serves a prudential purpose or merely reflects accumulated institutional inertia. On that basis, the four areas can be distinguished.

Overlapping requirements (P2R/P2G/macroprudential buffers). The partial overlap between Pillar 2 requirements and macroprudential buffers reflects a genuine ambiguity in the institutional architecture: which authority sets which instrument for which risk, and under what interaction rules. This is not inherently problematic, as some overlap is the price of a layered system designed to catch different risk dimensions, but it becomes undue when the same risk is capitalised twice without a clear netting or stacking rule. The ECB has acknowledged this, proposing to consolidate buffers and align calibration through common methodologies and a single stress-testing exercise. SFL supports this direction, with the caveat that consolidation must not erase flexibility: new systemic risk categories, notably climate-related transition and physical risks, may require dedicated macroprudential instruments that do not yet have a settled place in the stacking order. The architecture should clarify how such instruments interact with P2R and the consolidated buffer before, not after, they are deployed.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

Buffer usability and CET1 double-counting. The constraint is real and well-documented: CET1 simultaneously satisfies macroprudential buffer requirements, minimum own funds, the leverage ratio floor, and MREL subordination requirements. Under stress, this creates a binding constraint that prevents banks from actually drawing on releasable buffers without triggering multiple distribution restrictions, defeating the countercyclical purpose of the buffer stack.

This is an unambiguous source of undue complexity. The ECB's proposals to reduce the number of elements in the capital and leverage ratio stacks and to revisit MREL/going-concern interactions are directly relevant.

Multiplicity of MDA triggers. Multiple, asynchronously triggered distribution restrictions, stemming from the capital conservation buffer, P2G, MREL and leverage ratio requirements, create unpredictable cliff effects that amplify stigma around buffer use. Banks manage to the most binding trigger, not to the aggregate prudential intent, which distorts capital allocation and undermines countercyclical function. Rationalising triggers through a consolidated framework is necessary; this is consistent with the ECB's proposed merger of buffer layers and alignment of MREL and going-concern frameworks.

Cross-framework governance and data sharing. SFL considers this the most underappreciated source of systemic inefficiency. Fragmented information flows between microprudential, macroprudential and resolution authorities mean that systemic vulnerabilities, particularly those cutting across sectors, borders and time horizons, are harder to identify and harder to act on before they materialise. Information asymmetry and collective blindness among authorities also mirror the governance failures that allowed the GFC to develop. SFL has specifically called for stronger data sharing within colleges of supervisors and more integrated cross-border group supervision.

https://sustainablefinancelab.nl/sfl-responds-to-the-ebas-consultation-on-the-srep-process-for-banks/

This is also where climate-related systemic risks create a distinctive challenge: they are borderless, long-horizon, and cannot be adequately assessed from the point of view of any single national authority or regulatory framework. The ECB's proposal for the Macroprudential Forum to take a holistic view of capital demand across the banking union is a structural improvement, but its effectiveness depends on the quality of data flowing into that assessment. Resolving governance and data-sharing gaps is therefore not a technical tidying exercise but a precondition for supervisors being able to identify and respond to systemic risks as they evolve, including those, like climate, that have no natural home in the current framework.

3.6. Proportionality

Question 84: Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks?

In our view, the current framework falls short of meaningful proportionality for smaller and non-complex institutions, and the gap has real consequences for their ability to serve the communities and borrowers that depend on them.

The framework's approach to proportionality is built primarily around the SNCI category, whose EUR 5 billion threshold captures scale but leaves complexity, risk profile, and business model largely unaddressed. The practical consequence is that the majority of small banks bear the same compliance burden of significant institutions while operating along strictly non-complex, community-finance lines, with fundamentally different risk profiles, funding structures, and supervisory relevance. The principle that reporting obligations should be applied proportionately to the size, complexity, and nature and level of risks of the institution, established in Article 430(6) CRR, has yet to be consistently extended across the prudential framework as a whole.

Stress testing obligations illustrate this well. For banks with simple, stable, deposit-funded balance sheets, bottom-up stress testing processes calibrated for complex institutions generate compliance costs without producing risk insights that would influence supervisory decisions. A supervisor-led top-down approach, using deliberately diverse scenarios across supervisory authorities and with limited standardised data inputs, would be both more effective and less burdensome for this segment.

The proportionality gap also has direct consequences for lending capacity. Compliance obligations calibrated for systemic banks consume the resources and management attention that community-oriented banks would otherwise deploy in origination, relationship management, and credit monitoring, the functions where their comparative advantage is most pronounced. Data from the Report of Ethical and Value-based Finance in Europe (2025) shows that ethical and alternative banks, typically deposit-funded, focused on real-economy lending, operationally simple, and relying on the standardised approach, maintain a Tier 1 ratio of 17.86%, above both the 11% Basel III minimum and the 17.25% average of significant banks. Their NPL ratio of 1.61% is below the 1.89% of significant banks, and their return on assets of 0.75% exceeds the 0.64% recorded by significant banks. These are institutions whose prudential performance is strong and well-documented and for this reason, the regulatory burden they carry needs to reflect that reality.

https://febea.org/publication/8th-report-on-ethical-and-value-based-finance-in-europe/

The full prudential framework could remain in place for complex institutions, as part of a differentiated system in which requirements reflect the actual risk profile of the institution, with no reduction in standards for those that warrant them.

Question 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.

We believe such a regime is warranted, and we have developed a detailed proposal for its architecture, anchored in the ECB Simplification recommendations and informed by the Brazilian proportionality model.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://www.bcb.gov.br/en/financialstability/prudential_regulation

A dedicated regime for small and non-complex banks could combine four components into a coherent package. First, integrated reporting with Pillar 3 derived from supervisory data and a 'request once' architecture across authorities, operationalising the principles established in Article 430(9) and (10) CRR3. Second, supervisor-led top-down stress testing with deliberately diverse scenarios across supervisory authorities, replacing bottom-up burdens rather than adding to them. Third, an opt-in leverage-ratio-based Pillar 1 capital requirement, conservatively calibrated, for strictly eligible institutions. Fourth, a simplified liquidity toolkit replacing NSFR complexity for deposit-funded institutions.

On this fourth component, the NSFR was designed to address wholesale funding risk, the dependency on interbank markets and bond issuance that characterises large systemic banks. For institutions funded primarily by stable retail deposits, this complexity generates significant compliance costs without addressing risks that materially apply to their model. As shown by the Report of Ethical and Value-based Finance in Europe (2025), ethical and sustainable banks maintained an average Loan-to-Deposit ratio of 82.4% over 2014–2023, consistently within the prudentially sound 80–90% range, without recourse to wholesale markets. In contrast, significant banks averaged 112.6% LDR over the same period, reflecting genuine wholesale funding dependency. The structural difference between these two funding models is clear. A simpler toolkit, a loan-to-deposit cap combined with a liquid assets floor, would maintain prudential discipline for deposit-funded institutions while eliminating compliance costs that serve no supervisory purpose for their model. Implementing this would require an amendment to Articles 411–428 CRR3 to introduce an opt-in simplified liquidity track for strictly eligible institutions, with calibration and eligibility criteria defined by delegated act, and supervisory override retained in full. This approach is consistent with the German BaFin/Deutsche Bundesbank Small Banking Regime (SBR) proposal.

https://banking.vision/en/bafin-small-banking-regime/#:~:text=The%20idea%20is%20to%20comprehensively,Remuneration

Entry into this regime could be voluntary, with supervisory override retained in full, clear entry and exit rules, and transition provisions to avoid cliff effects. The opt-in design means that no institution is forced into a framework that does not fit its situation, and supervisors retain discretion to exclude institutions whose individual risk profile warrants it even where they formally meet eligibility criteria.

This regime would not undermine financial stability. Institutions with the characteristics we propose as eligibility criteria, deposit-funded, focused on real-economy lending, operationally simple, without complex internal models, perform comparably or better than significant banks across all key prudential dimensions: they hold more capital relative to risk than the Basel III minimum requires, their credit quality is better than that of large banks, their profitability is more stable over the cycle, and their funding is structurally more conservative. The Brazilian proportionality framework, which has applied a comparable architecture for over a decade, confirms that this approach is operationally viable at scale without generating instability.

Ensuring that small banks are not overburdened with the same regulation applied to banking giants is fundamental for financial stability. A homogenous system, where institutions converge on identical investment and funding strategies, creates a fragility trap in which banks simultaneously become exposed to the same tail risks, whereas a heterogeneous system achieves 'diverse diversification' (i.e. different risk appetites and clienteles making the sector less sensitive to systemic contagion). A bank's business model shapes this dynamic further: while market-oriented banks are often regarded as the primary drivers of competitiveness, retail- and regionally-oriented institutions contribute equally by serving the 'unbankable', and evidence suggests their structures are associated with lower systemic risk contributions, particularly during financial distress.

https://www.ecgi.global/sites/default/files/working_papers/documents/bankingstabilityfinal.pdf

https://www.tandfonline.com/doi/full/10.1080/02692171.2022.2090521

https://openaccess.city.ac.uk/id/eprint/34852/1/BBM_Systemic_Risk_February%202025.pdf

Question 86: Should there be, in your view, a more consistent and proportionate set of requirements across the prudential, macroprudential and crisis management rules for smaller banks?

Yes.

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

Consistency across the three pillars is essential for a proportionate regime to work in practice. A simplified Pillar 1 package loses most of its value if institutions still face

full Pillar 2 SREP processes calibrated for complex banks, macroprudential buffer requirements designed for systemic institutions, and MREL expectations sized for large-scale resolution. Proportionality applied to one layer of the framework while leaving the others unchanged does not reduce the overall burden, it merely shifts where the friction sits.

For eligible non-complex institutions, that is deposit-funded, focused on real-economy lending, operationally simple, without complex internal models, and active in no more than five countries, proportionality could therefore be applied as a coherent package across all three areas.

On Pillar 1: a leverage-ratio-based primary requirement and a simplified liquidity toolkit. On Pillar 2: risk-based supervisory frequency, top-down stress testing replacing bottom-up processes, and SREP expectations calibrated to the simplicity of the balance sheet rather than to the complexity of significant institutions. On crisis management: lighter resolvability and MREL requirements that reflect the actual resolution complexity of non-systemic community banks, which is fundamentally lower than that of the institutions for which MREL was originally designed. This cross-pillar coherence is precisely the logic underpinning both the ECB High-Level Task Force on Simplification recommendations and the German BaFin/Deutsche Bundesbank Small Banking Regime proposal, which treat proportionality as a package rather than a collection of isolated measures. FEBEA's proposal follows the same architecture.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://banking.vision/en/bafin-small-banking-regime/#:~:text=The%20idea%20is%20to%20comprehensively,Remuneration

These elements could be established together through a single coherent legislative framework, not assembled through a patchwork of individual exemptions and national discretions that produce uneven implementation and regulatory uncertainty across Member States.

Proportionality in supervisory requirements must not become a mechanism for exempting smaller institutions from climate and ESG risk management obligations. The proportionality provisions already embedded in Articles 74(1), 76a(3), and 87a(2) CRD VI calibrate the depth and form of ESG risk management to the nature, scale, and complexity of the institution and this is the correct tool for differentiated implementation. Community-oriented banks are not exempt from climate risk; they face it through their lending portfolios to households, SMEs, and social economy organisations operating in territories directly exposed to physical and transition risks. The obligation to identify, manage, and monitor those risks applies to them as it does to any institution. What proportionality permits is that the methods and reporting formats used to fulfil that obligation reflect the institution's actual capacity and exposure.

Question 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?

Yes to both. Specifically, size is not the only relevant factor. The current EUR 5 billion threshold is too low and excludes many functionally non-complex institutions. We propose a GDP-proportionate threshold of 0.10–0.15% of EU GDP, currently equivalent to approximately €22–33 billion in total assets. This threshold would be more durable than a fixed nominal amount, more inclusive of institutions that operate along non-complex lines, and self-adjusting over time. A dynamic GDP-linked threshold, drawing on the Brazilian proportionality model, is preferable to any fixed nominal amount.

https://www.bcb.gov.br/en/financialstability/prudential_regulation

We propose the following business-model and risk-profile criteria:

Real-economy lending ≥75% of total assets; No speculative financial activities; No complex internal models (standardised approach only); Simple corporate structure (no complex holding chains); Active in no more than five countries, and Retail-funded with a stable deposit base (LDR consistently within the 80–90% prudentially sound range).

These criteria could function as the basis for an opt-in regime with supervisory override. Supervisors must retain the ability to exclude individual institutions even where they formally meet the criteria, consistent with the supervisory override mechanism that the ECB High-Level Task Force on Simplification recommends for any proportionate regime.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

3.7. Corporate governance

3.8. Reporting and disclosures

Question 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?

In our view, three measures would have the most immediate and measurable impact on reducing reporting complexity, especially for non-complex institutions.

The first is deriving Pillar 3 public disclosure directly from supervisory reporting, ending the parallel production of two processes that draw on the same underlying data. The second is introducing materiality thresholds to exempt immaterial errors from resubmission requirements; survey data from ethical and sustainable banks indicates that resubmission processes routinely consume more than four person-days per occurrence for corrections with no supervisory significance. The third measure involves moving toward a 'request once' architecture, under which supervisory authorities share data among themselves rather than requiring institutions to submit the same information multiple times in different formats to different authorities.

These three measures are consistent with the direction already established in Article 430 CRR3, paragraphs 9 and 10, which require competent authorities to avoid duplicative reporting and to use existing data sources and data-exchange mechanisms to reduce reporting burdens. They also correspond directly to ECB High-Level Task Force on Simplification recommendations 12–17 and German BaFin/Deutsche Bundesbank Small Banking Regime (SBR) proposal recommendation 3. The key step is operationalising these provisions through binding technical standards rather than treating them as aspirational principles.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

https://banking.vision/en/bafin-small-banking-regime/#:~:text=The%20idea%20is%20to%20comprehensively,Remuneration

As a medium-term evolution, we encourage the Commission to explore the replacement of backward-looking periodic Pillar 3 reporting with confidential real-time data-sharing with the competent authority, using payment system data, credit-risk data, and liquidity positions that supervisors already hold. This would shift supervision from periodic compliance verification toward genuine forward-looking risk monitoring, while reducing the production burden on institutions. Implementation would require adequate data infrastructure at both bank and supervisory level, and appropriate confidentiality safeguards. This direction is already gaining traction among EU authorities. The EBA's Pillar 3 Data Hub demonstrates that centralising and standardising disclosure data derived from supervisory reporting is technically feasible.

https://www.eba.europa.eu/risk-and-data-analysis/pillar-3-data-hub

More broadly, work underway within the Banking Union, including initiatives by the Single Resolution Board to develop more timely and granular data flows from institutions, points in the same direction: periodic backward-looking reporting is increasingly recognised as insufficient for the forward-looking supervisory and resolution functions it is meant to support. We encourage the Commission to build on these initiatives and establish a clear mandate to extend the 'request once' principle across supervisory, disclosure, and resolution data obligations.

Question 92: What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs?

Number of data points: **high impact**

Frequency of changes of the reporting obligations: **high impact**

The difficulty of using regulatory reporting for internal risk management purpose

Ad hoc reporting requests from supervisory authorities

Frequency of submission of reporting obligations

Other (resubmission requirements for immaterial errors): **high impact**

Other (parallel production of Pillar 3 and supervisory reporting: **high impact**

The frequency of changes to reporting obligations generates a persistent and substantial burden. Institutions must continuously adapt internal systems, processes, and staff training to regulatory updates, often with limited lead time and significant IT investment. Related to this is the volume of required data points, which has grown considerably with successive CRR and CRD iterations, creating a level of system complexity that is disproportionate to the supervisory value generated for non-complex institutions.

Resubmission requirements for immaterial errors represent a particularly concrete and avoidable cost. Survey data from ethical and sustainable banks indicates that resubmission processes routinely consume more than four person-days per occurrence for corrections with no supervisory significance. ECB High-Level Task Force Recommendation 14 addresses this directly, proposing that the Commission should mandate the EBA, through level 1 regulation, to define supervisory tolerance margins for minor reporting errors, drawing on materiality frameworks currently being developed at the ECB. We strongly support this approach, which would exempt immaterial corrections from resubmission requirements without in any way reducing the quality of supervisory data.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

The parallel production of Pillar 3 disclosures and supervisory reporting, captured under "Other" in the grid above, is a further structural source of duplication. The same underlying data must be compiled, formatted, and reconciled through two entirely separate processes serving different audiences. Deriving Pillar 3 directly from supervisory reporting would eliminate this duplication entirely and would not require new primary legislation: it can be achieved through the implementing technical standards that Article 430(4) CRR3 already delegates to the EBA.

Finally, ad hoc reporting requests from supervisory authorities, while less frequent, create disproportionate operational burden when they arrive with short turnaround times and no advance notice. Article 430(11) CRR3 appropriately

preserves the ability of competent authorities to request additional information where necessary for supervisory purposes, and we do not propose to change this. We would, however, encourage that this power be exercised with proportionality and, where possible, advance notice, so that it functions as a targeted supervisory tool rather than a compliance mechanism.

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

We recommend three structural interventions that have a lasting impact on the reporting burden.

The first is the full operationalisation of the 'request once' principle. The legal basis is in Article 430 CRR3, paragraphs 9 and 10, requiring competent authorities to avoid duplicative reporting and to use existing data sources and data-exchange mechanisms to reduce reporting burdens. The missing step is translating these provisions into binding technical standards and inter-authority data-sharing agreements, so that they function as enforceable obligations rather than aspirational principles. Supervisory authorities sharing data among themselves, rather than requiring institutions to submit the same information repeatedly in different formats, would represent an architectural shift in how the reporting framework operates.

The second is the full implementation of the transition from tabular to data-element-based reporting, an initiative the Commission has already set in motion and which we welcome. Completing this transition, including the development of standardised data dictionaries and common taxonomies, would significantly reduce the cost of adapting to regulatory changes and would provide the technical infrastructure needed to support the structured data-exchange mechanisms envisaged in Article 430(10) CRR3.

The third is more forward-looking: for eligible non-complex institutions, we encourage exploring the replacement of periodic backward-looking Pillar 3 reporting with confidential real-time data-sharing with the competent authority, using granular loan data, liquidity positions, and credit-risk data that supervisors already hold, taking example from the Banco Central do Brasil. Routing this data continuously, rather than through costly periodic reporting cycles, would reduce the production burden on institutions, improve the timeliness of supervisory intelligence, and shift the supervisory process toward genuine forward-looking risk monitoring. This direction would also be consistent with the proportionality objective of Article 430(6) CRR3, which requires reporting obligations to be applied in a manner commensurate with the nature, scale, and complexity of the institution.

https://www.bcb.gov.br/en/financialstability/open_finance

Question 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.

From survey data of ethical and sustainable banks, the relationship between reporting burden and lending capacity appears to be direct and well-documented. Every person-day spent on resubmissions for immaterial errors, on reconciling parallel reporting templates, or on collecting data to fulfil supervisory obligations is a person-day not spent on assessing a loan application, accompanying a social economy borrower through the credit process, or monitoring an SME facing difficulty. The issue is not reporting itself, but less complex institutions bear compliance costs designed for systemically significant banks, a burden disproportionate to their actual risk profile. Supervisory reporting and public disclosure serve essential purposes, like for financial stability, market transparency, and supervisory effectiveness, and we do not propose to reduce their scope. What we propose is that the cost of meeting these obligations be made proportionate to the institutions bearing them.

The borrowers most affected by this dynamic are those in high social impact sectors and limited administrative capacity, for example SMEs, social economy organisations, community and affordable housing providers, clean energy suppliers, and enterprises active in the green transition. These are the counterparties whose creditworthiness cannot be assessed through automated scoring and whose relationship with the bank is itself a primary risk management tool. When reporting obligations consume the operational bandwidth that this model requires, it is precisely this segment that loses access to credit first. The result is that the regulatory framework inadvertently penalises the lending most aligned with EU policy objectives on social investment, territorial cohesion, local development, and the green and social transitions, not by design, but as a structural consequence of compliance costs disproportionate to the scale and complexity of the institutions bearing them.

The client-side dimension of this burden deserves particular attention. Small organisations with limited administrative capacity experience data requests as a source of friction that delays access to credit and increases its perceived cost, even where the loan itself is economically sound and the institution is willing to extend it. This friction falls most heavily on borrowers in underserved communities and early-stage enterprises, those least equipped to respond quickly to documentation requests and most dependent on the bank's willingness to absorb the administrative cost of the process. The recent revisions to the CSRD have added a further layer of uncertainty to this process. When the perimeter of mandatory sustainability reporting changes, banks must adapt their client data collection processes accordingly, often with limited lead time and without clear guidance on how to handle counterparties whose reporting obligations have changed. Stability

and clarity in the upstream sustainability reporting framework is therefore also a condition for reducing the client-side burden on banks.

We would therefore suggest that the solution be approached from two angles. The first is reducing the cost of compliance itself: through the 'request once' architecture already established in Article 430(9) and (10) CRR3, through materiality thresholds for resubmissions as proposed in ECB High-Level Task Force Recommendation 14, and through the transition to data-element-based reporting that the Commission is already pursuing. Each of these measures would free operational capacity that community-oriented banks would redeploy directly into lending. The second track is ensuring that the scope of ESG reporting obligations is not narrowed as a consequence of CSRD simplification. Article 430(1)(h) and Article 449a CRR serve supervisory and market transparency purposes that are independent of and broader than the CSRD and should be preserved in full.

https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.simplification_supervisory_reporting_framework202512.en.html#toc2

Question 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?

As regulated, standardised reporting tools are increasingly abolished, banks will need alternatives to retrieve the data necessary for their risk assessments. Removing reporting requirements does not eliminate the underlying risks, it merely reduces transparency around them, as clearly explained in the ECB and EBA assessments of the revised ESRS framework.

https://www.ecb.europa.eu/pub/pdf/other/ecb.staffopinion_europeansustainabilityreportingstandards202602.en.pdf

https://www.eba.europa.eu/publications-and-media/press-releases/eba-issues-opinion-european-commission-draft-european

Instead of relying on costly backward-looking compliance checks, the EU could shift towards real-time data-sharing, as implemented by the central bank of Brazil. Real-time sharing of macro-level information by public authorities, covering climate, nature, AI, cyber and geopolitical risks, would allow banks to assess borderless risks more systematically. In parallel, confidential micro-level data-sharing by financial institutions with the central bank would enable supervisors to assess portfolio vulnerabilities and the adequacy of liquidity and solvency buffers. This shift from backward-looking reporting to forward-looking, real-time oversight would better enable the financing of future-proof businesses.

https://www.bcb.gov.br/en/financialstability/prudential_regulation

Banks emphasise the need for simpler, more consistent and harmonised sustainability regulation. The Omnibus I initiative is expected to result in less ESG data from banks' clients, potentially undermining banks' ability to identify and manage sustainability-related financial risks. Harmonised and standardised public data has therefore become essential to reduce costs and ease the burden of bilateral data collection.

The key principle for any amendments could be equal treatment: sustainable and non-sustainable banking products need to face equivalent disclosure and risk management requirements. The current framework creates an asymmetry in which products marketed as 'sustainable' face significantly greater disclosure obligations under SFDR than conventional products, inadvertently disadvantaging green products without ensuring that conventional products disclose their own sustainability risk profile.

This asymmetry sits within a broader structural mismatch between banks' sustainability-related risks and their incentives to manage them. EU banks' green asset ratio stands at only 2.76% (EBA, 2025), yet 90% of EU banks face high climate transition risks (ECB, 2024), and banks currently derive over 60% of their non-financial corporate interest income from the 22 most GHG-intensive industries (Aguila et al., 2026). Regulation is one of three structural obstacles to closing this green banking gap: existing prudential frameworks do not adequately price climate transition risk and current rules create asymmetric compliance burdens that work against green products.

https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-key-indicators-climate-risk-eueea-banking-sector

https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.bankingsectoralignmentreport202401%7E49c6513e71.en.pdf

Three amendments follow from this diagnosis. First, apply basic sustainability risk disclosures to all banking products, not only those labelled as 'sustainable', so that the risk profile of conventional products is equally transparent. Second, maintain and strengthen the sustainability risk integration requirements in CRR/CRD, requiring banks to identify, measure and manage physical and transition climate risks, which are directly relevant to prudent bank management and should not be weakened in the context of the broader sustainability legislation revision. Third, align the prudential treatment of transition finance instruments with the EU Taxonomy, removing regulatory uncertainty about classification and enabling risk assessments that reflect the forward-looking profile of transition-aligned lending rather than backward-looking collateral values.

https://journals.sagepub.com/doi/10.1177/10245294261431901