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German Banking Industry Committee: Key priorities for improving the competitiveness of the EU Banking Sector

The Draghi Report has firmly placed the competitiveness of the European economy, and its financial sector in particular, at the centre of the European policy agenda. Capitalising on this momentum, the European Commission's July 2026 Communication on the *Competitiveness of the Banking Sector and the Single Market in Banking* is a welcome and timely initiative. We very much appreciate the Commission's continued engagement with this issue and would like to contribute to this important discussion.

In this context, we suggest a two-track approach, reflecting both the urgency of certain issues and the time required for fundamental reform. First, urgent, well-defined and technical issues should be addressed swiftly through a pragmatic fast-track approach, with tangible results delivered in 2027. At the same time, a broader reform agenda is needed to address the structural complexity of the regulatory system, going beyond individual fixes.

The two tracks must be pursued in parallel: immediate solutions should not be held back by topics relating to a comprehensive reform, while fundamental reform likewise must not be delayed by focusing on short-term fixes or by integrating long-running issues with a high level of conflict potential. Only a parallel approach can provide immediate relief while maintaining momentum for structural change and avoiding any loss of time.

In terms of content, we need targeted measures to stop the increase in capital requirements, simplify the framework and reduce the overarching regulatory burden. Any measures that do not support the competitiveness of the European banking sector, or even have the potential to hamper it, should not be pursued further – this includes a uniform European deposit insurance and the harmonisation of national insolvency laws.

Key priorities

In light of the above, we urge the forthcoming legislative process to focus on the following issues. The points are listed in purely thematic order, which is not intended to imply any judgement as to their relevance. Further highly relevant aspects can be found in the appendix to this paper.

1. Introduce a small bank regime: 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. Pillar 2 issues are seen as having particularly high potential for simplification. 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 welcomed. Should the proposal fail to secure a majority during the forthcoming negotiations at Brussels level, significant relief should at least be provided for small institutions in the areas of Pillar 2 and Level II/III regulation.
2. CRR III/Basel III finalisation: Freeze the phase-in (output floor permanently set at 50%, credit conversion factors for commitments, equity exposures) and make permanent the relief in the calculation of the output floor (unrated corporates, cf. Appendix II; residential real estate) in order to keep capital requirements at the current level. The output floor should only be applied at consolidated level.
3. Prudential treatment of software assets: Abolish CET1-deductions for software assets in order to allow for more investment in digitalization and cyber resilience. See our detailed proposal attached (Appendix III).
4. NPL-Backstop: Eliminate the automatic NPL backstop in cases of regulatory insufficient coverage as this regulation is a prime example of EU “gold-plating”.
5. Market risk: Revise both the FRTB-framework and the trading book boundary to ensure international competitiveness of European banks in trading activities as well as a smooth implementation of the boundary across institutions based on trading intent.
6. Operational Risk: Introduce a netting of income and expenses within the services component of the Business Indicator as this would make the operational-risk own-funds requirements materially more risk-adequate as well as more coherent.

7. Pillar 2 regulation: Fundamentally simplify and reorganize the Pillar 2 regime to strengthen competitiveness, proportionality and predictability with a focus on transparent and risk-sensitive P2R requirements without double counting, a significantly streamlined ICAAP and SREP framework and a noticeable reduction in the complexity of supervisory stress tests. Replace the existing procedures for determining P2G by a simpler, primarily top-down data-based supervisory stress test (opt-in). In addition, eliminate P2R-LR and P2G-LR.
8. Proportionality in governance and remuneration requirements: Ensure that the CRD's governance requirements, particularly those relating to remuneration, diversity and suitability, consistently adhere to the principle of proportionality. Exclude key function holders from the fit and proper regime.
9. Macroprudential regulation: Remove the systemic risk buffer, cap the O-SII buffer at 0.75% and streamline the capital buffer framework in order to eliminate gold-plating and to increase the predictability and usability of capital buffers in stress periods. Avoid simply merging and renaming existing buffers without making fundamental changes to the underlying principles.
10. MREL: Legally anchor the exclusion of passing-through promotional loans in the EU framework, in line with the treatment under the ex-ante contributions and the leverage ratio, in order to strengthen the promotional infrastructure – particularly in a phase of high investment needs.

    Hold an in-depth discussion on the design of MREL with a strong focus on proportionality. Address the issue of the current methodology for determining MREL requirements featuring a wide range of components and adjustments for individual banks, e.g. deposit-funded medium-sized banks, which has led to an overly complex MREL framework (in particular, the EBA recommendation EBA/REP/2026/12 to remove the TLOF metric from the determination of the subordination level of the MREL/TLAC).
11. Regulatory Stability and Reduction of Unnecessary Reporting and Disclosure Burdens: To ensure a proportionate and sustainable reporting framework, avoid further extensions of supervisory reporting requirements. Instead, prioritise regulatory stability, reduce unnecessary operational burdens and focus resources on strategically important initiatives such as the development and implementation of an Integrated Reporting System (IRS). Necessary accompanying measures include an immediate moratorium on reporting requirements, the introduction of appropriate materiality thresholds for the resubmission of historical data, and the removal of ESG reporting and disclosure requirements that have become disproportionate following the Sustainability Omnibus and risk creating indirect trickle-down effects for institutions and their customers. Additional and duplicative data requests should be reduced through better data sharing between authorities. Beyond these targeted measures, separate Pillar 3 disclosure requirements should be abolished for all institutions.
12. Focused review of the EBA mandate and reform of Level II and Level III rulemaking: Ensure that any change to the EBA's mandate, as well as the introduction of additional responsibilities, do not lead to additional layers of complexity, new reporting requirements, or increased administrative burden for institutions. Centre EBA's mandate on promoting proportionality, simplification, and further automation of supervisory reporting.

    Realign the Lamfalussy process fundamentally so that Levels 2 and 3 are limited to what is strictly necessary and do not create additional burdens beyond the Level 1 requirements. Strengthen impact assessments and accountability obligations for the ESAs.

Finally, another essential contribution to the competitiveness of EU credit institutions beyond the prudential framework would be to postpone the entry into force of the AMLR by two years. We also demand a targeted revision of the AMLR to eliminate practical uncertainties and allow a risk-based, proportionate approach to outsourcing AML functions, including full outsourcing.

Appendix I: Further aspects requiring consideration to improve the competitiveness of EU credit institutions.

Topic	Explanation
Further harmonisation of the SME definition	Fully harmonise the SME definition, also beyond the recent EBA consultation on the ITS on supervisory reporting. Therefore, adjust the SME definitions in Art. 3(6) of Commission Delegated Regulation (EU) 2015/61; in point 14 of the EBA Guidelines on loan origination and monitoring, with respect to banking statistical reporting; in ECB Regulation (EU) 2016/867 on AnaCredit; and in Art. 2(1), point 107 BRRD in line with Art. 5 (9) CRR.
Incorporation of materiality threshold of 0.25% of Tier 1 capital — as used in Pillar II regulation for shadow banking entities — into reporting and disclosure	Taking into account efficiency and proportionality, as well as the stated objective – including on the part of supervisors – of reducing the regulatory burden, incorporate the materiality threshold of 0.25% of Tier 1 capital into the Delegated Regulation (EU) 2023/2779 or into the CRR and apply more broadly to shadow banking entities beyond the limited scope of the Guidelines. As a minimum, retain the threshold within the scope of the Guidelines.
Adjustments to ADC exposures	For ADC exposures relating to land acquisition, development and construction of real estate, narrow the definition on a risk-sensitive basis to income-producing real estate (IPRE). Exclude energy-efficiency renovations from ADC exposures. Extend the reduced ADC risk weighting for residential real estate to commercial real estate, provided that additional criteria are met, such as pre-sales/pre-leases or an adequate equity contribution by the obligor.
Recognition IPRE under F-IRBA and standardized approach	Under the Foundation IRB Approach and under the standardised approach, let income-producing real estate (IPRE) be recognised as collateral if the 'hard test', which indicates low loss rates, is not passed, or if the necessary information is unavailable. Under the Foundation IRB Approach, let differentiated loan-to-value (LTV)-based capital requirements be implemented using loss given default (LGD) rates ranging from 20% to 40%, depending on the LTV ratio.
Risk-mitigating treatment of collateral	Let collateral be recognizable as a capital-reducing item regardless of the calculation approach used. Otherwise, the failure to take collateral into account in the standard approach leads to an overestimation of credit risk, higher capital requirements, and ultimately makes financing more expensive, particularly for SMEs and retail customers.
Facilitate recognition of physical collateral under the F-IRBA and standardized approach	Introduce a more proportionate approach, closer to Basel, to improve financing conditions for specialised lending, infrastructure finance and other strategic investments. CRR III is more rigid than Basel and can lead to unnecessarily high capital requirements.
Reverting the linkage of the Infrastructure Supporting Factor to the EU Taxonomy Regulation	Remove the link between the infrastructure supporting factor and the EU Taxonomy Regulation and restore the CRR II approach. Under CRR III, the application of the Infrastructure Supporting Factor has been linked to the EU Taxonomy Regulation. This new approach is not risk-based and raises financing costs for a wide range of economically sound and urgently needed infrastructure projects, including transport, energy and social infrastructure such as schools and hospitals.
Avoiding supervisory gold-plating of trade finance	Preserve current Level 1 treatment under CRR for trade finance instruments listed in Annex I. EBA's draft RTS on credit conversion factors should not introduce a more burdensome treatment for instruments already regulated in Level 1. By subjecting certain trade-

Topic	Explanation
	related contingent instruments to a more “dynamic” approach, the RTS would increase capital requirements, operational complexity and legal uncertainty. Under EBA’s interpretation, trade finance instruments would in practice be treated as Bucket 1 exposures once the non-credit-risk-related event has occurred, triggering a 100% CCF. This would go beyond the existing CRR framework and overstep the EBA’s mandate.
Making Member States’ discretions regarding exemptions for large exposures under Article 493(3) directly applicable	Fully merge the Member State discretions for large exposures under Art. 493(3) CRR into generally applicable exemptions, as under Art. 400(1) CRR. These discretions will expire by the end of 2028 at the latest, while the exemptions will then be continued as competent authority options under Art. 400(2) and (3) CRR, subject to conditions that institutions must demonstrate. Unlike Art. 400(1) CRR, this approach prevents uniform application across the EU, creating different competitive conditions, fragmentation of the European single market and unnecessary complexity.
Regulatory treatment of crypto exposures	Give general regulatory guidance regarding the future regulatory treatment of crypto assets (as envisaged in Art. 501d CRR). Furthermore, revise the current crypto exposure limit of 1% of Tier 1 capital and account for risk mitigation through hedging.
Equal treatment of the Prudential Boundary Approach (PBA) in OpRisk	The current standards (EBA/RTS/2025/02 and EBA/ITS/2025/06) on the Business Indicator set extensive conditions for the application of the PBA. This includes the possibility for the competent authority to delay the application for a prolonged period due to missing documentation. We suggest of the PBA and the Accounting Approach in accordance with the CRR.

Appendix II: Discussion Paper on the treatment of Unrated Corporates under the Credit Risk Standardised Approach

Background and policy objective

The treatment of corporate exposures without an external ECAI rating ("unrated corporates") remains an important issue in the European implementation of the Basel framework. External corporate rating coverage in Europe is structurally limited. This applies not only to SMEs, but also to many larger, financially sound companies. As a result, the regulatory treatment of unrated corporates materially affects financing conditions for a substantial part of the European real economy.

Under the Credit Risk Standardised Approach (CRSA), unrated corporate exposures generally carry a risk weight of 100%. This treatment does not sufficiently differentiate between corporates with materially different levels of credit quality. In particular, financially sound companies may receive the same risk weight as significantly riskier borrowers merely because no external ECAI rating is available.

External ratings cannot provide a comprehensive solution. They entail recurring costs, disclosure requirements and administrative burdens, and may not be economically appropriate for many European corporates. The limited availability of external ratings should therefore not prevent the prudential framework from recognising high credit quality where reliable internal credit assessments establish it.

Consequently, there is a strong case for making the CRSA more risk-sensitive for high-quality unrated corporates. The key question is how to incorporate internal credit assessments into the standardised approach without compromising prudential robustness and proportionality.

Treatment of IRBA exposures – PD approach

The treatment of IRBA exposures to unrated corporates for output-floor purposes should build on the logic already recognised by the European legislator in Article 465(3) CRR.

Under this arrangement, institutions using the IRBA, for output-floor purposes, assign a risk weight of 65% to unrated corporate exposures where the institution has permission to use the IRBA for the relevant exposures and the estimated PD does not exceed 0.5%.

This concept should be made permanent and incorporated directly into Article 122 CRR.

Treatment of CRSA exposures

For CRSA exposures, two options could be considered for identifying exposures to unrated corporates that may receive preferential treatment:

I. PD approach:

Similarly to the approach described above, institutions would identify investment-grade corporates that are eligible for the 65% risk weight on the basis of PDs. In this case, the PDs could be derived from internal rating systems that are not IRBA-approved but satisfy certain prudential requirements to ensure reliability. These requirements could include, inter alia:

- effective use of the rating system in credit and risk management;
- sound and consistently applied rating criteria;
- appropriate and representative input data, including data reflecting adverse economic conditions;
- consideration of quantitative and qualitative factors;
- sound methodologies combining statistical methods and expert judgement;
- regular review of ratings and at least annual reassessment;
- consistency with the Article 178 CRR definition of default; and
- regular independent validation, including appropriate benchmarking.

This approach would foster comparability across institutions. The same quantitative criterion would determine eligibility - irrespective of whether an institution applies the IRBA or the CRSA. In that sense, this approach would represent a direct transfer of the already established transitional arrangement to the CRSA.

II. Standardised creditworthiness assessment:

A second approach would start directly from the regulatory architecture of the CRSA, rather than extending the IRBA-PD logic to institutions that do not use the IRBA. Under this option, Article 122 CRR could establish a separate prudential category of “high-quality unrated corporates” attracting a risk weight between 65% and 100%, for instance 85%.

Eligibility for this category would be determined through a standardised creditworthiness assessment comprising several quantitative and qualitative criteria. This standardised creditworthiness assessment should be proportionate. It should not require CRSA institutions to meet model governance or validation requirements equivalent to those under the IRBA. An internal rating and the associated PD could contribute important evidence of credit quality but would not constitute the sole regulatory parameter determining the applicable treatment.

Relevant minimum criteria could include:

- absence of default and other material indicators of deteriorated credit quality;
- sustained capacity to meet financial obligations;
- sound financial ratios and debt-servicing capacity;
- resilience to plausible adverse economic developments;
- a sufficiently strong internal rating or internal credit assessment;
- use of that assessment in established credit and risk management processes;
- regular review and updating; and
- appropriate independent validation of the underlying rating methodology.

This approach would preserve a clear distinction between the treatment of IRBA and CRSA exposures. This distinction could help avoid imposing additional model-governance requirements on smaller and medium-sized CRSA institutions that use well-established internal rating systems without maintaining IRBA-approved models. This would preserve proportionality while ensuring the reliability of the underlying credit assessment.

Appendix III: Treatment of software assets under CRR

I. Background

Software is a strategic asset for banks, enabling them to serve clients where and when needed, to manage complex portfolios, to deliver digital services to clients competitively and – gaining more importance than ever – to develop cyber security measures against threats caused by artificial intelligence.

However, in the European Union today, software is treated as an intangible asset under the CRR by reference to IAS 38 (Article 4(1) No. 115 CRR), triggering a deduction from Common Equity Tier 1 (CET1) capital (Article 36 (1) b) CRR), which is further specified in the EBA Regulatory Technical Standards (RTS) on the prudential treatment of software assets.

This treatment is not risk-sensitive and increases the cost for EU banks to acquire software, reducing the capital available for lending and investment. As software and IT investments are the “backbone” for the above-mentioned digital challenges of banks, this capital treatment creates a competitive disadvantage for EU banks.

In the US, banks are generally permitted to recognize 100% of software assets on their balance sheets without triggering regulatory capital deduction. This is based on U.S. accounting rules (US GAAP) that allow banks to classify software within tangible assets, more specifically under “Property, Plant, and Equipment”. This classification enables banks to avoid the automatic deduction associated with "intangible assets”.

Considering these (competitive) challenges and to create a level playing field, the following text sets out a draft proposal for incorporating an approach into the CRR, where all software assets are no longer required to be deducted from CET1 capital pursuant to Article 36(1)(b) of the CRR.

Instead, software should be assigned a 100% risk weight in accordance with Article 113(5) of the CRR.

II. Proposed treatment

Proposed amendments to Article 36 CRR:

> Deductions from Common Equity Tier 1 items
>
> 1. Institutions shall deduct the following from Common Equity Tier 1 items:
>
> (a) losses for the current financial year;
>
> (b) intangible assets with the exception of ~~-~~software assets~~ prudently valued software assets the value of which is not negatively affected by resolution, insolvency or liquidation of the institution~~;
>
> [...]
>
> ~~4. EBA shall develop draft regulatory technical standards to specify the application of the deductions referred to in point (b) of paragraph 1, including the materiality of negative effects on the value which do not cause prudential concerns.~~
>
> ~~EBA shall submit those draft regulatory technical standards to the Commission by 28 June 2020.~~
>
> ~~Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.~~

In addition, Article 13a Commission Delegated Regulation supplementing the Regulatory Technical Standards (RTS) developed by the European Banking Authority (EBA) would have to be deleted in its entirety.