Comments

on the European Commission's public consultation relating to the *Communication on the Competitiveness of the Banking Sector and the Single Market in Banking*

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

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We would like to refer to the European Commission's July 2026 *Communication on the Competitiveness of the Banking Sector and the Single Market in Banking,* as well as to our condensed response to the public consultation ("Have your say"). In addition to that response, we provide the following more detailed remarks:

Assessment of the individual analysis results and measures

The role of a competitive banking sector in the EU economy

We generally support the Commission's assessment. Its clear recognition of the central role of the banking sector for the European economy and its finding that the competitiveness of European banks needs to be strengthened without jeopardising financial stability is very welcome. We strongly support the Commission in taking measures to increase proportionality in the supervisory and regulatory framework and to reduce gold-plating.

However, we do not support linking the Savings and Investments Union (SIU) to structural issues of the banking sector that have no direct connection. In particular, bringing the completion of the Banking Union under the SIU goes beyond the SIU's actual objective and, in our view, makes its focused and targeted further development more difficult. The issues of the competitiveness of the European banking sector and the SIU should therefore be dealt with separately at political level.

Fragmentation along national borders

Prudential barriers to integration:

The proposals for dealing with the home-host issue and the corresponding waivers provide a basis for discussion for affected institutions. Nevertheless, competitiveness and simplification should be placed at the centre of the current considerations and should not be subordinated to internal market aspects.

In our view, there is no direct link between the treatment of sovereign exposures and the current debate around strengthening EU banks' competitiveness. Moreover, the long-standing discussions in the past have shown that this topic is highly sensitive from a political point of view.

Appropriate safeguards:

The statements are partly vague. We do not share the implied criticism that the current distinction between deposit guarantee schemes and resolution funds creates inappropriate complexity. Deposit guarantee schemes and resolution funds serve different purposes. The concept of resolution is mainly foreseen for large cross-border banking groups and their entities. They dispose of sound recovery plans, hold more than 2.5 trillion in MREL instruments and an additional 80 billion are available through the SRF. Deposit insurance schemes are, in practice, mainly used for bank failures at a smaller scale. Nevertheless, the CMDI review 2026 has made it possible to use deposit insurance schemes for resolution purposes.

The 2014 DGSD established a harmonised level of depositor protection across the Union, ensuring that depositors benefit from the same level of protection irrespective of the Member State in which their bank is located, while national schemes continue to provide effective and credible protection. The absence of a fully mutualised European deposit insurance scheme should therefore not be interpreted as a deficiency in depositor protection. Against this background, we welcome the European Commission's withdrawal of the 2015 EDIS proposal. Rather than pursuing a fully mutualised system, the focus should be on pragmatic solutions that build on the proven strengths of national deposit guarantee schemes and that effectively address only identified challenges. If there is a need to further strengthen safeguards, a mechanism for temporary liquidity support between participating DGSs in the EU could be explored. However, national DGSs should retain their current form and function within such a network, reflecting the principle of subsidiarity, as depositor protection is ultimately a matter of trust and confidence in national schemes. The specific characteristics of institutional protection schemes that are recognized as deposit insurance systems should be taken into account.

We are aware of some Member States’ concerns about potential risks that could arise from the free cross-border flow of capital and liquidity. The Commission should address these concerns through targeted safeguards (liquidity in resolution + group resolution strategies). From the perspective of the German Banking Industry Committee, any measures that serve to generally shift risks to other Member States, and do not contribute to the competitiveness of the European banking sector as a whole, should have no place in the forthcoming legislative process. *Non-prudential barriers:*

It is necessary for the Commission to focus on essential and necessary changes and refrain from changes that are not targeted, such as the comprehensive harmonization of insolvency law.

Given the scope of the changes in the AML framework, extensive adjustments to internal monitoring and review systems and processes, numerous information technology requirements and structural changes in compliance departments are to be expected. The Commission should pause here for the time being. The deadline for the necessary measures of 10 July 2027 is too ambitious. This is evident simply from the fact that important legal acts at levels 2 and 3 are still pending. We would consider postponing the application date by two years to be appropriate. It should be taken into account that the wording of the AML Regulation by no means clearly regulates all practice-relevant areas. Certain provisions, such as those on the outsourcing of specialised services, are practically difficult to implement in view of national specificities. Thus, beside postponing the application date we urge for a timely clarification of key interpretative issues, a targeted revision of the AMLR in order to remove legislative errors and the consideration of practical implementation limits. Furthermore, the AML Regulation should create proportionate rules and allow full outsourcing of the AML function.

In the area of consumer rights law, the Commission should first wait for the impact of the new requirements before reviewing the rules again.

The assumption that digital innovations such as open banking, artificial intelligence or tokenisation necessarily require regulatory requirements should be critically questioned. Experience with regulatory initiatives such as the AI Act shows that excessive or premature regulation can impair the competitiveness of the European economy and inhibit innovation potential.

Implementing international standards while taking account of EU specificities

The Commission rightly makes clear that the full application of international standards to smaller and less complex institutions creates problems. It also correctly recognises that divergent implementation in other jurisdictions undermines the international competitiveness of large institutions.

The Basel Committee’s requirements are primarily geared towards the circumstances of large, internationally active institutions and do not meet the needs of smaller or less complex institutions. So far, however, far too little has been done at European level to take account of this finding. There is urgent need for action at Level 1 as well as at Levels 2 and 3. At Level 1, a small banking regime should be established. At Levels 2 and 3, the increasing activity of the EBA and the supervisory authorities should be critically reviewed. We are, however, critical of a blanket transposition of requirements into directly applicable regulations. Whether a directive or a regulation should be chosen depends on the individual case, i.e. the subject matter concerned (e.g. specific characteristics of national markets).

Regulatory requirements have been expanding continuously for almost two decades following the global financial crisis. Strengthening financial stability was crucial. The current level of stability is generally considered to be adequate. Therefore, it is important to avoid further increases to current capital requirements through additional capital requirements that have already been established and will be phased in gradually until early 2033. This is also necessary in view of the announced relief measures for US and UK banks.

To this end, the Commission must above all limit the effect of the output floor. While it recognises the potential negative impact of the output floor on the financing capacity of the affected institutions, it does not mention the fundamental conceptual problems. Since the EU has already undertaken comprehensive measures to address unwarranted RWA variability at source, such as the IRBA repair and the ECB's TRIM, the added value of the output floor is questionable. At the same time, it significantly complicates bank management and creates undesirable incentives for institutions' risk taking. Fixing the output floor at the initial level of 50 % would be a simple measure to solve the problem.

The Commission generally acknowledges that the prudential framework must, to some extent, be adapted to the characteristics of the European economy. The limited coverage of external ratings is one such structural characteristic. The Commission should accept it as a given and adapt banking regulation accordingly, rather than forcing companies to obtain external ratings in order to adapt European circumstances to banking regulation. We also consider it wrong to supposedly strengthen the capital market by making access to traditional bank financing more difficult for companies. Specifically, the Commission should allow all institutions to assign a preferential risk weight to companies with strong credit quality that do not have an external rating.

The comments on residential real estate financing give reason to fear that the Commission may be inclined to refrain from permanent measures. The consideration that relief in this area could increase demand for housing and thereby create price pressure is not convincing. An artificial restriction of demand via prudential regulation may, in itself, dampen price developments in certain market phases. However, there are sufficient instruments in the CRR for this purpose, which the designated authorities can use if necessary. Moreover, hampering real estate financing runs counter to the currently relevant objective of facilitating access to housing. In addition, the existing transitional arrangement has a positive effect on private residential financing and therefore, in part, even supports the housing stock and thus the supply side. To support the creation of affordable housing, the treatment of larger construction projects / real estate development financing (ADC) should also be revised.

It is welcome that the capital requirements for specialised lending and trade finance are to be subject to an in-depth review. However, the review should not be limited to project finance, but should also include the capital requirements for object finance. Object financing also plays a central role in Europe's competitiveness and defence capability.

It is positive that the Commission has recognised the particular importance of a regulatory level playing field in the area of market risk and has already taken repeated action through delegated acts. A permanent solution should at least make the existing temporary relief measures permanent and also include further improvements. This includes critically reviewing the new trading book boundary and reversing or at least revising it. At least, current inconsistencies like the potential inclusion of most positions stemming from client servicing in the trading book would have to be addressed.

Another aspect of creating a level-playing field for EU banks is the operational risk framework, which is unfortunately not addressed in the Communication: The Services Component of the Business Indicator is calculated in gross terms. This approach punishes, for example, fee-based activities without regard of its actual risk profile. This makes certain business models less viable while other jurisdictions are moving towards a net-based approach, which will even strengthen their position in such markets.

It is welcome that the Commission intends to address the issue of the deduction of software investments. We advocate to abolish the current deduction of software assets from own funds and propose instead a risk weight of 100%.

The requirements on fit and proper under Article 91 et seq. of the CRD should be proportionate. They should be limited to those institutions where the supervisory added value justifies the associated regulatory burden. Smaller and less-complex institutions with simple business models should therefore be specifically relieved of certain burdens – for example, through simplified governance requirements, reduced reporting and documentation obligations, and longer assessment intervals.

It would also be necessary to limit the scope of the fit and proper rules to the members of the management and supervisory bodies. Reporting and documentation obligations could thereby be reduced to the necessary minimum. The requirements and profiles established by the institutions for filling the positions of key function holders are sufficient. We do not believe an assessment beyond the reliability check required under AML legislation is necessary. The notification requirement and supervisory assessment for large institutions regarding the heads of internal control functions and the CFO create a significant administrative burden. Effective governance, risk management, and internal controls are essential for stable operations and compliance with regulatory requirements, so institutions already apply high standards without requiring a separate supervisory suitability assessment.

Furthermore, the fit and proper and remuneration framework should continue to be set out in a directive, so that Member States can take account of national banking structures and ensure proportionate implementation across different organisational models.

The remuneration rules also urgently need to be revised. They need to be better aligned with the business models and risk profiles of smaller and less complex institutions with simple business models and remuneration systems. Institutions where variable remuneration does not create any material incentive effect should be specifically exempted from disproportionate requirements. For larger institutions, the remuneration framework must not lead to competitive disadvantages or create problems for the EU as a financial centre (e.g. the bonus cap should be removed to ensure effective HR management and a sufficiently flexible cost base for firms).

It is welcome that the Commission recognises that the framework for smaller institutions needs to be adapted. However, from our perspective, the proposed solutions, which are only outlined very vaguely, are far too unambitious. A dedicated and proportionate regulatory framework is needed for non-systemic institutions with low-risk business models to adequately reflect their specific characteristics. Its design will be decisive in ensuring that the intended regulatory relief is effective in practice. In July 2025, BaFin and the Deutsche Bundesbank drew up a 'non-paper' on an EU regime for small banks and put it forward for discussion. The proposals set out in the document are welcome.

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Undue complexity of the regulatory framework

The Commission's analysis is correct in many respects. We agree that, in particular, the large number of authorities involved at national and European level creates coordination problems. In practice, redundancies often arise between individual elements. Interactions cannot be sufficiently taken into account, and there is no holistic overall view that would make it possible to establish an appropriate overall level of capital requirements for individual institutions.

The self-reinforcing process of creating ever new and more detailed regulation is leading to disproportionate complexity. To break this vicious circle, the Commission must address not only the symptoms but also the underlying cause. In addition to the specific content, the Commission should address the general regulatory approach. The Lamfalussy process needs to be realigned. Essential political decisions and core substantive elements, such as the level of capital and liquidity requirements, should be regulated at Level 1. Level 2 should not be used simply to shift politically controversial aspects to the ESAs. In addition, Level 2 should be limited to technical specifications and must not create burdens beyond the level of requirements set at Level 1. Furthermore, the scope and level of detail of technical specifications should be significantly reduced. Guidelines and other informal instruments at Level 3 should be reduced to what is strictly necessary. Although they are not formally or legally binding, in practice they generally operate like hard requirements. In principle, we welcome the fact that supervisory authorities are increasingly emphasising their formally non-binding character. However, such clarifications of already known facts are of only limited help to institutions. The key factor is how supervisory authorities and auditors deal with the guidelines in practice and how strongly they insist on detailed compliance with them. In our view, the only effective approach is therefore to minimise the overall scope of Level 3 regulation and to address the general supervisory approach including extended opportunities for appeal. In addition to a broader cultural change, which the Commission fortunately supports very clearly (see below), this includes giving supervisory authorities an equal mandate for competitiveness alongside financial stability. They should be required to weigh the supposed benefits of additional regulation more thoroughly against the costs it creates for society, the real economy and institutions.

In our view, another central lever for reducing complexity is the consistent reduction of European gold-plating. A prime example is the rules on the NPL backstop. This is a specific European rule that has neither an international counterpart nor is based on BCBS proposals. The proposals originally came from the ECB in response to the high NPL stocks on European banks' balance sheets as a result of the global sovereign debt crisis. The institutions have significantly reduced the high NPL stocks that existed at the time. We would therefore welcome the deletion of the automatic NPL backstop. Another example of EU gold-plating exists in the area of software investments (see above).

Microprudential:

From the perspective of the German Banking Industry Committee, the planned measures on the microprudential framework are far too cautious. For Pillar 1 and the risk-based P2R, the Commission does not announce any measures apart from the specific considerations under 3.2. Against the background that Pillar 1 and Pillar 2 form the core of banking regulation, this is not ambitious enough. A noteworthy reduction in complexity will hardly be achievable if a large part of the regulatory framework is simply left out.

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In Pillar 2 in particular, the international standards leave considerable room for discretion, so implementation varies across jurisdictions. In its specific design, the P2R is an EU-specific feature. There is therefore significant potential for improvement here. The P2R should be derived transparently, calibrated with a focus on risk and embedded in the overall capital framework without overlaps. The Commission should clearly oblige the competent authorities to do so, ideally through specific legal requirements.

The clarification that the P2G is not a binding capital requirement is welcome. However, this will not lead to greater flexibility as long as the P2G continues to be perceived as a supervisory expectation in practice. The P2G ratio is currently derived from the results of supervisory stress tests, which places a very high burden on both institutions and supervisory authorities. We therefore advocate that the competent authority should set a buffer on the basis of the available data that serves as a recommendation and, in particular for smaller and less complex institutions, specifically SNCIs, does not require bottom-up stress tests. The workload associated with supervisory stress tests should be significantly reduced, for example through longer cycles.

We welcome the envisaged removal of the P2R-LR without replacement. For the sake of consistency, we advocate deleting the P2G-LR as well.

We welcome the announcement that proportionality for smaller and non-complex institutions will be strengthened. However, it is not enough to adjust only the current criteria and thresholds for classifying SNCIs. Europe needs an adequate regulatory framework for smaller or low-risk institutions overall.

Finally, we would like to underline an important Pillar 2 aspect that is only implicitly addressed in the Communication: an ICAAP in line with the original idea of institution-specific risk management would significantly strengthen Pillar 2. Institutions should therefore be given the possibility to conduct the ICAAP, including stress tests, in the way they consider appropriate and suitable. Supervisory requirements and reviews relating to the ICAAP should be significantly reduced in line with the institutions' risk profiles. From the institutions' perspective, this would enable the ICAAP to fulfil its actual purpose of providing a comprehensible and management-relevant picture of risks. In our view, the recent revision of the ECB's ICAAP Guide does not constitute such a conceptual realignment. Rather, it consists mainly of clarifications and editorial adjustments. This shows that legislative measures are indispensable in the area of Pillar 2. It is not sufficient to rely solely on the SSM changing its current approach on its own.

Resolution:

It is welcome that the Commission recognises the excessive complexity of the resolution framework and aims to align MREL with TLAC. However, the eligibility criteria should be designed in such a way that they do not result in a tightening of the requirements and therefore additional issuance requirements and/or an increase in refinancing costs. In particular, the extension of the framework to predominantly deposit-funded institutions should be carried out in a proportionate manner. Thus, certain non-subordinated debt instruments should remain eligible (Senior-Debt-Allowance).

The requirements for resolution planning have also become too complex and unpredictable, which is why we see an urgent need to reform them.

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The prior permission procedure must likewise be simplified in line with the Commission's approach. In accordance with the TLAC Term Sheet, it should apply only where there is a risk of not meeting MREL/TLAC requirements.

Finally, it is important that small and medium-sized banks, as a rule and on a regular basis, remain outside the resolution mechanism. The changes made in the recent CMDI review, which maintain insolvency proceedings as the default solution, must not be weakened by future regulation.

Macroprudential:

The revision of the macroprudential framework is very much welcome. Capital buffers should be streamlined to eliminate gold-plating and unintended interaction to increase their predictability and usability in stress periods. However, it is not enough to merge individual macroprudential buffers and give them a different label. We strongly advocate abolishing the SyRB. It is not part of the Basel framework and constitutes a form of EU gold-plating. The fact that it can be imposed separately for certain sectors or regions creates additional complexity. It ties up capital, makes financing more expensive, overlaps with existing supervisory instruments and weakens the competitiveness of European banks. This criticism is not addressed by merging it with another macroprudential buffer.

The revision of the O-SII buffer is welcome. There should be better harmonisation without increasing requirements overall. We advocate ensuring the proportionate application of O-SII buffers in international comparison and capping them at 0.75% (i.e. lower than the G-SII buffer).

Furthermore, various capital buffers, including the CCyB and the CCoB, should be consolidated into a single releasable buffer that can be used during periods of stress.

Interaction between microprudential, macroprudential and resolution rules:

The Commission rightly points to the interactions and overlaps between microprudential, macroprudential and resolution related requirements. Accordingly, it should revise the capital stack holistically. It should not only examine simplifications and mergers within the macroprudential regime, but also include elements such as P2R and the capital conservation buffer in its assessment.
Apart from that, we very much welcome that the Commission does not question the current capital structure for going concern purposes, including AT1 instruments. This must also apply with regard to the current eligibility criteria for AT1 instruments.

Reporting and disclosure:

The Commission's clear commitment to stronger integration of reporting requirements is welcome. The other pending initiatives, including enhanced proportionality, materiality thresholds and simplified data exchange between authorities, are also important.

The removal of 50 % of data points as proposed in the EBA consultation on simplifying reporting falls short of delivering a meaningful reduction in reporting burden. One of the main reasons is the integration of certain reporting obligations from the EBA stress test into regular reporting, resulting in a higher reporting frequency for a substantial number of data points and a need to establish new data flows.

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Overall, the EBA's current plans are expected to increase supervisory reporting costs. The cost of compliance study conducted by the EBA six years ago, which was originally intended to focus in particular on smaller and non-complex institutions, has so far failed to result in any meaningful relief, especially because of new reporting requirements, e.g. on IRRBB and ESG.

The envisaged expansion of the EBA's mandate should be linked to a clearly defined objective. It should not lead to additional complexity, new reporting requirements or further administrative burden for institutions. Frequent changes to the requirements should be avoided. Sufficient implementation periods should be granted through all levels of regulation. The request to the EBA to create greater transparency about the link between reporting requirements and legal bases is welcome. Despite ongoing simplification efforts, institutions continue to face increasing reporting burdens. We therefore consider an immediate two-year moratorium on new and significantly amended regular and ad-hoc reporting requirements essential. Such a pause would enable the consistent development of an integrated reporting framework and provide genuine regulatory relief.

The Commission could provide lasting relief to institutions, in particular SNCIs, above all by omitting certain reporting requirements altogether. A significant increase in the thresholds for classification as an SNCI and the introduction of a small banking regime would lay the groundwork for such relief.

Unnecessary use of resources for resubmissions of historical reports, validation processes and data storage could be reduced by introducing a stronger materiality principle for resubmissions. This would require a legal basis for appropriate materiality thresholds in the implementing technical standards (ITS) on supervisory reporting. We do not share the view expressed in the Staff Working Document that the current absolute thresholds of EUR 10,000 are disproportionate only for large institutions.

The considerations on disclosure remain significantly behind the need for action that has been identified. The Commission recognises that Pillar 3 disclosures are often excessively complex, redundant and insufficiently aligned with supervisory reporting. Nevertheless, concrete proposals for solutions are lacking. At the same time, it should be noted that public transparency is already ensured through existing public financial reporting requirements, while supervisors receive the prudential information necessary for effective banking supervision through supervisory reporting under Article 430 CRR. For large and "other" institutions both the technical implementation effort and the ongoing operational burden have increased significantly, without the resulting benefits being proportionate to the additional burden. For these reasons, the Commission should draw the necessary conclusion and repeal Part 8 CRR, thereby abolishing separate Pillar 3 disclosure requirements for all institutions.

Competitiveness as a shared responsibility

Here too, the Commission's analysis contains many important and supportive elements. Particularly positive is the clear call for a cultural change among all parties involved: legislators, supervisory authorities, the banking sector and auditors. However, this requires greater binding force: the European supervisory authorities should be obliged to take competitiveness and proportionality considerations into account in a binding manner (see above). We support supervision that is more principle-based and neutral with regard to different organisational forms.