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European Commission
Directorate-General for Financial Stability, Financial
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Deutsche Bank response to the European Commission Targeted consultation on the competitiveness of the EU banking sector

Dear Commissioner Albuquerque,

Thank you for the opportunity to respond to the European Commission's targeted consultation on the competitiveness of the EU banking sector. We welcome the focus on how the regulatory and market framework can strengthen the EU's capacity to finance growth, the green and digital transitions, and Europe's resilience and security in a more fragmented global environment.

Our core message is that Europe's long-term competitiveness will depend on strengthening economic security and resilience. European banks are central to this: they provide the financial capacity and operational resilience—the ability to absorb shocks (geopolitical, energy, cyber), to intermediate capital efficiently, and to invest at scale in technology, risk management and client service.

This should be reflected in the approach to EU banking regulation. We encourage a shift in perspective: banks should be seen more as enablers of Europe's growth, investment and resilience – and no longer solely as risk carriers. That requires a different mindset, supported by a regulatory framework that better balances financial stability with growth.

Set out below is a summary of the main points developed in our response and annexes:

- **A 2035 resilience lens:** the operating environment is likely to feature greater macroeconomic divergence, ageing demographics, sustained geopolitical fragmentation, rapid AI diffusion and contested payment infrastructure. This increases the premium on investment capacity, cyber resilience and effective oversight across bank and nonbank actors.
- **Scale and competitiveness matter:** Europe needs larger, stronger European (investment) banks to finance long term priorities, support deeper capital market intermediation, and



sustain investment in technology and operational resilience. This is also relevant for Europe's strategic autonomy in stress episodes.

- **Enhance financing capacity to support economic resilience and security:** focus on preserving financial stability while reducing excess requirements and duplication that constrain lending capacity and investment. In Annex I we propose targeted, near-term measures (including on the output floor transitional arrangements, software treatment and prudent valuation) to support EU financing capacity in line with the request from the European Council of 19 March.
- **Complete the Single Market for banking and capital:** fragmentation still traps capital and liquidity, raises compliance costs and limits cross border service models. Progress on Banking Union and the Savings and Investment Union should be complemented by practical steps to reduce national barriers like removing persistent IBAN discrimination and frictions in cross border data sharing for AML purposes.
- **Maintain a global level playing field:** EU policy should recognise the competitive pressure from other jurisdictions and from non-banks. Divergent implementation and the extraterritorial application of EU requirements can disadvantage EU banks operating internationally and should be addressed. The framework should also tackle the uneven treatment of banks and non-banks. Regulation should be designed to keep lending and risk intermediation within the supervised, regulated perimeter – rather than pushing activity further into less regulated sectors. The EU should follow the U.S. example, which has taken precisely this approach. This is not only a question of competitiveness; it is also essential for financial stability.
- **Urgency and sequencing:** we encourage the Commission to pursue an ambitious timetable, including publishing a short-term legislative package in 2026, followed by broader single market measures to enhance competitiveness and resilience.

In Annex I, we include a list of the most impactful measures. In Annex II we include our detailed responses to your questions.

Best regards,

Christian Sewing
Chief Executive Officer



Annex I

List of most impactful measures

Annex 1 - List of most impactful measures

The list below contains regulatory measures and suggested changes that would have the most impact on increasing European economic security and resilience as these enhance the financing capacity of European banks without reducing financial stability. These are also supported by key trade associations including EBF, BdB, AFME, IIF, ISDA, LMA (for the financial sector), as well as Business Europe, European association of corporate treasurers, the German public companies institute (DAI).

These are further explained in our responses to the consultation questions in Annex II.

Time	Topic	Act	Change and objective	Rationale
Short term	Prudential capital	Output Floor	CRR <ul style="list-style-type: none"> Make the transitional arrangements for unrated corporates, SA-CCR and mortgages, expiring in end-2029/end-2032 permanent 	<ul style="list-style-type: none"> Increasing capital requirements unnecessarily runs opposite the European Council objections as it reduces banks ability to support growth of European corporate clients or manage their FX/IR risk.
		Software assets	CRR <ul style="list-style-type: none"> Allow full exemption from deduction 	<ul style="list-style-type: none"> EU gold-plating Support investments in bank technology for greater client experience and increased cyberresilience
		Leverage Lending	CRR <ul style="list-style-type: none"> Define leverage lending exposure to avoid gold-plating due to supervisory discretion 	<ul style="list-style-type: none"> EU gold-plating Constrain lending towards SMEs and corporates looking to transition towards a more futureproof, digital and sustainable business model



		Trade finance	CRR	<ul style="list-style-type: none"> Change the definition of trade finance guarantees to ensure a lower CCF for open-ended guarantees for public projects 	<ul style="list-style-type: none"> Undermines financing for public projects, for instance with regard to key defence projects
	Capital market access	Extraterritorial application of EU requirements	MiFID	<ul style="list-style-type: none"> Remove the extraterritorial application of rules to EU banks operating internationally Clarify the territorial scope in the relevant recitals or through a European Commission Q&A 	<ul style="list-style-type: none"> Undermines ability of EU banks to service clients globally
	MIFIR				
	EMIR				
Medium term	Prudential capital	O-SII	CRD	<ul style="list-style-type: none"> Harmonise methodology, scoring and CET1 buffer assignment across EU or remove the standard completely for European G-SIBs, having the G-SIB buffer applicable/leading 	<ul style="list-style-type: none"> EU gold-plating, align with approach of other jurisdictions wrt G-SIBs. Creates intra-EU fragmentation
		Systemic Risk Buffer	CRD	<ul style="list-style-type: none"> Remove or merge with CCyB to avoid duplicative buffers 	<ul style="list-style-type: none"> EU gold-plating
		Prudent Valuation	CRR	<ul style="list-style-type: none"> Eliminate framework as the requirements are duplicative to other elements in the prudential framework. At minimum prevent further capital increase stemming from the EBA review process 	<ul style="list-style-type: none"> EU gold-plating, especially impacting European investment banks. This limits them in supporting European clients towards European capital markets
		Competitiveness mandate	Relevant Regulations	<ul style="list-style-type: none"> Add secondary mandate to ESAs and ECB/SSM to pursue competitiveness in their respective sector 	<ul style="list-style-type: none"> Link regulation and provision of finance/economic growth
		SRF contributions	BRRD & SRMR	<ul style="list-style-type: none"> Fix the SRF target level stable at €80 bn, i.e. static instead of dynamic. 	<ul style="list-style-type: none"> Constrains lending.



Annex II

European Commission European Commission Targeted consultation on the competitiveness of the EU banking sector

Responses to questions

1. Banking competitiveness in the EU and globally

1.1. Contribution of the banking sector to the EU economy

Q1. 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.

Banks primarily support European Union economic growth by providing credit, financing, and transaction services, enabling businesses to invest and expand. To further boost productivity and accelerate sustainable transitions, banks must optimise capital allocation towards high-efficiency firms, deepen their digital and sustainability transformations, and actively finance the decarbonization of carbon-intensive industries.

We directly contribute by supplying credit for corporate business investment through various financing options and capital markets access. We have provided cumulative sustainable finance of €471 billion since 2020 to support energy transition and related sustainability goals. The bank also supports reinvestment in Germany and the European Union through a Fiscal Expansion strategy, focusing on critical goods, defense, infrastructure, and green initiatives. Additionally, Deutsche Bank facilitates global capital market access for clients as an intermediary and liquidity provider.

EU banks could do more through:

- **Improved regulatory environment:** Reduce excessive prudential capital requirements, such as those from CRR III/Basel III Output Floor, which hinder banks' ability to finance the economy.
- **Improved and frictionless Single Market for banking:** Eliminate national barriers in prudential matters, capital markets, retail, and payments, including further reducing International Bank Account Number (IBAN) discrimination.
- **A Savings and Investment Union:** Enable EU banks to utilise a pan-EU capital market.
- **Elimination of other regulatory barriers:** Address extraterritorial application of rules and enhance cross-border information sharing for Anti-Money Laundering/Know Your Customer (AML/KYC) purposes.



Q2. 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.

2.1. General future financing needs of the economy

We believe that the question should not be whether current credit demand is being met, but whether future demand will be met, and by whom and at what cost.

EU economies remain dependent on banks. While a shift towards a higher level of capital markets may occur as part of the Savings and Investment Union (SIU), the EU will remain a predominantly bank financed economy in the medium to long-term.

Future demand will increase due to green and digital transitions, challenging banks amid regulatory and capital constraints. This will be further amplified the various public sector funds and funding programmes in existence that have not been used up to date. These funds will stimulate wider economic activity and will lead to increased credit demand, especially from the SME/unrated (i.e. no external rating) corporates.

We developed four scenarios for future credit growth for 2026-2030 based on historical precedents, with the two middle ones considered most likely: 2% and 4.3%. Based on these four scenarios, we have calculated the additional RWA and CET1 that EU banks will need to meet the expected additional credit growth in 2026-2030.

Our analysis shows that, if a 2% credit growth is observed (basically a repeat of the years preceding Covid-19 when we had 2% a year loan growth with the private sector – households and corporates combined – slightly negative interest rates and 2% GDP growth), EU banks' loan book would increase by EUR 1.3 trillion by 2030, from the starting point of EUR 12.1 trillion in 2025. A rough calculation yields an RWA density of 36%, which would result in an RWA increase of EUR 461 billion, which in turn would require EUR 65 billion additional CET1 capital, assuming banks want to maintain a 14% CET1 ratio, which is around the current average.

These EUR 65 billion of additional CET1 are equivalent to more than 100% of average annual CET1 buildup from the past decade, and much more if a stronger credit growth scenario were to materialise.

This shows that, even without any further regulatory capital increase, EU banks will find it harder to service that additional credit growth that the EU wants companies to have for the triple transition to defence, digitalisation and sustainability.

This analysis does not even consider the CET1 increases from the CRR III/Basel III Output Floor, and the expiry of the transitional requirements on unrated corporates, mortgage and hedging activities (SA-CCR), which are discussed in our response to question 70, and will put further pressure on EU banks. We also do not consider ever-increasing Pillar 2 Requirements into account.

This raises the question as to whether that credit will be provided, especially given the Output Floor increase, and whether it will be provided by EU banks or other actors, and what EU policy-makers think is best for the EU economy and sovereignty more broadly.



We will provide our suggestions on how to improve the situation in the following questions.

Historical precedent	2010-15	2016-19	no precedent, hypothetical "middle scenario"	2000-05
Credit growth in % p.a.	-0.1	2.0	4.3	6.5
Avg. ECB deposit rate in %	0.10	-0.40		1.97
Avg. real GDP growth in %	1.03	1.95		1.90
Total nominal private-sector loan increase, in EUR m	61,230	1,282,365	2,815,490	4,486,468
RWA increase in EUR m		460,863	1,011,845	1,612,369
Capital needed with 14% CET1 ratio, in EUR m		64,521	141,658	225,732
Capital needed in % of avg. annual CET1 buildup in the past decade		103	226	359

2.2. Example of shipping and aviation finance

The introduction of CRR III risks unintentionally undermining the ability of EU banks to finance clients using ships and aircraft for their business, i.e. shipping and aviation asset-backed transactions, or make such financing more expensive than it has to be. With the current geopolitical turmoil, it is crucial for the EU to ensure its banks can finance ships and aircraft.

Two sequential impediments from prudential requirements create a challenge.

The first impediment is in the use of the Advanced IRBA (A-IRBA). Currently, under the A-IRBA, Specialised Lending transactions involving aircraft or ships that are recognised as collateral (i.e. "other physical collateral") results in a 7.5% LGD treatment (as part of the CRR



III LGD transitional provisions for Specialised Lending, CRR Art.161(4) Table 1 and Art.495b(1). This suggests the EU co-legislators agreed to a lower LGD to protect that type of financing.

However, the CRR III requirements for historic loss data (CRR Art.174 et seq) makes the use of F-IRBA impossible for portfolios with extremely low defaults, i.e. resilient portfolios. Therefore, EU banks find themselves in a catch-22 situation, where their data and portfolio quality may be too good to qualify for the better regulatory treatment, which the co-legislators intended to make available.

When banks cannot apply the A-IRBA, they have to fall back to the Foundational IRBA (F-IRBA), which is less risk-sensitive than A-IRBA. In that instance, if collateral can be recognised (CRR III Art 230(2) Table 1), the LGD treatment is 25%, which is several times more conservative than the A-IRBA one, and therefore increases the capital that this exposure will attract for the bank. This substantial increase in LGD unduly penalises moveable asset-backed lending transactions (i.e. physical object collateralised exposures qualifying as object finance) by failing to give recognition of low instances of default across the industry due to strong credit performance and risk management.

The second impediment is with the use of the F-IRBA and the 25% LGD. Specifically, the eligibility requirements for collateral (CRR Art.199(6)and especially indent (d)) do not adequately reflect the specific nature, economic reality, liquidity and risk profile of aircraft and ship backed finance, and therefore risk making collateral ineligible.

To benefit from the 25% LGG and recognise the collateral, CRR Art.199 (6)(d) requires EU banks to demonstrate that in at least 90% of relevant cases, they have recovered at least 70% of the collateral's value upon liquidation. This imposes an unrealistic expectation in the context of aircraft and ship finance for the following reasons:

- Aircraft and ships are highly liquid, internationally-traded assets, however liquidation rarely takes the form of a forced sale, which is what the CRR III expects to happen.
- Instead, recovery strategies often involve refinancing, restructuring, loan transfers or borrower-led asset sales, all supported by the presence of collateral.
- Data on forced liquidation events is naturally scarce, precisely because secured ship finance has historically demonstrated strong credit performance.

The third impediment comes from supervisory discretion. The requirements also leave room for supervisory discretion, uncharacteristic of a Regulation, in that they require that “where there is material volatility in the market prices, the institution demonstrates to the satisfaction of the competent authority that its valuation of the collateral is sufficiently conservative.” These requirements risk making this an impossible test for an EU bank to satisfy, or it can lead to supervisory divergence.

The CRR III requirements for collateral eligibility under F-IRBA therefore also lead to a situation where EU banks cannot meet the requirements due to the current market practise and conservative default management. This is again counter-intuitive especially for financing against liquid collateral such as moveable transport assets, and considering that the EU co-legislators intended to support this type of business.

Not being able to satisfy these requirements means that EU banks must treat such financing as effectively unsecured in the F-IRBA, which attracts an even higher 40% LGD. This



prudential treatment would make the transactions uneconomical, increasing the RWA by 530%, and EU banks uncompetitive in these markets.

If unaddressed, this issue risks accelerating the withdrawal of EU banks from shipping and aviation finance in the EU and globally. These are important markets for the EU economy from various angles, including production of aircraft and ships, leasing and use:

- Aircraft
 - EU accounts for approximately 20% of the global demand for aircraft (2022-2041).
 - Airbus and Boeing account for 80% of the world's global fleet with European company Airbus currently leading annual production volume with a 57% market share.
 - Europe represents approximately 30-35% of the global aircraft leasing revenue in 2025 (valued at roughly \$52 billion with EU companies managing over 60% of the world's leased commercial aircraft fleet); and
- Shipping
 - European-controlled fleets represent around 33% of the world's total gross tonnage as of late 2024.
 - Total turnover for the EU maritime transport sector reached €228 billion in 2022, driven largely by freight transport (65% of GVA) and transport services (25%).
 - Shipping support Europe's capacity to steer the maritime energy transition and support Europe's connectivity, transport, energy and raw material import and international trade.

In order to support the European aircraft and shipping industries, EU banks should receive a more appropriate prudential treatment for their Specialised Lending portfolios that recognises collateral appropriately. We recommend that the European Commission proposes a legislative change to:

- Make the A-IRBA available in practice, as was intended by the EU co-legislators, by changing CRR Art.174 et seq the wording of the requirements to allow eligibility for high quality portfolios with low losses.
- Keep F-IRBA collateralised LGD available, by amending CRR Art.199(6)(d) to allow for liquidation of the collateral to be considered from a broader perspective, taking into account other measures of loss prevention that are commonly used, short of an outright sale of the asset.

Q3. 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?

(i) a retail client

See our responses to following questions, in particular questions 4, 11, 16 and 68.

(ii) a SME



SMEs generally have access to a wide range of lending products, such as working capital solutions and investment financing. These options are subject to creditworthiness and risk assessment, and financing structures are usually tailored to the specific needs, business models, and cash-flow profiles of clients. There is a structural trade-off between bespoke solutions and standardised products, driven by the increasing focus on cost efficiency and scalability.

Current constraints to credit supply are mainly due to regulatory requirements, risk considerations, and efficiency pressures rather than structural limitations in market access. We note also expected future constraints on credit supply through prudential rules, such as the CRR III/Basel III Output Floor increase. See response to questions 2 and 68.

(iii) a corporate (non-SME)

Access to finance is currently adequate, but we have similar concerns for the future as for SMEs (see above).

Q4. To what extent does market fragmentation affect consumers' and businesses' cross-border access to banking products and services? Please give examples, such as but not limited to IBAN discrimination and difficulties of businesses and individuals to open a bank account, lack of harmonisation of banking products, challenges linked to open finance data sharing. Please provide data if available.

Market fragmentation significantly affect consumers' and businesses' cross-border access to banking. This ultimately has an impact on the growth prospects of the European economy.

This includes regulatory fragmentation, either through national deviations or the need for banking groups to apply capital and liquidity requirements at group level. See our responses to other questions.

We note here specific fragmentation related to the bank client experience.

4.1. IBAN Discrimination

While EU banks operate Single Europe Payments Area (SEPA)-compliant rails, friction still arise on the acceptance side. For example, merchant, payroll or accounting systems can be hard coded to national IBAN formats (ECC-Net, Position paper: IBAN discrimination, still an issue for EU consumers, 3 July 2025, <https://www.eccnet.eu/publication/alert-ecc-net-iban-discrimination-still-an-issue-for-eu-consumers>). This is consistent with findings of the European Forum of Innovation in Payments (EFIP) that root causes include outdated IT, non-updated forms/mandates, and awareness gaps.

4.2. Fragmentation in data sharing

Digital fragmentation is an important cross border barrier, particularly for firms relying on integrated financial data and multi provider financial stacks. The proposed EU FIDA Regulation, while welcome as legal basis for data sharing in principle, currently embeds multiple sources of fragmentation risk:

4.3. Lack of Product Harmonisation



National variations in data protection, insolvency laws, tax regimes and other broader regulations, prevent banks from offering truly pan-European products, e.g.:

- **Local Payment Differences:** Continued use of specialized local payment infrastructure (e.g. local Tax / Utility payments) can result in inefficiencies as compared to SEPA Instant / SEPA Credit Transfers.
- **Credit Products:** Across the EU27, multiple jurisdictional differences drive fragmentation across countries, such as differences in enforcement frameworks, limit the ability for banks to provide a uniform credit product in terms of pricing, terms and conditions and access.

Q5. 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.

A diversified banking sector is a fundamental asset for the EU economy, providing structural resilience and specialised support for diverse economic needs. Diversity is about maintaining varied business models, ownership structures, and geographic focuses to prevent systemic single points of failure.

Pan-EU Champions – e.g. large universal banks operating across multiple EU27 member states – are of particular criticality for the autonomy and resilience of the European Economy. Such banks can directly finance and service large scale investments and provide access to global capital. Increased risk diversification reduces asymmetric risk exposure. They also support Europe’s strategic autonomy.

Q6. 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?

National Promotional Banks and public guarantee Institutions (NPBI) play an important role in providing financing in scenarios where the private market may be unwilling/unable to invest.

- Counter-cyclical support: NPBIs often step up lending during economic crises to counterbalance deleveraging by commercial banks, maintaining the flow of credit to the economy (e.g. Covid era)
- Additionality and Risk-Taking: They typically take subordinated positions in high-risk projects—such as green infrastructure or innovation—that financial markets would not support under standard conditions.
- Long-Term Financing: NPBIs provide "patient capital" with longer tenors and lower interest rates than commercial banks, which is essential for projects with long payback periods like the green transition.
- De-risking for Private Investors: Public guarantee institutions provide credit guarantees that reduce risk for commercial lenders. This "crowds in" private capital by allowing commercial banks to lend to SMEs that may lack sufficient collateral.



- Knowledge of Local Markets: NPBIs act as intermediaries for the European Investment Bank (EIB) Group, leveraging their local market expertise to ensure EU-wide funds reach small businesses and local authorities effectively.
- Strategic Policy Alignment: Unlike commercial banks focused on short-term profitability, NPBIs operate under public mandates to support national and EU policy goals, such as the Sustainable Development Goals (SDGs) and digital transitions.

NPBIs also face a number of challenges that should be reviewed for public sector efficiency:

- Political Interference: It is important to ensure that investment decisions are not motivated politically versus economically.
- Long-term vs Short-term: NPBI are increasingly focused on long-term goals – e.g. net-zero objectives, this means that there is a risk they may decrease their more traditional role of supplying counter-cyclical credit support.
- Quality of under-writing: Use of government guarantees should not lead to reduced underwriting standards for lending.
- Imbalanced risk-reward: In many NPBI-linked structures, one could argue that the risk has been socialised but the profit of the opportunity has been privatized. Getting this balance right and ensuring that an undue level risk is not born by the public sector is important.
- Portfolio oversight: Applying strict commercial concepts of return (albeit with a higher level of patience per policy objective of the NPBI), is critical to avoid inefficiencies that would represent a misallocation of capital.

Q7. To what extent would the EU economy benefit from the following changes in the banking landscape?

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

Please explain.

7.1. Cross-Border Bank Consolidation:

Scaling up allows EU banks to better compete with U.S. and Asian peers, which currently benefit from larger home markets. Resource Allocation: Consolidating across borders



optimises the allocation of capital and liquidity within the EU, which can provide consumers with better products and lower prices. Larger, geographically diverse groups are also more resilient to local economic shocks, reducing the risk of a "bank-sovereign nexus" in individual Member States.

7.2. Domestic Bank Consolidation

Domestic mergers drive material cost synergies by rationalising head offices, branch networks, and fragmented IT systems, allowing them to pass on savings to customers / improve offerings. Larger domestic banks would have stronger capital bases, broader liquidity buffers and more diversified business profiles. This would also allow potential reduction of overcapacity, dependent on market, driving improved performance of remaining players.

7.3. Banking services offered across a single unified market

See answer to question 4 on market fragmentation impacts.

7.4. Digitalised Banking Services:

This would drive macroeconomic growth, reduce transaction costs and more broadly increase access to capital. Digital enhancements that drive bank efficiency and integration of cross-border financial services serves to strengthen the competitiveness of the EU banking sector. Digital tools like instant payments and AI-driven credit scoring ease constraints for SMEs and intangible-intensive industries.

Q8. What are in your view the main risks faced by EU banks today?

We do not agree with the premise of the question.

We should not look at the main risk of today, but look towards the main risk of tomorrow. Impacts from geopolitical developments, cyber resilience etc are known and also not unique to the banking sector. All European corporates, small and large, are impacted by these developments, directly or indirectly.

We therefore believe that these risks should be addressed and discussed more from a wider European economic resilience and security perspective. This requires cross-sector working groups, combining all expertise from public and private sectors. Financing Europe's resilience is an essential part of this. We need to be prepared, have the correct legislative framework in place to finance the future increased demand. We can't start debating what changes are needed when the demand comes in, but need to do this now.

The biggest risk we see that is directly linked to the European banking sector is the increasing competitive advantage that our U.S. peers are receiving. Next to the known advantage of having a single big capital market, with larger deals and large per deal fees, they now also received significant upside from the prudential perspective.

We discuss this in more detail in answers to following questions.

While the EU would not need to copy the U.S. regulatory approach, there are several regulatory barriers to EU banks which can be addressed. We cover those in our answers to



the following questions. Our key proposals aim to level that playing field more, without losing any of the financial stability that was achieved over the past 16 years.

Q9. What are in your view the main risks stemming from EU banks today?

We believe this question should not be answered by a bank.

1.2. Competitiveness and competition in the EU banking sector

Q10. In which of the following dimensions of competitiveness is the EU banking sector performing well?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>EU banks produce financial products at low cost and/or offer financial services at a low price</u>	X					
<u>International competitiveness: EU banks are able to maintain and increase their market shares in international markets</u>					X	
<u>Innovation competitiveness: EU banks are able to supply qualitative or innovative, original financial products or services</u>		X				
<u>Other (please indicate)</u>						

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

The international competitiveness of EU banks is acutely underperforming. As a result, this limits the range of services and financing to European clients as well.

There are several reasons, which are discussed in answers to other questions in this consultation, in particular in relation to regulatory requirements (such as on regulatory capital), as well as fragmentation of their home market.

Two specific aspects are raised here:

10.1. U.S. regulatory reforms



The recent repropoals by U.S. Agencies on the implementation of Basel III, as well as other regulatory reforms, aim to finalise the U.S. regulatory framework, while freeing up capacity for lending and boosting banking sector competitiveness.

The package will:

- Complete Basel III, not tighten capital - Finish the Basel reforms in the U.S. without increasing system capital.
- Support lending and bank-led market intermediation. It avoids over-calibration that constrains credit, market-making and economic growth or pushes activity to non-banks.
- Remove gold-plating in the capital stack, e.g. by simplifying the framework and eliminating overlap across RWAs, stress tests, G-SIB surcharges and leverage rules.
- Improve risk sensitivity, by recalibrating requirements so capital better reflects actual credit, market and operational risk, not blunt conservatism.

This will provide a clear advantage for U.S. banks over EU Banks.

10.2. Global competition in Residential and Commercial Real Estate

Under the Foundation-IRBA (see CRR Art.199(2)), Residential and Commercial Real Estate may be treated as an eligible funded credit protection if, inter alia, the risk of the borrower does not materially depend upon the performance of the underlying property. This means that generally so-called Income Producing Real Estate (IPRE) Exposures where the fulfilment of the credit obligations related to the exposure materially depends on the cash flows generated by those immovable properties securing that exposure (see CRR Art.4(1)(75b)) must be treated as unsecured for credit risk RWA purposes. CRR Art.199(4a) allows banks to ignore the requirement that the risk of the borrower does not materially depend on performance of property if in equivalent third countries, the competent authority “publishes corresponding loss rates for exposures secured by residential property or commercial immovable property situated within the territory of that third country.”

For this equivalence assessment, the European Commission list adopted in accordance with CRR Art.107(4) must be used (see CRR Art.1 of the Commission implementing decision (EU) 2021/1753 Delegated Regulation). On this list, for example, the UK is still missing even though UK applies prudential supervisory and regulatory requirements at least equivalent to those applied in the EU. In addition, even if the third country is on this list, e.g. the U.S., the competent authority must publish corresponding loss rates for exposures secured by residential property or commercial immovable property situated within the territory of that third country. While there is data available and published by the U.S. competent authority, the EBA has provided a negative answer that those published charge-off rates which are below the required CRR threshold do not fulfil this requirement (EBA Q&A 2026).

As a consequence, EU banks which treat their IPRE exposures under the F-IRBA, must not reflect this Real Estate collateral in the credit risk RWA calculation in third countries as the UK or the U.S. and instead treat these exposures as if these were unsecured. This means that the unsecured supervisory LGD of either 40% or 45% must be used instead of the supervisory LGD of 20% for eligible Real Estate collateral.

The supervisory LGD has a key impact on the final Risk Weight for the RWA determination. This leads to the fact that EU banks are not competitive in those third country markets and cannot service their clients in those third countries.



The European Commission should amend the list by including the UK and for allowing a more pragmatic approach on how to assess whether the third country competent authority publishes corresponding loss rates.

Q11. What are the main regulatory and non-regulatory factors that determine and drive the competitiveness of EU banks? Please specify the factors per market segment: savings, payments, retail banking, corporate banking, investment banking (including underwriting, brokerage, custody, settlement, market making, etc.).

The competitiveness of EU banks is driven by their ability to provide products efficiently, innovate, deploy capital, expand their market coverage e.g. across borders, and compete globally. Factors differ by market and business segment, but common themes include prudential capital, supervisory fragmentation, digitalisation, market access, market infrastructure efficiency, and access to capital and technology.

11.1. Investment banking – FRTB and PruVal

Trading is highly competitive and by nature global for most asset classes, with few geographic limitations. Banks are therefore able to command thinner margins and as a result, the regulatory burden weighs more.

Trading of financial instruments is crucial for capital markets and the competitiveness of European corporates. EU banks trade financial products on behalf of clients, such as pension and insurance funds, industrial manufacturers and transportation companies. Trading underpins corporate risk management, safety for savings and investments in capital markets, and offers liquidity in bond markets, including for governments and corporates.

Already now, only around 30% of the market for euro area government bonds and the European market for Interest Rate (IR) options is offered by EU banks. EU banks have lost significant market share to U.S. banks in all key markets and asset classes.

Capital requirements in the form of Risk Weighting and capital deduction play an important role for competitiveness in this field, and these ultimately impact European growth and competitiveness, financial stability, and the ability of European banks to offer their products to corporates.

For capital requirements the main element is the Market Risk rules. This is why EU banks have asked from the European Commission to consider carefully the implementation of the Fundamental Review of the Trading Book (FRTB), in order to ensure that the EU has a comprehensive framework, that does not undermine the competitiveness of EU banks. The calibration of FRTB raises concerns. If implemented without changes, it can lead to unintended consequences in the European growth, competitiveness and security. It will also be an unsuitable risk management tool for EU banks and supervisors.

We welcome the Commission's commitment to a level playing field, and we support the proposal by the Commission (November 2025 consultation) for the adoption of a Delegated Act with temporary adjustments and a multiplier for the application of FRTB after January 2027.

We encourage the Commission to work further with other EU and non-EU authorities, in order to determine the permanent changes needed so that FRTB can eventually be revised



and introduced in the EU prudential framework. This should be done through a Commission legislative proposal for CRR changes.

Permanent changes to FRTB should include not only the adjustments proposed in the Commission Delegated Act in 2026. We call for a broader re-calibration of the standard, considering both the competitiveness of EU investment banks (and therefore the availability of trading activity by EU banks), but also the correct calibration and risk capturing of the standard. This should include a re-thinking of the current dis-incentives to developing internal models for FRTB (IMA), which results in only three EU banks having applied for IMA. This is a concerning trend for the financial markets in the EU, as high reliance on Standardised Approach can lead to risk concentration and deprive supervisors of useful market and risk insights. In the longer term, it will also make it harder for supervisors to adjust to changes in the market environment or to adapt to the emergence of new risk factors or new products.

Another important element for investment banking competitiveness is capital deductions, and in particular the EU Prudent Valuation (PruVal) framework. PruVal is a prudential capital overlay on accounting rules about valuating trading assets. PruVal was created to address valuation issues related to the 2008 financial crisis. These issues have since been tackled worldwide through various reforms, including improved accounting standards (IFRS, GAAP) and increased banking supervision. There is also double-counting of risk with FRTB, for example through the Residual Risk Add On (RRAO) framework, because products that attract RRAO typically also attract higher PruVal charges as the valuation risk is more complex.

As a result, PruVal calibration leads to excessive capital deductions for EU banks, without a corresponding contribution to financial stability. This is especially the case for elements that lead to double-counting of risk, beyond regulatory requirements, such as the treatment of Day One Profit deferrals.

Given the overlaps with other regulatory requirements, we propose the elimination of the PruVal framework, or at least being allowed to offset AVAs against the deferred Day One Profit, i.e. to disapply the EBA Q&A 2019_4458.

For our concerns on PruVal see also replies to questions 21, 25, 49, 52.

Another important regulatory factor is market access, including access to infrastructure such as Central Counterparties (CCP), trading venues and trade reporting. These concerns are explained under question 25.

Finally, rules around remuneration are especially relevant for investment banking, and the concerns are explained under question 24.

11.2. Corporate Banking

As with other businesses, regulatory capital is a key constraint, because it impacts the funding cost of banks, and will become more crucial in the coming years:

11.2.1. Output Floor

The increase in the percentage of the CRR III/Basel III Output Floor, which limits the RWA output of internal risk models, will play a big role in EU banks' corporate lending portfolios.. The Output Floor is gradually increasing anyway, and after 2030-2033 the transitional



arrangements for certain exposures (unrated corporates, mortgages, derivatives, securitisation) will expire.

Basel III impact monitoring reports have consistently shown the high impact which the output floor will have on European banks. Adaptations in view of the expiry of the transitional arrangements can take many forms, which are not always intentional and can harm EU banks' and the broader EU economy's competitiveness:

For unrated corporates, the decision whether to obtain an external credit rating, for example from one of the leading U.S. credit rating agencies, depends on many factors. This includes its cost (indicatively, more than €100,000 per year per company for Fitch), confidentiality considerations, and alternative sources of bank funding. EU banks wanting to avoid that CET1 increase from the expiring transitional arrangement in 2032 will have to reduce their RWA. It is furthermore not clear that corporates need an external rating to better access capital markets, as it is evident in the U.S. by the many start-ups which receive funding from capital markets through various capital-raising rounds, without an external rating. Pushing EU corporates to get an external rating therefore not only increases their operational cost, but does not give them better access to capital markets. The European Commission should make the transitional arrangements for the treatment of unrated corporates to be made permanent.

It would be a similar situation for other bank products impacted by transitional arrangements, such as derivatives for risk hedging, impacted by the transitional arrangement for the Standardised Approach to Counterparty Credit Risk (SA-CCR) setting alpha to 1, instead of 1.4. U.S. and UK have elected a permanent adjustment of the SA-CCR alpha to 1. Therefore, with the transitional expiring in 2030, EU clients will have an incentive to switch to non-EU banks for their hedging needs. We call for making all the transitional arrangements expiring in 2030-2033 to be made permanent.

Our concerns with the Output Floor are explained in more detail in our response to question 68.

We note Australia's Prudential Regulation Authority (APRA) announced on 16 March 2026 they will be consulting on making Credit Risk Weights more granular and risk sensitive, including high-quality unrated corporates, critical infrastructure and residential property development. They note the adjustments are geared to increase capacity for this type of lending, support business investment and productivity, while remaining consistent with "an unquestionably strong, risk-based framework"

11.2.2. Trade finance

In the prudential framework, the application of Credit Conversion Factors (CCF) for trade finance products (off balance sheet items) leads to unintended consequences not only on the competitiveness of EU banks, but the ability of European companies to contribute to the transition of the European economy.

Trade finance guarantees play a crucial role in supporting the real economy, from local purchase orders to cross-border exchange of goods and service all the way to large-scale and long-term infrastructure projects.

Trade finance guarantees are not used to provide funding. Instead, a bank undertakes a legally binding obligation to cover specific contractual failures, such as non-performance,



delay, or breach of warranty. Empirical evidence shows that actual claim rates under trade finance guarantees are low, reflecting their function as risk mitigation tools.

One of the main areas where trade finance guarantees are used is public procurement, where they are often made mandatory by public authorities as a standard requirement. Public authorities need to rely on trade finance guarantees as they are used throughout the contract life cycle, including at tender stage, to secure advance payments, to ensure performance during execution, and to cover warranty obligations after completion. This applies in particular to infrastructure, energy, transport, defence, digital and climate transition projects, which are central to EU policy objectives and the transition of the European economy.

Public authorities, as beneficiaries of these trade finance guarantees, require that the guarantees be open-ended rather than subject to a fixed maturity. Because of the calibration in the EU prudential framework, this characteristic increases bank's capital cost by 2.5 times, which the EU bank has to pass on to the company requesting the guarantee and bidding for the public authority contract, in the form of an increased fee that companies pay to EU banks.

That is because when public authorities require guarantees to be open-ended rather than fixed-term, these guarantees do not fulfill anymore the regulatory definition which would allow them to be treated with 20% CCF in CRR. Instead they have to be treated with 50% CCF. Despite their open-ended nature, these guarantees are typically still low-risk from a credit perspective. It is just the maturity feature that sets them apart by 2.5 times.

There are many local laws that explicitly require public authorities to be provided with open-ended guarantees. To name a few:

- Spain's "Ley 9/2017 de Contratos del Sector Público" (articles 106-110)
- Italy's "Codice dei contratti pubblici n. 36" (articles 106, 113 and 117)
- France's "Code de la commande publique" (article L2191-7)
- Germany's "Erneuerbare Energien-Gesetz (EEG)" (paragraph 31)

These legal requirements result in guarantees without fixed maturity, tailored to the needs of public sector contracts and designed to ensure the continuity and security of project execution but at the same time becoming much more costly. This also leads to less ability of banks to grant such guarantees despite their low risk. In essence, these local regulations prevent affordable and well-adapted risk-mitigation but instead making them overly expensive without a good reason.

There are several alternative ways to adjust for the situation, although only two are in control of the European Commission:

- The trade finance definition in CRR Article 4 (80) should be adjusted and shortened to remove reference to "fixed short-term maturity, generally of less than one year, without automatic rollover".
- Another, less clear-cut solution would be to add guarantees granted for public projects or services to the 20% CCF bucket of the Annex I of CRR.
- The national rules and laws which explicitly require such open-ended guarantees need to be adjusted. As this relates to several local laws this would not be an efficient way to remediate the problem.



The best and clearest way is the amendment of the definition of trade finance in the CRR. This would immediately allow 20% CCF to apply to guarantees required by the real economy and public sector projects.

In turn, EU banks would be incentivised to participate in large infrastructure projects, fostering economic growth and job creation. This adjustment would not only align prudential rules with local regulatory frameworks but also ensure that banks' capital requirements are proportionate to the actual risks involved.

11.2.3. IPR/Instant Payments Regulations

As of 2025, EU banks are mandated to offer SEPA Instant at the same price as standard transfers. This drives competitiveness by making Euro payments faster than U.S. Automated Clearing House (ACH), but it puts pressure on bank margins and requires investment in real-time fraud screening. This will likely lead to a higher level of consolidation, and reduction in service providers in this space over time.

11.3. Payments (retail, corporate, wholesale)

The international role of the EUR across all forms of digital money, is a key determining factor for EU banks to contribute to the global competitiveness of the EU and the EUR as an alternative to the USD. With the Digital euro project, a large-scale public payment infrastructure being built from scratch, replicating what the private sector is already implementing on SEPA instant payment rails, diverts private sector resources away from essential innovation to a payment infrastructure that will not add to the competitiveness of the EU nor to payment sovereignty.

Q12. How would you assess the current level of competition in the banking sector within the single market?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>EU banks face high levels of competition within their Member State of establishment</u>	X					
<u>EU banks face high levels of competition in the EU market</u>	X					
<u>EU banks face high levels of competition in global markets/ markets outside of the EU</u>	X					
<u>Traditional banks are challenged by new developments in a number</u>	X					



<u>of product lines and areas (e.g. digital banks/FinTech in specific areas such as payments, tokenisation of assets, etc)</u>						
<u>Other (please indicate)</u>						

Please explain.

The answer to this question depends on the Member State. Within Germany, there is a very high level of competition across corporate and investment banking – whether by other domestic players or international players establishing local subsidiaries / branches.

Across the EU, we see the market as highly competitive. EU banks are structurally disadvantaged due to higher regulatory burdens such as on prudential capital and a smaller home market. See our answers to other questions. Outside the EU, EU Champions/International providers face very high levels of competition.

1.3. Banks and other financial institutions as enablers of capital markets

Q13. 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?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Limited scale and inefficiency of EU capital markets (limited depth, insufficient liquidity, etc.)</u>		X				
<u>Macro-economic environment (economic growth, inflation, fiscal situation, interest rates, demographics)</u>	X					
<u>Limited growth and scaling up prospects due to market fragmentation and different national rules</u>		X				
<u>Underinvestment in new technologies</u>				X		



<u>Supervisory practices (e.g. potentially impacting the level of dividend distribution and share buybacks)</u>	X				
<u>EU regulatory/ resolution frameworks (including international level playing field)</u>	X				
<u>Internal factors (low risk appetite, bank governance/culture)</u>				X	
<u>Uncertain or ineffective market exit for inefficient or distressed banks</u>				X	
<u>Other (please indicate)</u>	X				

Please explain.

The main reasons for the valuation discount of European banks, especially compared to U.S. banks are: i) the banks track record which is still impacted by the challenging 2010s and a much slower recovery versus U.S. peers, ii) macroeconomic variables, given that banks are a macro proxy and the economic outlook is better in the U.S. with more positive impacts on loan / revenue growth over time, the size and scale of the larger domestic (capital) market; iii) regulatory regime in the U.S. being perceived as more pro-business than in the EU. This is further aggravated by a publicly known outlook of increase in capital requirements, especially from the CRR III/Basel III Output Floor. This is especially as EU authorities insisted that EU banks disclose their fully-loaded Output Floor impacts, i.e. without the transitional arrangements, despite some of these arrangements having the option to be extended.

This therefore created a view in the market that capital requirements for EU banks are going up, while other key jurisdictions like the UK and U.S. communicated a very different message of capital neutrality or capital reduction.

We discuss extensively point iii) and recommendations in previous and following questions.

Q14. 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.

Yes, the prudential framework adequately accounts for the activities and the complexity of intermediaries performing financial services.

Investment firms, especially asset managers, are highly regulated with respect to their business activities, like banks. They are subject to specific supervisory regimes (such as the KAGB for asset management companies, the WplG for investment firms, as well as the



WpHG and corresponding EU regulation). A diversity of market participants – each subject to regulatory regimes tailored to their specific risk profiles – is positive, as it reflects functioning competition and comes along with a broad range of products and services for European clients.

At the same time, the coexistence of different regulatory regimes and partially overlapping service offerings means that the principle of “same services, same rules” is not always fully upheld, and perceived avoidance or regulatory arbitrage into seemingly “lighter” regimes may arise.

Regulatory authorities therefore need to stay vigilant and continuously monitor the regulatory scope and intensity, to ensure that activities do not escape appropriate regulatory scrutiny.

Q15. 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 in financial services is shifting liquidity and changing capital market dynamics. The rise of embedded finance means transactions occur within commercial platforms outside traditional banking channels, causing banks to lose visibility and influence over financial flows. This leads to more volatile price formation and opaque settlement chains.

The focus of competition is now on seamless integration into customer workflows, not just product design. AI will further accelerate this by empowering AI agents to make financial decisions based on latency, uptime, and API consistency, rather than brand. If banks fail to adapt, non-banks will intermediate these services.

This shift impacts the euro's international role; if EU commercial flows are routed through USD-based infrastructures due to better integration, the euro's relevance could diminish.

For capital markets:

- Liquidity provision still relies on banks, but their control over access points is diminishing.
- Customer-level transparency may improve, but market-level transparency could suffer if platforms become closed.
- Fragmentation will increase without interoperability and fair access rules for non-banks.

The EU needs to ensure EUR-denominated services are competitive within embedded, automated, and AI-driven environments.

While competition has improved price discovery (e.g., FinTechs reducing information asymmetry, Open Banking fostering transparency, "zero-commission" trading increasing retail participation), it has also reduced overall market transparency. Dark Pools used by investment firms can hide large institutional trades. Non-bank composite pricing creates real-time, but highly correlated, valuations. The proliferation of trading venues fragments



liquidity, making price discovery harder. A Consolidated Tape could address this fragmentation and improve transparency.

1.4. Cross-border activities in the EU banking sector

Q16. For retail banking as well as for wholesale and investment banking, would you agree with the following statement: 'The EU banking market is highly fragmented along national borders, domestic entities mainly cater for domestic clients, cross-border activity is subdued, and it is very difficult for clients to get banking services across the single market.'

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Retail banking</u>	X					
<u>Wholesale and investment banking</u>		X				

Please explain.

The question is focused on client experience.

For all banking activities, we also refer you to our response to question 32 about the entity-level application of capital and liquidity requirements, which is a factor that drives fragmentation of the market and discourages cross-border banking groups.

16.1. Retail banking for consumers and micro enterprises

Fragmentation remains high and retail banking is still largely domestic.

- Retail banking remains predominantly national. Consumers and micro enterprises face non-harmonised onboarding requirements, product standards, credit worthiness assessments, and customer due diligence practices.
- Operational fragmentation: Divergent technical interfaces (eID, eKYC, authentication flows, data formats), inconsistent acceptance of non-domestic IBANs in practice, and differing consumer protection rules.
- Retail banking still operates on national product architectures (mortgages, consumer loans, payment account packages, micro enterprise credit), with high localisation costs and uneven profitability preventing scale.

16.2. Corporate banking for medium and large companies

Fragmentation is material but more nuanced.



- Cross border demand exists but friction persists: Medium and large corporate clients increasingly operate cross border, yet banks must replicate infrastructures and compliance processes in each jurisdiction.
- Regulatory and supervisory divergence: Differences in insolvency regimes, collateral frameworks, national reporting, tax treatments and guarantee schemes reduce the efficiency of cross border credit, trade finance and cash management services.

Capital constraints also play a role for larger banks with potential excess capital to deploy across borders. The European Commission should address sources of excess capital requirements in the EU framework, as outlined in our responses elsewhere in this consultation. It is also important to avoid a future capital requirement increase through the CRR III/Basel III Output Floor, as outlined in our response to question 68.

16.3. Investment banking (Capital markets, M&A, Structuring)

The statement is only partly accurate; fragmentation stems more from capital market structures than from banking models.

- Capital markets remain fragmented: Listing rules, market infrastructures, supervisory responsibilities, and settlement processes still vary across Member States, limiting a truly EU wide investment banking scale.
- Structuring and advisory work is cross border by nature, but execution is not: Banks can advise across borders, but actual transaction execution (e.g., underwriting, issuance, settlement, derivatives) requires navigating fragmented capital market infrastructures and national conduct rules.
- Divergent regulatory regimes: National gold-plating, differing interpretations of MiFID/MiFIR, taxation of securities transactions, and insolvency differences restrict deep cross border market integration.

The conclusion is that investment banking is more cross border than retail, but fragmentation in capital markets and supervision continues to limit efficiency and competitiveness. For investment banking to become less fragmented along national borders, the reforms of the Savings and Investments Union (SIU) will be an important catalyst. For bank trading activities, it will be key that the European Commission ensures the Market Risk rules (FRTB) do not disadvantage EU banks. See our response to question 10.

16.4. AML

Although in theory Anti-Money Laundering (AML) rules are harmonised across the EU with the new AML Regulation, in practice we are starting to see instances of national divergence or gold-plating.

The Netherlands has proposed a bill that aims to streamline AML compliance by enhancing financial institutions' access to the Personal Records Database (BRP) (<https://www.internetconsultatie.nl/derdenaanwijzingbankenbesluit/b1>). While the goal of reducing client outreach is commendable, the current draft presents significant limitations. It explicitly excludes EU banks that are passported to operate in the Netherlands but who have their headquarters in another EU Member State.



This is creating an uneven playing field despite these institutions being subject to the same local AML/CFT and GDPR supervision. Furthermore, its narrow scope restricts access solely to natural persons with bank accounts, overlooking business clients and those utilising other financial products. The exclusion of Ultimate Beneficial Owner verification from BRP access also represents a missed opportunity.

These cumulative restrictions make the local framework impractical for other EU banks and is an example of fragmentation of the Single Market. An expanded scope, specifically including foreign EU banks and broadening eligible client and data points, is crucial to achieve effective, equitable AML compliance and a truly level regulatory environment, especially within the Single Market.

Q17. 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.

We do not see benefit arising from the current level. Instead, we see costs not only for EU banks, but for the European economy and consumers.

National ring-fencing limits banks from moving liquidity to where corporate demand is highest, raising borrowing costs for firms in fragmented jurisdictions. EU banks remain smaller and less profitable than U.S. peers, limiting their lending capacity and investment strategies.

Corporates must maintain multiple local accounts to navigate national tax/reporting, leading to trapped cash. Differing national procedures and settlement cycles (CSDR) also make cross-border asset-holding more complicated.

We see material benefits with further integration of banking activities.

Banks with EU-wide exposures would be more resilient, as they would be less vulnerable to single-country recessions and have increased earnings diversification. Banks would also benefit from scale, that would enable them to compete with non-EU peers and carry out the necessary investments for digitalisation (see our answers to the questions in the next section).

Consumers and corporates would also benefit from competition, as banks would be able to compete on a cross-border basis, reducing transaction and financing costs. This would also increase transparency of pricing and better liquidity availability through increased capital markets activity.

Q18. What factors prevent EU banks from engaging in more cross-border activity within the EU or make cross-border activity more costly?

	<u>Fully agree</u>	<u>Some what agree</u>	<u>Neutral</u>	<u>Some what disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>



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

Please explain.

The factors that prevent EU banks from engaging in more cross-border activity are discussed in answers to other questions throughout this consultation.

A common denominator of many of the above-mentioned barriers and challenges is the constraints in regulatory capital (CET1). Excess CET1 provides the funding capacity to proceed with M&A and inorganic growth. Excess CET1 allows for business decision for organic growth in new markets/products, because it creates capacity for the upfront investment and potential loss absorption in the first years. Ultimately, excess CET1 and



distribution supports higher valuation and thus creates price differentiation that justifies M&As.

However, while EU banks are well capitalised, the CET1 requirement keeps increasing due to supervisory discretion. A recent study by GARP and the European Banking Federation found that, for a sample of 15 Banking Union banks, the aggregate CET1 requirement between 2021 and 2024 increased by 67% due to supervisory discretion (GBI EBF 2025 Cumulative Capital Demand Benchmarking Study, https://www.ebf.eu/wp-content/uploads/2025/10/Policy-Narrative-FINAL_.pdf).¹ All the evidence suggests that the trend will continue.

At the same time, other factors will also lead to CET1 requirement increase, in particular the CRR III/Basel III Output Floor. The Output Floor is gradually increasing anyway, and after 2030-2033 the transitional arrangements for certain exposures (unrated corporates, mortgages, derivatives, securitisation) will expire.

If banks want to avoid that their CET1 ratio decreases, they would have to reduce their RWA, which means business reduction. Such a move would be the opposite of what would be needed if banks wanted to achieve larger scale, either through organic or inorganic growth.

See our responses to other questions on prudential capital and recommendations on how to address these considerations.

18.1. Fair Value Gap issue

One significant hurdle preventing further consolidation at the national and European levels is the so-called Fair Value Gap (FVG) that arises when entities are acquired or merged.

FVG impacts negatively the merged entity's CET1 and is especially pronounced at times of interest rate volatility, which impacts the fair valuation of the loan book at the time of merger. The CRR already provides for extraordinary circumstances that can justify the removal of certain losses in the CET1 calculation that are recognised for financial accounting purposes. Such extraordinary circumstances could include a pandemic or a geopolitical crisis.

However, these circumstances do not capture the situation of a rapid increase in interest rates and its impact on the fair value of certain portfolios, in particular long-dated, fixed-rate portfolios.

The European Commission could mitigate the Fair Value Gap by changing the CRR to add the situation of a rapid increase in interest rates in the conditions and provide supervisory authorities, such as the ECB, with the flexibility to mitigate the negative impact of FVG on CET1.

Q19. Why have EU banks generally relied more on subsidiaries rather than branches and the free provision of services for their cross-border activities within the banking union and the single market?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>



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

Please explain.

We disagree with the premise of the question. DB has an extensive network of branches and a limited number of subsidiaries both in the EU and globally.

Q20. Could you provide a quantitative estimate of the additional requirements and costs (e.g. liquidity requirements, capital requirements, resolution or macroprudential requirements, operational costs in % of balance sheet, etc.) for a banking group that makes use of subsidiaries as compared to the same banking group relying on branches or freedom to provide services?

We will provide that through a separate exchange with the European Commission.

1.5. International level playing field



Q21. What is your assessment of the level playing field in the European banking market, with regards to the presence of significant non-EU financial institutions?

The level playing field in the EU banking market, as it pertains to significant non-EU financial institutions, is not balanced. EU banks face challenges due to regulatory asymmetry, higher compliance burdens, and the inherent scale and global reach of some non-EU competitors.

While competition is welcome, ensuring genuine fairness requires:

- More consistent and robust application of EU regulations to all entities operating within the EU, regardless of their parent jurisdiction, including for example booking practices or back-to-back trades that transfer risk, and thus regulatory capital, away from EU entities for non-EU headquartered banks.
- Addressing the remaining fragmentation within the EU's single market, which can inadvertently create avenues for non-EU players to exploit regulatory differences.
- Global regulatory convergence and ensuring that EU banks are not disproportionately burdened compared to their international peers when competing outside the EU, e.g. by extraterritoriality of market access rules.
- This would create an environment where EU banks can truly compete on an equal footing, fostering fair competition, better outcomes for clients, and a more resilient EU financial sector.

The Prudent Valuation (PruVal) framework illustrates an imbalance between EU banks and non-EU banks especially in investment banking, as comparable requirements do not apply locally in several major jurisdictions, including the U.S.

As a result, EU banks face structurally higher capital requirements for the same activities than non-EU peers. This asymmetry weakens the competitive position of EU banks in providing trading, hedging and liquidity services to European clients, including corporates, pension funds and insurers. Higher capital intensity constrains the ability of EU banks to intermediate, price competitively and support market liquidity, thereby increasing reliance on non EU institutions in core European markets.

Furthermore, the pro cyclical nature of PruVal means that, during periods of extreme market volatility, capital deductions can increase sharply, constraining the ability of EU banks to provide liquidity and risk hedging services to clients precisely when demand is highest, and making European markets less resilient through increased reliance on non-EU banks.

Overall, the current framework does not ensure a fully level playing field. Addressing this EU specific feature would strengthen competitiveness and support deeper and more resilient European capital markets. Given the overlaps with other regulatory requirements, we propose the elimination of the PruVal framework, or at least being allowed to offset AVAs against the deferred Day One Profit, i.e. to disapply the EBA Q&A 2019_4458.

For our concerns on PruVal see also replies to questions 11, 25, 49, 52.

Q22. According to many analysts, EU banks have lost market share in the provision of investment banking services to EU clients compared to non-EU banks. If you agree with this assessment, what are the reasons for this decline?



We agree with this assessment. While there may be broader macroeconomic reasons for the decline, we are limiting our analysis to the reasons that would be in control of financial regulation authorities.

22.1. Structural Market Fragmentation

- Unlike U.S. banks, which benefit from a deep, unified domestic market, EU banks remain fragmented along national lines.
- This would be the case in any event, but is aggravated by policy choices, discussed in answers to various questions in this consultation, such as deviations in national implementation of Directives, gold-plating and supervisory discretion.

22.2. Regulatory Burdens

- EU banks have face excess capital requirements, outlined elsewhere in our responses.
- Capital requirements will increase further due to the CRR III/Basel III Output Floor, described in our responses to various questions, in particular question 68.
- They also face a growing capital requirement from supervisory discretion, again outlined elsewhere in our responses.

22.3. Profitability and "Cheap Money" Era

- A decade of low/negative interest rates in the Eurozone severely depressed earnings, forcing EU banks to retrench and exit non-core business lines.

22.4. Cost Efficiency Gaps

- High legacy IT costs and fragmented back-office functions make many EU investment banking operations less agile. Technology investments would help, but the regulatory treatment of software assets makes it harder than for U.S. banks.

Q23. To what extent do the following difficulties faced by EU banks hinder their ability to compete globally?

	<i>To a very large extent</i>	<i>To a large extent</i>	Neutral	<i>To a small extent</i>	Not at all	No opinion
<u>Divergent banking prudential rules applying to EU and non-EU banks impact international strategic choices by EU banks</u>		X				
<u>Supply side factors (e.g. cost competitiveness, innovation, depth of home market).</u>		X				
<u>EU supervisory practices affect expansion in other jurisdictions</u>		X				
<u>Other (please indicate)</u>						



Please explain.

The competitive drag for EU banks in their home market, due to the reasons described above and in following questions, is a key factor keeping EU banks from competing outside the EU. This include prudential capital requirements, as well as requirements on technology and data access.

In addition, the extraterritorial effect of EU requirements in both prudential but especially market access, e.g. MiFID, MifiR, EMIR and BMR, are a key factor preventing EU banks from competing globally.

Q24. To what extent do the rules on internal governance and remuneration policies of financial institutions create a competitive disadvantage for EU financial institutions vis-à-vis non-EU financial institutions?

<u>To a very large extent</u>	<u>To a large extent</u>	<u>Neutral</u>	<u>To a small extent</u>	<u>Not at all</u>	<u>No opinion</u>
	X				

Please explain.

See also our answer to question 88-89, in particular for suggestions on how to address these concerns.

The EU prudential framework, specifically CRD, imposes a prescriptive remuneration regime - most notably a limitation of the relationship between variable and fixed remuneration of 1:1 (or 1:2 with shareholder approval) for Material Risk Takers (MRT), known as “bonus cap” (Article 94). The term “bonus cap” is misleading as the provision does not “cap” the bonus as such, it only caps the relationship with the fixed remuneration.

Other limitations include mandatory deferrals of variable compensation, pay out in instruments, malus/clawback.

24.1. MRT identification

Because the EU framework requires banks to identify MRTs at both consolidated (Group) and all solo (entity) level within banking groups, based on prescriptive criteria, the number of individuals who qualify as MRTs is expanded, including those at a lower hierarchical levels, and thus the group of bank employees subject to the above-mentioned restrictions is also wide.

The issue is particularly acute for the identification of MRTs in how “small institutions” (as per CRR Article 4(1)(145), where the exercise is purely administrative and burdensome and does not serve the broader purpose of the rule. It also has no practical compensation impact (e.g. no deferral requirements apply, regardless of variable compensation amounts).



Since it does not serve any purpose, this is an unnecessary administrative cost that should be eliminated, by limiting the identification of MRTs for “small institutions” (as per CRR Article 4(1)(145)).

24.2. Limitation of bonus as share of fixed remuneration

The limitation of the relationship between variable and fixed remuneration creates a competitive disadvantage for EU banks competing with non-EU banks in talent acquisition and retention, especially in international banking hubs. It also reduces flexibility in compensation structures and increases fixed costs, which creates a more difficult environment for EU banks to control costs.

That is because, in order to compete with banks who are not subject to the limitation of the relationship between variable and fixed remuneration, EU banks have an incentive to increase total compensation. This has the following unintended consequences:

- It increases EU banks’ fixed costs, making their cost base less flexible e.g. in an economic downturn. This effect is particularly relevant for revenue-generating roles, including at non-senior corporate titles, where market compensation, e.g. where the EU rules do not apply, can exceed a 1:1 fixed to variable ratio.
- It decreases the share of the total remuneration that is variable, i.e. decreasing performance incentives for bank employees.

At the same time, the rule does not seem to have any effect, positive or negative, on the stated objectives as per CRD recital (65), i.e. avoid excessive risk taking. It also does not limit the overall compensation of bank staff.

There are many other rules and requirements in the EU regulatory framework to ensure banks address conduct risk and for bank staff to have the right incentives. These include requirements and guidance on suitability assessment (also known as fit and proper), at level 1 (CRD), level 2 (EBA/ESMA Guidelines) and level 3 (ECB guidance).

The situation is particularly challenging for banks headquartered in Germany, as regulatory requirements are even more expansive, an illustration of the impact from national discretion and minimum harmonisation Directives:

- The limitation of the relationship between variable and fixed remuneration applies to the entire employee population (not limited to MRTs). For German banks this means the entire global workforce of those banks.
- Significant institutions are required to apply deferral rate of 60% to Management Board Members and Senior Management;
- Taking into account the newly amended German Banking Act, individual employees (e.g. Key Function Holders, Material Risk Takers) may be in scope of fines in terms of personal liability.

In other jurisdictions, rules rely largely on principles and not hard caps. Recently the Prudential Regulation Authority (PRA) through Policy Statement PS9/23 has eliminated the limitations on the relationship between variable and fixed remuneration that it inherited from the time the UK was a Member State of the EU. In particular, the PRA Consultation Paper CP15/22 demonstrated the increase in total compensation and proved that the consequence of the rule was unintended.



Q25. Do EU-headquartered banks and investment firms face regulatory constraints that hinder their competitiveness vis-à-vis non-EU financial firms? If yes, what are the key constraints?

There are several areas of regulatory constraints that hinder EU banks compared to non-EU competitors, both in the EU and in the rest of the world. Many of them are analysed further in questions related to specific rules, including right above. Here we provide an indicative list:

25.1. Prudential regulation – Capital deductions.

When comparing EU prudential rules with those in other major jurisdictions that also aim to comply with the Basel Committee on Banking Supervision (BCBS), the main difference is deductions, i.e. elements that are deducted from CET1 eligible for regulatory purposes. These deductions increase the effective equity EU banks need to hold, and make CET1 level comparisons across jurisdictions harder.

Particular examples of deductions that are not found in other jurisdictions are Prudent Valuation (PruVal) (CRR Art.105), the Non-Performing Loan (NPL) Prudential Backstop (CRR Art.47a-47c), the Irrevocable Payment Commitments (IPC) to the Single Resolution Fund (SRF) (ECB approach per bank through the annual Supervisory Review and Evaluation Process – SREP) and software assets (CRR Art.36).

See other questions where we raise prudential issues, including in particular the effect of the CRR III/Basel III Output Floor on lending to unrated corporates, derivatives business and mortgages. In these responses we also include suggestions on how to address these hinderances.

25.2 Prudential regulation – macro-prudential goldplating

European banks are faced with additional macro-prudential buffer requirements that are not in existence or applied elsewhere. The Systemic Risk Buffer is a pure European add-on. Equally, the application of the D-SIB buffer adds additional capital requirements to European banks which other jurisdictions are not faced with. These are discussed in more detail in our answers to other questions.

25.3. SRF payments

The payments to the SRF is a point of particular concern. This is an EU-specific fund, which is pre-funded and aims to provide capital (and potentially liquidity) to support the resolution of banks in the Banking Union. Its target amount was set at 1% of covered deposits (i.e. those covered by a Deposit Guarantee Scheme – DGS) in the Banking Union. This is established by BRRD Art.102 and SRMR Art.67.

Following ex ante contributions by banks since its establishment, the SRF now has around €80 billion, which is invested with a low-risk strategy. These funds sit idle and do not contribute to any growth objectives of the EU. At the same time, the target level of the SRF is interpreted by the SRB as being dynamic, meaning that it always needs to meet 1% of covered deposits. The level of covered deposits is actually irrelevant for the purposes of the SRF, which does not insure covered deposits. In fact, conceptually the SRF “insures” the part of bank’s liabilities that is not covered by a DGS, in the sense that the SRF serves as a backup fund in case the bank in resolution does not have enough bail-in-able debt to support



its resolution. The interpretation of the SRF target level as dynamic means that EU banks are faced with perpetual contributions to the fund, regardless of the underlying risk, and with no consideration about the robustness of resolution arrangements, including resolution plans, banks meeting their targets for Minimum Requirements for Own Funds and Eligible Liabilities (MREL).

This makes for a competitive disadvantage for EU banks, because banks in other jurisdictions do not have similar arrangements. This is especially since the funds are not used for any productive purposes or priorities of the EU or national governments.

EU banks face an additional disadvantage in that the EU framework allows them to provide part of the contributions to the SRF via IPC, evidently for the purposes of reducing the financial impact. However, the ECB in turn requests banks to deduct IPC from their CET1, which reduces a large part of the advantage the co-legislators aimed to provide, in an example of gold-plating.

We recommend a change in the BRRD and the SRMR, proposed by the European Commission, to clarify that the SRF target level is not dynamic, but set at 1% of Covered Deposits. We also recommend an amendment to BRRD and SRMR to clarify that IPCs should not be deducted from CET1, to ensure that their purpose in reducing the financial impact of SRF contributions, as intended by the co-legislators, is maintained.

25.4. Extraterritoriality of the EU financial services framework

The EU financial regulatory framework applies extensively to EU banks when operating outside the EU, especially when they are operating via branches, requiring them to apply EU rules to non EU clients, non EU venues and third country infrastructure. In practice, this results in EU banks exporting the EU ruleset globally, often in circumstances where other jurisdictions apply a more territorial and flexible approach rooted in deference to third-country rules.

This extraterritoriality creates structural competitive disadvantages for EU banks and is most visible when it comes to the misalignment or even conflict of EU and third-country rules, where access to third-country infrastructure is subject to rigid, slow and intransparent recognition processes and carries punitive RWA impacts.

The European Commission should make a legislative proposal on the relevant Directives and Regulations (MiFID, MiFIR, EMIR, BMR) to remove the extraterritorial application of rules to EU banks operating internationally to support their competitiveness.

25.5. Misalignment/conflict of rules

Recent divergence between the EU and UK post trade transparency regimes has created significant challenges for EU banks due to the continued extraterritorial application of EU MiFIR rules.

EU banks are required to double report the same transactions under EU and UK frameworks, often with different timing and deferral outcomes, increasing operational complexity and compliance costs.



This is leading to non EU clients to shift activity to alternatives that are not subject to duplicative EU reporting requirements, directly disadvantaging EU banks in global markets.

A related example of the extraterritorial reach of EU rules creating market conflict is the prolonged application of the EU Derivatives Trading Obligation (DTO) post Brexit, which for several years effectively denied EU banks access to an estimated 10–20% of the EUR denominated derivatives (interest rate swaps and credit default swaps) market and is only now being resolved with the DTO suspension mechanism, in contrast to the UK's immediate territorial approach.

Along with extraterritoriality, the European Commission should also make a legislative proposal or pursue in practice an alignment where fragmented/EU-only rules such as on transaction reporting do not add value to financial stability.

25.6. Access to third country infrastructure and recognition processes.

EU banks' ability to clear through third country CCPs remains dependent on equivalence and recognition processes that are often slow, open ended or unresolved and are overburdened with non-clearing related considerations regarding equivalence.

This creates legal and operational uncertainty and affects clearing strategies and cost structures for EU banks active in third country markets, e.g. the equivalence decisions for Turkey and (certain markets in) Indonesia have been held up for a while and there is no transparency or visibility for EU banks to plan for market access and burden reduction given access to non-qualifying third-country CCPs comes at a 1250% RWA impact.

We suggest that the European Commission streamlines and accelerates third-country CCP equivalence and recognition processes, to provide EU banks with predictable, proportionate and timely decisions, reducing the current legal/operational uncertainty and avoiding punitive RWA outcomes for access to non-qualifying CCPs.

In another example, access to non recognised indices or exchanges under the CRR is subject to Own Funds deduction or an equivalent 1250% Risk Weight (notably under Articles 36 and 48 CRR), creating a prohibitive capital impact. This disproportionately affects fast growing markets in Asia, including India and Japan, the initial recognition has been outpaced by market development and the lack of a mechanism to regularly update these recognitions is constraining EU banks' ability to participate in those markets.

We suggest that the European Commission introduces an annual, automatic update mechanism for recognising non-EU indices and exchanges under the CRR, preventing disproportionate prudential impacts and enabling EU banks to operate effectively in fast-growing third-countries.

25.7. Cash Management

Instant Payments Mandate: As of 2025, EU banks must offer SEPA Instant payments at no extra cost compared to standard transfers. While beneficial for consumers, this requires big infrastructure investment and increases liquidity volatility during non-business hours.

Regulatory Complexity: Navigating PSD3, DORA (digital resilience), and new AML/KYC packages simultaneously creates a "compliance tax" that diverts R&D budgets toward mandatory reporting rather than innovation. This impact of this interplay and how to address



it should be considered in ongoing simplification efforts, and take inspiration from exercises such as “Digital Fitness Check” which looks across the EU digital rulebook.

Q26. 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?

CET1 capital requirements is a key constrain in the ability of EU banks to finance the economy. There is the overall CET1 constrains of EU banks, which are explained in other responses, including the expected increase in capital requirements from reforms such as the CRR III/Basel III Output Floor, as well as the general trend of increased CET1 requirements through supervisory discretion at national and Banking Union level, established by this study by the European Banking Federation (EBF) and GARP ([https://www.ebf.eu/wp-content/uploads/2025/10/Policy-Narrative-FINAL .pdf](https://www.ebf.eu/wp-content/uploads/2025/10/Policy-Narrative-FINAL.pdf)).

Below we include specific examples that impact the financing specifically of large-scale projects, including in the areas of digitalisation, climate transition and defence.

26.1. ECB Guidance on leveraged transactions (May 2017)

A particular constraint for large-scale projects is limitations in lending to leveraged clients, established by the ECB through its dedicated Guidance on leveraged transactions. The ECB Guidance does not ban lending to leveraged clients as such, but it materially raises the supervisory and regulatory capital cost for banks of providing it, which in practice constrains credit supply.

In particular, the guide requires banks to:

- Classify transactions as “leveraged” where total debt exceeds ~4x EBITDA or where a financial sponsor (e.g. private equity, venture capital).
- Apply tighter risk appetite limits, governance, and approvals.
- Demonstrate credible deleveraging capacity and avoid certain structures and EBITDA adjustments.
- Hold more capital or face Pillar 2 add-ons where exposures or practices fall short of supervisory expectations.

The main concerns are with the “leverage” definition, because the ECB definition is broader than market practice and captures many conservatively-financed companies. That is for example because the ECB definition includes reserve and guarantee lines, while cash cannot be netted against the existing debt. The ECB Guidance also ignores the fact indebtedness might be only at subsidiary, not holding company level, and the existence of undrawn revolving credit facilities.

For EU banks under ECB supervision the Guidance disproportionately affects activities of that rely on high leverage and sponsor support. This includes:

- Capital-intensive projects funded through debt.



- Fast-growing companies (e.g. in the field of green or new technologies such as Artificial Intelligence), as these qualify as leverage lending due to negative EBITDA and/or majority ownership by financial sponsors (Venture Capital funds).

The due diligence process required by the ECB Guidance is also miscalibrated to mid-sized or growth companies. That is due to their unique financial conditions and credit documentation (High degree of bilateral collateralized loans, financial covenants, etc.). The ECB Guidance forces EU borrowing companies to be subjected to information requirements they usually cannot fulfil (e.g., development of fully-fledged financial models, etc.).

This results in a situation where ECB Guidance, i.e. level 3 rules, impose horizontal limitations on transactions across banks under the ECB remit that the co-legislators never envisaged through their level 1 legislation.

To remedy the shortcomings of the ECB Guidance on leveraged transactions, the European Commission should update the CRR to add a definition of “leverage entity”.

We propose adding the following definition to CRR Article 5:

(12) Leverage transaction means any transaction that meets at least one of the conditions below:

- 1. all exposures where the borrower’s post-financing level of leverage exceeds a Total Debt to EBITDA ratio of 6.0 times*
- 2. all types of loan or credit exposures where the borrower is controlled by an investment firm that undertakes private equity investments in and/or leveraged buyouts of companies with the intention of exiting those investments on a medium-term basis*

The following transactions are not expected to be covered by the leveraged transaction definition:

- 1. loans with natural persons, credit institutions, investment firms, public sector entities and financial sector entities;*
- 2. loans where the own consolidated exposure of the credit institution is below €5 million;*
- 3. loans to small and medium-sized enterprises (SMEs);*
- 4. loans classified as specialised lending;*
- 5. trade finance;*
- 6. loans to investment-grade borrowers*

26.2. Securitisation Deficit

As described in our answers to other questions, the EU securitisation market is small, limiting banks’ ability to lend more. Securitisation is an effective tool to finance projects such as data centres, given the ability of the asset class to attract investments with different risk appetite, including banks and other investors.

At the same time, securitisation enhances the flexibility of banks’ balance sheets enabling them to transfer risks to investors. This leads to a reuse of capital, unlocking additional lending capacity in the banking sector to accommodate Europe’s significant financing needs and boost its competitiveness.



Despite ongoing reforms to encourage growth in the EU securitisation market, it will be important that capital requirements are adequately reduced in line with the actual risk in relation to senior tranches and low risk portfolios, such as mortgages.

As an example, the current rules require banks that retain the senior tranche of a low-risk mortgages securitisation, and sell or buy protection on the more junior (i.e. more risky) tranche(s), to maintain a level of capital comparable to the one required by keeping full risk exposure to the pool. This is an impediment to further growing the securitization market.

We note the ongoing EU negotiation to reform the EU securitisation framework, and we support changes that reduce proportionately and appropriately capital requirements across exposures of banks acting as originators, sponsors and investors.

26.3. Sustainability finance

The regulatory sustainable finance landscape—such as CSRD and the EU Taxonomy—is overly complex and absorbs significant resources for regulatory interpretation, ex-post transaction assessment, and reporting.

A more streamlined and simplified regulatory regime around sustainability, aligned with effective incentives (e.g. green public budgeting, etc.), would make financing in this area more efficient.

Specifically:

- Regulatory complexity – EU banks operate under a highly complex and evolving regulatory framework in sustainable finance. Requirements stemming from CSRD, ESRS, the EU Taxonomy and SFDR increase compliance costs, data demands and internal governance complexity. Financial institutions must process and validate hundreds of ESG KPIs, often relying on incomplete or inconsistent client data, which slows transaction execution and ties up scarce expert resources that could otherwise support origination and structuring of large-scale financings.
- Lack of long-term clarity in policy frameworks on EU-level (e.g. ETS1 and ETS2) (Emissions Trading Scheme) as well as differing strategies on national level result in planning uncertainty that delays investment decisions and weakens transition financing momentum. Large-scale investments require predictable long-term cash flow assumptions, yet EU climate and energy policy frameworks still involve material uncertainty, notably around the interaction of ETS1, ETS2, Carbon Border Adjustment Mechanism (CBAM) and national implementation choices. While ETS expansion is well advanced, details on price trajectories, revenue recycling and potential delay mechanisms (e.g. for ETS2) remain open, increasing planning uncertainty for both corporates and banks.
- Balance sheet constraints and limited scale: EU banks are well capitalised in aggregate, but balance sheet capacity is fragmented across national markets, and cross border consolidation remains limited due to an incomplete Banking Union and restrictions on capital and liquidity mobility (see also responses to other questions).
- At the same time, the EU remains reliant on bank intermediation, with underdeveloped capital markets and securitisation limiting risk distribution.
- Risk appetite and transition finance uncertainty: EU banks face heightened supervisory scrutiny on climate, ESG and concentration risks, which, combined with



inconsistent definitions of Transition Finance, reduces risk appetite for activities that are credible transition enablers but not yet fully green.

Our responses to questions above and below provide suggestions on how to address these issues. See also our answer to question 11 on trade finance guarantees.

1.7. Digitalisation

Q27. What are, in your view, the effects of digitalisation on the activities and business model of EU banks in the single market?

Digitalisation is reshaping EU banks by accelerating the transition toward cloud-enabled infrastructure, automation, and data-driven services, while introducing new operational and governance risks.

Banks increasingly leverage technologies like Distributed Ledger Technology (DLT), Application Programming Interfaces (APIs), and Artificial Intelligence (AI), which enhance client engagement and efficiency but heighten exposure to cyber risks and integration challenges. Digitalisation enables long-term sustainability, but requires a disciplined risk-management approach to avoid resilience gaps and erosion of trust.

27.1. Single-Market Effects

Interoperable digital capabilities reinforce the Single Market, but uneven rollouts risk fragmentation. For example, EU FIDA, intended to unify Open Finance, could fragment data standards.

Standard setters warn of accelerating digitalisation amid technological fragmentation, increasing risks if adoption and safeguards evolve at different speeds: Bank for International Settlements (BIS) Annual Economic Report June 2023; Financial Stability Board (FSB) Depositor Behaviour and Interest Rate and Liquidity Risks in the Financial System 23 October 2024; International Organization of Securities Commissions (IOSCO) Consultation Report, Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges, March 2025; World Economic Forum (WEF) Why interoperability in digital finance is now more than a 'nice-to-have'. 28 May 2025).

27.2. Key Divisional & Function Perspectives

Digitalisation brings frictionless access and efficiency across banking divisions (retail, corporate, investment banking, risk and compliance), but challenges include ecosystem fragmentation, high integration costs, and liquidity fragmentation. Policy consequences include anchoring interoperability, establishing common acceptance baselines, and supporting interoperable tokenisation standards.

27.3. Cross-cutting Policy Consequences

Coordinated capability sequencing, prioritising interoperability and portability, and supervisory coherence are crucial to ensure an integrated Single Market and align expectations for Artificial Intelligence (AI) governance and operational resilience.

27.4. Concluding recommendations



We recommend that the European Commission allows key capabilities to mature in a broadly aligned order across Member States (not identical timing), so innovation and safeguards co evolve and the Single Market remains integrated. Interoperability and portability should be the anchors used whenever speeds differs, as the connective tissue that prevents fragmentation. Supervisory coherence will be key. Even when national timelines vary, supervisory authorities should align expectations.

Q28. In the context of the increasing digitalisation of financial services, what do you consider could enhance confidence of clients in digitally provided investment products and services, thereby influencing the dynamic of new business models?

Client confidence in digital investment products hinges on robust governance, transparency, and the assurance of safe and responsible technology deployment. This involves clear risk management, strong operational resilience, and adherence to privacy and data sovereignty.

Digital solutions, such as tokenised products or Artificial Intelligence (AI) enabled services, gain trust when thoroughly tested, safeguarded, and accompanied by clear communication of benefits and risks. Regulation also plays a key role in building trust and improving services.

We explain below in more detail what could enhance confidence in specific client segments.

28.1. Consumers

Consumers gain confidence from predictable, understandable, and stable digital investment tools. They need clear explanations of how automated or AI-supported services work, what data is used, and what happens if issues arise. Service disruptions erode trust quickly. Features like clear fallback processes and transparent incident handling increase adoption.

28.2. Small/Micro/Medium Enterprises (SMEs)

SMEs need digital investment products to integrate seamlessly with their accounting and liquidity tools. Fragmented interfaces or inconsistent data formats deter adoption. Confidence is built through stable, interoperable data standards, unambiguous provider responsibilities, and tools that reduce administrative burdens. Service provider stability is also crucial.

28.3. Large Corporates

Large corporates prioritise governance, auditability, and process reliability. They expect clear oversight of models and algorithms, transparent audit trails, predictable settlement, and consistent operating environments across jurisdictions. Digital solutions gain traction with strong internal controls, cohesive technical standards, and clear accountability chains.

28.4. Cross-cutting considerations

The European Commission should help create an environment where digital services behave consistently, avoiding fragmentation. Accountability should be clear, especially with multiple intermediaries. Operational resilience should be demonstrable. Automated and AI-supported tools should remain explainable, allowing clients to understand decisions and retain control. These elements are essential for fostering trust in digital investment products across all client segments without stifling innovation.



Q29. Are EU banks investing enough in digitalisation of their operations and services, including in comparison with their international peers and with other EU business sectors? Please explain, in particular in case the answer is 'No'.

EU banks are investing in digital transformation. However, prudential regulation is a key factor that makes such investment more expensive for EU banks than non-EU peers. Below we provide more details and proposals to remedy the current situation.

In recent years, investment has accelerated across cloud adoption, engineering talent, application modernisation, automation, AI, and new digital client interfaces. The pace and depth of transformation, however, remain uneven across the sector. Part of this is due to funding constraints.

Banks are focusing on a small number of levers: simplifying legacy estates; consolidating platforms; moving core applications to the cloud; strengthening internal engineering capabilities; and deploying AI to raise productivity and offer better services to clients.

A key policy consideration is the prudential capital treatment of software assets. Currently EU banks must deduct around 55% of their software assets from CET1 capital, on the basis of CRR Article 36 and the related Commission Delegated Regulation (EU) 2020/2176 of 12 November 2020, based on a Regulatory Technical Standard (RTS) by the European Banking Authority (EBA). This applies both to internally-developed software and acquired assets.

This is different from the prudential treatment of software by U.S. banks, who do not have to deduct any software amount from CET1 capital, as it is typically treated as “property, plant and equipment or “other assets” under U.S. GAAP accounting standards. Entities that are not credit institutions, in the EU or outside, also do not have such regulatory barriers to invest in software.

The EU treatment implies that software has a limited intrinsic value for the bank, which is not commensurate with reality. Indeed, software and IT investments are the backbone to the future of banking, and banks who do not invest in them will be the ones whose business will lose value. The EU treatment makes bank investments in software more expensive than for U.S. and non-bank competitors.

The European Commission should make a legislative proposal to allow for full exemption of software assets from regulatory capital, by amending CRR Article 36.

Q30. Do you expect in the near future the emergence of significant new players in the provision of financial services within the EU, such as non-financial conglomerates, FinTechs, or BigTech companies? If yes, what would this mean for traditional banks? If yes, what would be the impact on households and businesses?

New financial services players are already well-established across the EU. FinTechs, BigTech firms, specialised technology providers and non-financial conglomerates have become integral to the EU’s financial ecosystem. Their presence will continue to expand.

Their strength lies in agile development cycles, data-driven personalisation, user-centric design, and the ability to embed financial services seamlessly into wider digital platforms.

Many FinTechs focus on specific services such as payments, identity verification, analytics or credit scoring, often complementing banks rather than replacing them. BigTech



companies typically operate at the interface layer, providing digital wallets or device-level access rather than controlling the banking or payments infrastructure itself. Non-financial platforms (for example in mobility, e-commerce or logistics) are increasingly integrating financial services to support core activities and improve customer stickiness.

For EU banks, this ecosystem creates both competitive pressure and opportunities. Banks remain central to financial intermediation, but they are required to innovate faster. At the same time, cooperation between banks and FinTechs is already the norm. A good example of this is the public-private cooperation at the BIS in Project Agorá, where Central Banks and commercial banks together with technology firms jointly explore how tokenised deposits and programmable settlement models could operate on shared infrastructure.

The impact on households and businesses can be positive, if the regulatory environment remains coherent and risk based. New entrants can offer convenience, lower transaction frictions, richer data insights and more integrated digital journeys. An analysis by the European Credit Research Institute (ECRI) (<https://www.ecri.eu/publications/policy-briefs/payment-sovereignty-without-walls-case-europe%E2%80%99s-multi-rail-ecosystem>) shows that such innovation strengthens competition and broadens choice for consumers and merchants, especially in payments, where the emergence of multi rail solutions improves resilience and reduces single point dependencies.

However, these benefits rely on clear and proportionate oversight. This includes ensuring operational resilience, preventing excessive dependency on a small number of global technology firms, and maintaining high standards for data protection, cybersecurity and systemic stability.

Q31. How should the bank regulatory framework and supervisory practice adapt to the changes in the banking sector triggered by digitalisation?

The regulatory framework should evolve in a way that sustains resilience, enables innovation at scale, and preserves the integrity of the Single Market. The priority is consistent implementation and supervisory convergence so that digital transformation can progress safely and efficiently across all Member States. Ultimately, this will support the competitiveness of EU banks and the broader market.

The most important aspect is a change in the prudential regulatory treatment of software, as discussed under question 29. Without that change, EU banks will continue to be handicapped in this digitalisation path compared to non-EU banks and non-banks.

In addition, the following changes in approach are needed:

- Coherent and uniform application of existing rules, in particular across the frameworks for Information and Communication Technology (ICT) risk, cyber resilience, data governance, payments, digital assets and operational continuity.
- Supervisory capabilities must evolve in line with technological progress.
- Structured and continuous dialogue between public authorities and the financial sector is vital.
- A dedicated innovation platform should be institutionalised. A public-private initiative, bringing together financing capacities (banks, capital markets, venture capital), start-ups, scale-ups, technology providers, regulators and public



procurement actors, could help accelerate European innovation and retain technological capabilities within the Single Market.

- The EU should continue shaping global digital standards and supervisory principles, by remaining an active contributor to international standard-setting processes.
- Finally, the EU should preserve and foster trusted global technological partnerships.

2. The single market and the banking union

2.1. The impact of prudential requirements on market integration

Q32. 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 requires the application of capital and liquidity requirements at solo (bank entity) level. We see many limitations from the current regulatory framework in terms of capital and liquidity (such as Liquidity Coverage Ratio LCR and Net Stable Funding Ratio NSFR) requirements allocation within a banking group. This undermines the operation of the Single Market, and harms EU bank competitiveness. Ultimately, it impacts the provision of banking services and financing to the European economy.

32.1. Waivers

Although there is an optional waiver of those solo-level requirements for banking groups at supervisory discretion, we are not aware of instances where the waiver has been granted to cross-border banking groups since the establishment of the SSM. Therefore, we consider the current framework as one that does not give cross-border banking groups the opportunity to apply capital and liquidity at group level.

The application and provision of a waiver is further gold-plated by the ECB via the ECB Guide on options and discretions. While cross-border liquidity waiver conceptionally allowed in Level 1 text, the ECB has chosen an excessively strict interpretation and introduced an overly burdensome approval process.

Our experience is that even when banks take all efforts to draft a waiver application, the supervisory authorities are still not granting the waiver or stalling the process by issuing additional, sometimes repetitive requests.

32.2. Liquidity

Our particular concern is with liquidity. As a cross-border banking group, having the ability to manage liquidity at group level is highly valuable. This reduces complexity, increases transparency over liquid assets and enhances proper liquidity risk management.

Most EU banks operate out of a central liquidity hub to manage daily liquidity needs, which also includes the management of the respective cash accounts (i.e., dedicated cash accounts for instant payments/ TIPS, the main cash account, the ECB deposit facility, the Target 2 RTGS account) as well as securities accounts such as Target2 Securities. A seamless and smooth operation across all accounts is important for efficient liquidity management, which



is supported by the ECB with the introduction of the European Collateral Management System (ECMS). Any friction caused by local liquidity management requirements is an impediment to such a centralised model that creates inefficiencies and adds unnecessary cost.

Absent any cross-border liquidity waiver, banks still have to maintain sufficient and substantial amounts of local liquid asset buffer to meet their respective local requirements such as LCR and NSFR. However, swift and adequate distribution of cash reserves and/ or collateral is critical to appropriately manage liquidity.

32.3. Other exemptions

Intragroup exemptions on RWA, large exposure, and leverage frameworks (CRR Articles 400(2) and 493(3)) are discretionary and obtainable within a single Member State, and lead to a large number of approvals required (EBA report on the use of exemptions from the limits to Large Exposures, EBA/Rep/2022/16, of 21/07/2022).

Q33. What are your views regarding the most efficient way of applying prudential requirements within EU cross-border banking groups?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Continue the current approach where prudential requirements are applied, as a rule, at both the consolidated level and at the level of every legal entity</u>					X	
<u>Prudential requirements should only be applied at highest EU consolidated level of the banking group</u>	X					
<u>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</u>				X		
<u>Other (please indicate)</u>						X

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)).



No, we do not see any reason to distinguish between requirements when applying at group level. As a matter of principle, given that there is a Single Market, a Single Rulebook, for a subset of Member States even supervision at supranational level (Banking Union), there is no justification for certain requirements to apply at entity/national level.

Q34. 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?

See our response to question 18. We cannot answer this question for Member States.

2.2. Market consolidation

Q35. Do you consider that the EU economy benefits from the presence of large, cross-border banks active across the single market?

Yes, see previous answers on benefits of increasing scale and removing cross-border obstacles.

Q36. 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?

See our response to question 18.

2.3. Non-prudential barriers to market integration

Q37. What are the main non-prudential barriers that impede cross-border activities?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Divergent national tax treatment attached to certain banking products (mortgages, savings accounts, deposits) or banking operations (Value Added Tax, corporate and personal income taxation)</u>		X				
<u>More generally, lack of unified banking product offering across EU or sub-regions,</u>		X				



<u>forcing product adaptation to each national market</u>						
<u>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.</u>			X			
<u>Preference by local customers of local bank brands</u>			X			
<u>Divergent insolvency laws and collateral foreclosure rules</u>		X				
<u>Consumer protection laws and client specific documentation</u>		X				
<u>Divergent (non-prudential) reporting requirements</u>			X			
<u>Language barriers</u>			X			
<u>Other (please indicate)</u>						

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

The key impediment for cross-border activities is prudential capital, as explained in our response to question 16. For this question, we refer you to the responses by trade associations, in particular the EBF.

2.4. Protection of depositors

Q38. To what extent would further strengthening the protection of depositors provide reassurance on the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money and therefore support the competitiveness and integration of banking markets?

<u><i>To a very large extent</i></u>	<u><i>To a large extent</i></u>	<u><i>Neutral</i></u>	<u><i>To a small extent</i></u>	<u><i>Not at all</i></u>	<u><i>No opinion</i></u>
			X		

Please explain.



We are not aware of any concerns as to the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money.

The EU now benefits from a well-established and recently revised crisis management framework, which sets strict rules about how banks and authorities should manage a potential failure. This includes the establishment of dedicated resolution authorities and the drafting of bank-specific resolution plans with a detailed resolution strategy, to be maintained relevant at all times.

EU banks are subject to dedicated requirements for loss-absorption capacity in a crisis, the Minimum Requirements for Own Funds and Eligible Liabilities (MREL). These are resources aiming to allow a bank to be resolved and recapitalised in a crisis, without using public funds. According to the Single Resolution Board (SRB), all banks under its remit met their MREL targets in November 2025.

In case these arrangements fail, the EU benefits from well-funded resolution funds, including the Single Resolution Fund (SRF) for banks in the Banking Union, which has more than €81 bn and was built with contributions by EU banks. Member States outside the Banking Union has similar arrangements in place.

Depositors are protected, up to a certain amount, by national Deposit Guarantee Schemes (DGS). This system has proved to provide sufficient confidence in depositors over the years.

We supported previous efforts of the European Commission to consolidate DGS into a European Deposit Insurance Scheme (EDIS). However, progress on this file was not possible by the co-legislators. While we think that in principle EDIS would be a useful tool to further harmonise depositor protection, we want to caution against over-stating its importance in supporting the competitiveness and integration of banking markets.

Ultimately, the best protection for banks' resilience and competitiveness is their strong governance and sustainable profitability. Without those elements, even recent history demonstrates that confidence evaporates, and at that moment no amount of funds can ever be sufficient to support the system.

Also, fragmentation of banking markets depends on many other factors, which we lay out in many of our responses to other questions, such as national gold-plating, regulatory deviations and excess requirements that constrain bank capital and prevent banks from expanding. And of course there are always other barriers and factors, such as macroeconomic conditions.

If the European Commission intends to pursue again options to consolidate DGS, we would invite it to carefully analyse the reasons why the co-legislators were not able to agree on EDIS in the past, and identify ways to address their concerns while still adding value to the system.

These efforts should not take precedent over more pressing regulatory concerns, which we are raising elsewhere in this consultation. Addressing those more pressing regulatory concerns, especially around CET1 requirements increasing unnecessarily, would make the biggest difference in EU banks' competitiveness.

Q39. Today, when a bank is in distress, deposit protection in the European Union is provided by:



- safeguarding depositors' access to their money if a bank is resolved with the use of banks own loss absorbing capacity, a resolution fund and/or a deposit guarantee fund, or;

- paying customers back with the use of deposit guarantee funds if a bank closes and is liquidated, or;

- safeguarding depositors' access to their money through financing of preventive and/or alternative measures by a DGS, where available.

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

We do not see the added benefit of combining the deposit insurance and resolution functions within existing funds. That is because the two functions are designed to achieve different objectives, namely:

- DGS are designed to achieve depositor confidence that deposits will not be lost in a crisis. This confidence ensures that depositors are not inclined to withdraw deposits from banks in a (suspicion of a) crisis, which would remove a necessary funding source for banks, and result in their insolvency or illiquidity. The value of DGS has been proven in many countries around the world and is considered a cornerstone of modern banking, to ensure trust.
- The bank's own resources (MREL) and resolution funds perform a very different role, which is to absorb losses in case a bank fails, so that its resolution can be orderly and a government assistance in the form of equity or liquidity (i.e. a bail-out) is not needed. This mechanism is in place to avoid the moral hazard of banks and markets assuming government support in a crisis, and also to protect sovereign budgets from bail-outs that can undermine their fiscal stability. The sources of funds are an important element in that function: The bank's MREL comes from its creditor and shareholders, and thus it ensures these stakeholders bear a risk for funding the specific bank, and are incentivised to control its risk-taking. The resolution fund is pre-funded and therefore functions as a backstop, should MREL fail to be sufficient.

Combining the two functions would require careful consideration, as there could be a risk that both lose their credibility. Indeed, using the DGS as a resolution fund would risk giving the perception that bank junior creditors and the provision of banking services are more important than access of depositors to their funds, potentially exacerbating a confidence crisis.

Q40. In your view, when considering the scope of banks to be included in a possible new banking union- wide deposit insurance system, should this scope include...

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>...all banks</u>						X



<u>...all banks which are active cross- border</u>						X
<u>...all banks under direct SSM/SRB remit</u>						X
<u>...only banks that wish to be included</u>						X
<u>...other</u>						

Please explain.

We do not have strong views on this topic.

Q41. In your view, a possible new banking union-wide deposit protection fund should...

	<u>Fully agree</u>	<u>Somew hat agree</u>	<u>Neutral</u>	<u>Somew hat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>... be used to provide only liquidity support to national DGS</u>						X
<u>...replace national DGSs</u>						X
<u>...replace national DGSs for deposits in a subset of banks as identified in the previous question</u>						X
<u>...other</u>						

Please explain.

We do not have strong views on this topic.

2.5. Liquidity in resolution

Q42. In your view, would a more transparent and predictable European mechanism ensuring the provision of liquidity in resolution to large banks in distressed scenarios strengthen the effectiveness and credibility of the European crisis management framework? How could it affect the bank-sovereign nexus and the reliance on national taxpayer-funded resources in a crisis?

Yes X

No

Please explain.



Yes, a more transparent and predictable mechanism for liquidity in resolution would support the EU crisis management framework.

We do not have evidence that the lack of such a mechanism creates a bank-sovereign nexus or an assumption of reliance on national taxpayer-funded resources in a crisis, as the question implies. That is because the credibility of the resolution framework relies on many more elements, many of which work well. Also, the provision of liquidity is collateralised, which reduces significantly the risk for the taxpayer, and premiums need to be paid by the banks using these facilities.

We provide below why we believe a mechanism for liquidity in resolution would help, and how such a mechanism could be designed.

42.1. Rationale

A mechanism for liquidity in resolution is one of the key missing elements of a fully credible liquidity-in-resolution framework. While substantial efforts have been made on the readiness for recapitalisation of banks in resolution and the operationalisation of bail-in, without an effective liquidity concept the resolvability of banks could be severely impacted, and the credibility of the open-bank bail-in strategy could be undermined.

In the absence of a mechanism for liquidity in resolution, banks in the SSM are expected to demonstrate their resolvability by having dedicated liquidity-in-resolution scenarios, which are regularly tested and validated for appropriateness and soundness. However, recent crisis experience in the market has shown that liquidity events are inherently difficult to predict and can escalate very quickly. Therefore, it is important to have a clear and reliable framework in place to tackle such liquidity shortfalls, beyond banks' scenarios.

42.2. Design

Besides existing standard market operations provided by the ECB (e.g., Main Refinancing Operations MRO, Longer-Term Refinancing Operations LTRO etc.), greater clarity is needed on how additional liquidity support would be accessed in resolution, under which conditions, against which collateral, and with which operational testing requirements.

For a bank in resolution to access the facility, stakeholders should assume that all marketable assets have been deployed already as part of the recovery phase. Hence further, non-marketable assets would need to be pledged with the ECB. These assets could be credit claims such as retail mortgage loans, corporate loans etc. which would not be impaired and well performing but currently not qualifying for the direct loan pledges. This concept also exists and was successfully applied by the ECB during Covid-19 (e.g., Additional Credit Claims).

Further facilities could be made available to banks in resolution such as the Emergency Liquidity Assistance (ELA). The concept of ELA also exists already but the conditions to get access to the ELA are not sufficiently transparent and predictable. The requirements to successfully apply for ELA including appropriate testing of the infrastructure by posting non-marketable collateral are therefore critical for making such a framework operationally credible.

Similarly, while conceptionally the SRF would be in the position to provide liquidity to banks in resolution, it remains unclear how to apply for such liquidity backstop, which criteria need



to be fulfilled, and how the operational mechanics would work in practice. This lack of transparency weakens the predictability of the framework.

Q43. Do you consider that introducing a formal transparent mechanism to provide liquidity in resolution can provide reassurance on the stability and effectiveness of the crisis management framework and therefore support the integration of banking markets? If yes, what do you consider to be the desirable features of such mechanism?

No. See our response to question 42. We do not see any direct link between the mechanism for liquidity in resolution and supporting the integration of banking markets.

2.6. Sovereign exposures and risk reduction

Q44. To what extent do you consider the following factors as significant drivers for the 'home-bias' (i.e. banks' disproportionate exposures to their home sovereign)?

	<u>Full y agr ee</u>	<u>Somew hat agree</u>	<u>Neutral</u>	<u>Somew hat disagre e</u>	<u>Fully disagr ee</u>	<u>No opinion</u>
<u>Application of prudential requirements at solo level</u>		X				
<u>Other (prudential) rules</u>	X					
<u>Limited cross-border financial integration</u>		X				
<u>Role in market-making for home sovereign debt</u>	X					
<u>Business model considerations (aligning assets with domestic activity)</u>		X				
<u>Government pressures to invest in the local sovereign bond market</u>						X
<u>Expectations of public support</u>			X			
<u>Investment in home sovereign debt perceived as safe and highly liquid asset</u>	X					
<u>Insufficient access or supply of other governments' debt fitting the risk-appetite of the</u>						X



<u>bank.</u>						
<u>Other (please specify)</u>						

Please explain.

The home bias observed in European banks' holdings of their domestic sovereign debt is a multifaceted issue driven by a combination of prudential regulations, market roles, and business model considerations. We will analyse below the relative importance of each factor.

We note here some progress in diversifying sovereign exposures by banks, based on public information (see our response to question 45). However, these factors continue to exert a strong influence, contributing to the home bias in European banks' sovereign bond portfolios.

44.1. Prudential framework

The existing prudential framework plays a highly significant role. Euro area sovereign bonds are currently treated as risk-free assets for capital purposes, effectively assigning them a zero-risk weight. This regulatory treatment, while aiming to reduce capital requirements for holding sovereign debt, can inadvertently encourage banks to favor their domestic government bonds, as they require no capital buffer against potential losses.

Furthermore, the application of most prudential requirements at a solo (individual bank entity) level, rather than consolidated, can create additional incentives for banks to prioritise domestic sovereign holdings, which may be perceived as easier to manage or fulfill local regulatory obligations. This means that the entity-level application of prudential requirements also contributes to the home bias.

44.2. Banks as primary dealers

Banks' role as primary dealers in their home sovereign debt markets is another key driver. As primary dealers, banks are responsible for facilitating the issuance and trading of their government's bonds, which naturally leads to larger holdings of these instruments on their balance sheets. This market-making function is an integral part of the financial ecosystem and inherently contributes to a home country preference.

44.3. Business model considerations

Business model considerations also contribute to home bias. Banks often seek to align their assets with their domestic liabilities and operational activities. Holding domestic sovereign debt can serve as a natural hedge against domestic liabilities and provide readily accessible liquid assets for managing domestic payment systems and other local financial operations. This alignment of assets with domestic activities can create a structural preference for home country sovereign bonds.



Q45. Do you consider that the EU framework on the regulatory treatment of sovereign exposure should be improved? If yes, how should this be done, and how would it affect the holdings of sovereign debt by banks?

No, we do not have any evidence that the EU framework on the regulatory treatment of sovereign exposure needs improvement from a financial stability perspective. The current EU regulatory framework for the treatment of sovereign exposures has proven effective in supporting financial stability and market functioning, particularly during periods of elevated public financing needs. We only see opportunity for smaller clarifications that will help harmonise the rules across the EU.

45.1. Assessment of the Current Framework and Observed Evolution

The existing framework, under which euro area sovereign exposures benefit from zero risk weighting and exemptions from concentration limits, has enabled banks to act as stable, long term investors in sovereign debt. This has been particularly relevant during periods of stress, when banks have contributed to market absorption capacity amid reduced central bank purchases.

Banks have made tangible progress over time in managing and diversifying sovereign exposures, even in the absence of regulatory change. Despite the persistent home bias in some instances, domestic sovereign exposures have declined in relative terms, and more recently and the degree of home bias has decreased. Banks have gradually increased holdings of other euro area and non EMU sovereign debt. See for example this paper by DB Research from 26 March 2024: https://www.dbresearch.com/PROD/RPS_EN-PROD/PROD000000000532631/European_banks_make_some_progress_in_diversifying_.PDF?&reload=luBvzPC6QxFLXEgh9cCqXIX0H0D8kLs71PtEfWozWTzvnW~CO~B2mwH1ZEuwDU9O

These developments show that risk awareness, supervisory scrutiny and market incentives have contributed to a gradual adjustment of sovereign portfolios. However, the pace and extent of this adjustment have been uneven across Member States, reflecting differences in fiscal conditions, sovereign yields, market depth, and national banking sector structures. As a result, domestic sovereign exposures remain material in several jurisdictions.

45.2. Overall Perspective

In summary, from a financial institution standpoint, the current EU framework for sovereign exposures has supported stability while allowing for gradual risk adjustment over time. While structural features such as home bias persist, observable progress suggests that banks have been able to adapt within the existing framework.

Any potential enhancements should therefore be measured, coordinated and aligned with broader institutional developments, recognising both the stabilising role of banks in sovereign markets and the need to manage concentration risks over the long term.

45.3. Entities to be treated like central governments

There is a need to provide further clarification and harmonisation of the regulatory treatment of entities to be treated like central governments of a sovereign in accordance with the “EBA List” as referenced in CRR Art. 115 and Art. 116. We see differences between Member



States in providing guidance. Some Member States make extensive use of listing entities starting from regional governments to sovereign owned corporations, which eases assessment and conditions for regulated institutions, while for other countries and entities further clarification or expansion of inclusion would be beneficial.

We also ask for additional clarity with respect to the prudential treatment of supranational institutions, and the status of EU multinational entities (e.g. entities such as Eurocontrol or CERN), where interpretation and treatment can currently differ across institutions and Member States. Within the current regulation there is no specific reference made to such entities, which leaves it up to banks to interpret the status and creditworthiness of such multinational institutions. This can create competitive distortions within the Single Market and an uneven playing field.

While the EBA lists provide a helpful reference, its effectiveness would be enhanced by:

- Expanding its scope, and/or
- Streamlining and simplifying the process for inclusion.
- Transparent steps to check in case of doubt for each country.

Feedback received from clients and market participants suggests that, although inclusion on the list is theoretically possible, the process is often perceived as lengthy, complex, and costly. As a result, entities may decide not to pursue inclusion unless strictly required, which undermines the objective of consistent and transparent treatment across the EU.

We ask the European Commission to support a consistent prudential treatment, reduce operational friction, and facilitate more efficient engagement between regulated institutions and public sector related clients. This could require clarification of the language in the CRR text, or a dedicated discussion with the EBA who is compiling the list.

Q46. Exposures to Member States' central governments, or third country jurisdictions assessed as equivalent, when denominated and funded in domestic currency, receive a 0% risk weight under the Capital Requirements Regulation, as provided for by the international standards. Such 0% risk weight applies regardless of credit rating, exempts the sovereign bonds from large exposure requirements, and classifies them as high-quality liquid assets. However, this treatment does not apply to sovereign exposures denominated in Euro issued by non-Euro Area Member States. Should that treatment be expanded to sovereign exposures issued by non-Euro Area Member States and denominated in Euro and how would this affect the holdings of sovereign debt by banks? Please elaborate.

A general extension of the 0% risk weight treatment to euro denominated sovereign exposures issued by non Euro Area Member States must be carefully assessed. While this expansion could give EU banks the ability to hold incremental sovereign debt at banks, allowing them to play a more substantial global role in financing, there are also balancing factors to consider.

The current CRR appropriately differentiates sovereign exposures based on monetary sovereignty, not solely on currency denomination. While euro denominated issuance removes foreign exchange risk, non Euro Area Member States do not have direct access to euro area monetary policy instruments or central bank backstops. This distinction remains relevant for sovereign credit risk and refinancing capacity.



Extending a uniform 0% risk weight based solely on denomination would reduce risk sensitivity and weaken the link between regulatory capital requirements and underlying sovereign risk characteristics. It could also blur distinctions between issuers operating inside and outside the euro area institutional framework.

If such an extension were implemented, it would likely:

- Increase the capital efficiency of euro denominated sovereign debt issued by non Euro Area Member States.
- Encourage portfolio reallocation toward higher yielding non Euro Area sovereign issuers.
- Potentially reduce domestic concentration at the margin, but at the cost of higher exposure to sovereigns without euro area monetary backing.

The overall impact would depend on calibration and eligibility criteria, but could result in new concentration effects and reduced differentiation across sovereign risk profiles.

From a financial institution perspective, the existing treatment reflects a deliberate and prudent balance between simplicity, market functioning and risk differentiation. Any consideration of changes should be highly targeted, conditional and carefully calibrated, and assessed in conjunction with broader Banking Union and financial stability

3. Complexity and effectiveness of the regulatory framework

3.1. General assessment

Q47. How would you evaluate the current regulatory framework for banking in terms of:

	<u>Low</u>	<u>Some what low</u>	<u>Medium</u>	<u>Some what high</u>	<u>High disagree</u>	<u>No opinion</u>
<u>... effectiveness (the extent to which the framework achieved its objectives)</u>					X	
<u>... proportionality (the extent to which the objectives of the framework are achieved at minimal cost)</u>			X			
<u>...EU added value (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone)</u>				X		
<u>...relevance (extent to which EU intervention provides benefits that could not be achieved by Member States acting alone)</u>				X		



<u>...coherence (extent to which a policy/intervention is internally consistent and externally consistent with other EU policies)</u>	X						
---	---	--	--	--	--	--	--

Please explain your answers to question 47

We suspect there is a mistake as the category “High disagree” should be two distinct categories. Where we marked X, we mean “High”, i.e. we consider that the current regulatory framework is highly effective in achieving its objectives of financial stability. At the same time, the framework has been less successful in achieving other aspects, in particular coherence with other EU policy areas, such as financing the needs of the economy and ensuring a competitive banking sector.

Q48. 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?

	<u>Low</u>	<u>Somewhat low</u>	<u>Medium</u>	<u>Somewhat high</u>	<u>High disagree</u>	<u>No opinion</u>
<u>...the overall framework</u>				X		
<u>...the minimum capital requirements (Pillar 1)</u>				X		
<u>...the supervisory measures (Pillar 2)</u>					X	
<u>...the macroprudential requirements</u>					X	
<u>...the resolution requirements</u>				X		
<u>Other</u>						

Please explain.

Again, we suspect there is a mistake as the category “High disagree” should be two distinct categories. Where we marked X, we mean “High”.

We agree that a certain degree of complexity is necessary to achieve the desired regulatory objectives. Our response here will focus on the broad parts of the framework that are, in their entirety, unduly complex, which we define as complex beyond what is needed to achieve the regulatory objectives, and therefore costing more, in resources, competitiveness or cost of



financing the economy, than the benefit the European economy derives in terms of financial stability.

We include a description of why we consider these parts of be complex and recommendations on how to improve the situation, without compromising financial stability.

48.1. Pillar 2: ICAAP-IRRBB consistency

The Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) framework (e.g., EBA-Guidelines GL-2016-10) provides a comprehensive set of requirements for internal capital adequacy, emphasising a holistic and consistent consideration of risks, which banks typically achieve through enterprise-wide stress-testing, economic capital frameworks, or a combination thereof. EBA and supervisors expect ICAAP-based indicators to be used actively in business decision-making.

However, within Market Risk, there is an overlap with the coverage of Non-Traded Market Risk in ICAAP and Banking book risk reporting. That is further compounded by evolving regulatory guidance on Interest Rate Risk in the Banking Book (IRRBB). This is specifically the case for the metrics of change in Economic Value of Equity (dEVE) and change in net interest income (dNII) and the formalisation of requirements and governance for Credit Spread Risk in the Banking Book (CSRBB) (e.g., EBA/GL/2022/14 and the respective RTS).

The metrics introduced in these regulations are also expected to be actively used in risk and business decisions, with regulatory thresholds (e.g., for the Standard Outlier Tests) that are set in a way that become binding constraints.

The intention seems to be that supervisors want to have an insight into more standardised reporting on risks such as IRRBB and CSRBB. However, the result is that banks and specific business units are confronted with an increasingly complex array of risk and capital metrics, often overlapping but differing in nature, aiming to capture the same risks. These include, but are not limited to, ICAAP (e.g., Economic Capital), IRRBB dEVE, IRRBB dNII, Earnings at Risk (EaR), CSRBB dEVE, and CSRBB dNII.

In contrast to the ICAAP framework's comprehensive and inherently consistent approach to risk capture, these metrics related to IRRBB and CSRBB, by design, tend to isolate different risk strips. Technical nuances that are observed when capturing these risks are translated into metrics and scope extensions (e.g. in case of CSRBB) that go beyond business value of these metrics in actual business decision making. This not only leads to contradicting steering signals but ultimately dilutes the understanding and acceptance of these critical (Pillar 2/ICAAP) metrics by business functions.

We recommend a review of both ICAAP and IRRBB frameworks by supervisory authorities and the EBA, to ensure alignment of expectations. The European Commission could help in providing a mandate in level 1 legislation for such a review with the stated objective to simplify and align.

48.2. Resolution

For resolution planning purposes we would ask for further alignment between the SRB and home and host authorities to avoid duplication of regulatory reporting and preparation of resolution dry runs. This in particular applies to overlapping dry runs steered by the SRB and in parallel overseen/requested from non-banking union member states.



Q49: Which type of instrument adds the most undue complexity to these parts of the frameworks?

	<u>Low</u>	<u>Somewhat low</u>	<u>Medium</u>	<u>Somewhat high</u>	<u>High disagree</u>	<u>No opinion</u>
<u>International standards (Basel, FSB)</u>	X					
<u>Level 1 EU legislation (i.e. regulation/directives)</u>				X		
<u>Level 2 EU legislation (i.e. technical standards)</u>				X		
<u>Level 3 EU measures (i.e. EBA guidelines, Q&As, etc.)</u>					X	
<u>Supervisory guidance/practices</u>					X	
<u>Implementation differences of EU legislation at national level</u>					X	
<u>Interaction with other national legislation</u>				X		
<u>Interaction with other EU legislation</u>		X				
<u>Others</u>						

Again, we suspect there is a mistake as the category “High disagree” should be two distinct categories. Where we marked X, we mean “High”.

Consistent with our response to question 48, our response here will focus on specific instruments or regulatory acts that are unduly complex, which we define as complex beyond what is needed to achieve the regulatory objectives, and therefore costing more, in resources, competitiveness or cost of financing the economy, than the benefit the European economy derives in terms of financial stability.

We include a description of why we consider these instruments of be complex, their impact, and recommendations on how to improve the situation, without compromising financial stability. We have structured our answer on the basis of the level of impact from their complexity.

49.1. Instruments whose complexity has a high impact

49.1.1. Level 3: EBA Q&A – General remarks

A particular area of concern within the Level 3 instruments is EBA Questions and Answers (Q&A). They are not to be conflated with Guidelines, as they are very different and should be seen as a different category, as “Level 3” does not accurately describe their role in the regulatory framework.



That is because the other instrument under “Level 3”, EBA Guidelines, are typically developed following a legal mandate in the level 1 text (own EBA initiative is possible but not commonly used). Guidelines are developed with the due process of public consultation, impact assessment and feedback statement. In most instances, EBA Guidelines do not materially add to the complexity of the framework, although in some cases there is unnecessary duplication or detail, for example the Guidelines on the Supervisory Review and Evaluation Process (SREP). Also, EBA Guidelines are subject to a transparent comply or explain approach by supervisors.

Conversely, EBA Q&As follow a very different process which raises fundamental concerns. That is especially since Q&As sometimes offer useful guidance, but in other instances they have a material negative impact on EU banks’ competitiveness and can influence the provision of credit and banking services to the economy.

Specifically, the development of Q&As is not subject to any transparency or consultation, so the industry or the public do not know when a question has been submitted and how the answer is being developed. When the answer is issued, it is not subject to comments or feedback by the industry, and there is no process to change it. Therefore, no due process is followed in the development of the answers, and there is no right to be heard for any third party.

If Q&As were limited to immaterial issues and informal guidance, that would not have been a problem for EU bank competitiveness or complexity in the framework. But they are not. In fact, at least the ECB as a bank supervisor treats Q&As as mandatory regulatory requirements. Through this process, Q&As take the form of binding requirements, but escape the usual due process of EU rule making.

There are several examples of Q&As with material impact on EU banks and financing to the economy, which we consider to be misinformed or exceeding the intentions of the co-legislators and therefore adding undue complexity. See also our answer to question 10 on another problematic Q&A.

Besides the specific recommendations for the specific Q&As we raise below, more broadly we recommend that the Commission does a review of the Q&A process in a way that returns to the original objective of advice to the market, without circumventing the normal regulatory and legislative process.

This could be done in the form of a European Commission communication to EBA and supervisory authorities, with recommendations about how to make the Q&A development more transparent and reversible, and also to ensure they do not lead to binding outcomes akin to EU Regulations.

49.1.1.1. Level 3: EBA Q&A PruVal – Day One Profit deferral

One example of a Q&A that adds undue complexity and has a material impact on the ability of EU banks to offer products to the market is in the space of Prudent Valuation (PruVal). EBA Q&A 2019_4458 prohibits the offset between the Day One Profit accounting adjustment and the Additional Valuation Adjustments (AVA) for trading assets.

The Q&A fails to acknowledge that Day One Profit deferral and PruVal both address valuation uncertainty for unobservable parameters. The disallowance of Day One Profit reserve offset against AVA does not mitigate, uncertainty which may exist in subsequent



revenue recognition in line with accounting rules (International Financial Reporting Standards – IFRS).

The lack of offset between Day One Profit deferral and AVA means EU banks have to double-count valuation uncertainties in capital. This leads to a valuation level considered in capital in excess of the 90% confidence level required by the EBA RTS or 2016, and the level implied by the EU legislator in CRR Art.105.

This Q&A therefore does not add to financial stability, but instead it directly increases the cost that EU banks have to charge for hedging products to clients such as pension funds and insurers for European customers and policy-holders. This therefore undermines the Savings and Investments Union (SIU) agenda.

Given the overlaps with other regulatory requirements, we propose the elimination of the PruVal framework, or at least being allowed to offset AVAs against the deferred Day One Profit, i.e. to disapply the EBA Q&A 2019_4458.

For our concerns on PruVal see also replies to questions 11, 21, 25, 52.

49.1.1.2. Level 3: EBA Q&A Application of the SME definition in specific cases

In EBA Q&A 2025_7512, the EBA answer that the turnover at the level of the ultimate parent should be used for the definition of an SME contradicts the CRR and another EBA answer which confirmed that the term ‘its’ refers to the sub-consolidated level.

In addition, when the CRR wants to refer to the ultimate parent and its consolidated level, it uses a different terminology, e.g. large corporate definition and increased / reduced correlation factor “[...] belonging to a group where the total annual sales for the consolidated group is more than EUR 500 million”.

This limits the ability of EU banks to provide financing to SMEs as it results in higher Risk Weights for such transactions. The Q&A therefore adds undue complexity in the system without contributing to financial stability.

We recommend the deletion of this Q&A.

49.1.1.3. Level 3: EBA Q&A Definition of short position

In EBA Q&A 2019_4675, in point 3 of the response the EBA establishes the principle that in case a hedge is used to e.g. determine a net Financial Sector Entity (FSE) position of zero, then a new additional credit risk RWA position with respect to the hedge counterparty must be reflected in the credit risk RWA calculation. This goes beyond the level 1 text.

In the example of e.g. a cash equity position (long FSE exposure) that is hedged by a bought put option (short FSE position) the CRR requires to determine counterparty credit risk for the bought put option, but there is no requirement for an addition (in general higher) credit risk exposure facing the hedge counterparty in the amount by which the long FSE position has been reduced.

This limits the ability of EU banks to provide financing to entities performing services such as financial leasing, without gain for financial stability.

We recommend the deletion of this Q&A.



49.1.2. Supervisory guidance

Another type of instrument whose undue complexity has high impact is supervisory guidance. Here we note a few examples: The ECB Guidance on Leverage Lending, NLP guide, guide on Climate Risk and the ECB Guide on Options and Discretions. These are examples of guidance that results in new requirements beyond what the co-legislators intended. They therefore add undue complexity, without clear gains for financial stability.

For the ECB Guidance on Leverage Lending, see our response to question 26.

For the ECB Guide on Options and Discretion, revised in July 2025, a key example of the concerns we are raising is the provisions on recognition of minority interest, which impose a catch-22 situation for applying banks, which cannot be overcome. Effectively, the ECB has created a condition that is impossible for banks to meet.

Specifically, Section II, Chapter 2, section 15 of the Guide says that ECB will consider “whether the risk profile of the subsidiary is similar to that of the consolidated situation of the parent undertaking”. As it should be evident, it is impossible for a subsidiary to have a “similar” risk profile with its parent, for the obvious reason that the i) parent has more parts than the subsidiary or operates in more markets/products, which by definition change its risk profile; ii) the parent is bigger than the subsidiary, which also by definition changes its risk profile in terms of synergies but also complexity. It is therefore a potentially impossible condition to meet.

This creates a situation where EU banks applying for the derogation for recognition of minority interest, in theory allowed by the level 1 regulation, can never be obtained in practice, but also risk wasting time in submitting an application. This is a clear instance of undue complexity that exceeds the level 1 requirements, does not add to financial stability but impacts the competitiveness of EU banks.

49.1.3. Implementation differences of EU legislation at national level

A prime example here is the prudential capital buffer framework and specifically for Other Systemically Important Institutions (O-SII). Across the EU, the O-SII designation and buffer calibration is not aligned. Specifically, while there is a harmonised EU framework for scoring banks, otherwise similar banks (in terms of systemic importance) are treated differently depending on which Member State they have their headquarters. This creates an uneven playing field for EU banks within the EU.

In particular, Germany applies a very low score threshold (100 points) not only for identifying O-SIIs through supervisory judgement but also for calibrating capital buffers, whereas other EU Member States calibrate buffers using higher effective thresholds (around 200–350 points). As a result, banks with the same harmonised systemic importance score face higher O-SII buffers in Germany than elsewhere, despite Germany having a less concentrated banking sector and a smaller banking-assets-to-GDP ratio than other Member States.

The underlying reason for this divergence is excessive national discretion and overlap with other capital buffers, which undermines transparency and consistency. O-SII buffers in Germany are calibrated using the Equal Expected Impact (EEI) methodology in a way that ensures all O-SIIs face a strictly positive buffer, even where systemic risk may already be addressed by the Capital Conservation Buffer (CCyB), Pillar 2 Requirements or Global Systemically Important Institution (G-SII) buffers. National discretion is not clearly linked to



the risks the O-SII buffer is supposed to cover, and this leads to outcomes where banks with much higher O-SII scores in some Member States face similar or lower buffers.

To address this concern and ensure comparability and a level playing field, the O-SII framework should be revised by the European Commission in a legislative proposal, so that there is tighter EU-level constraints on national discretion linked explicitly to banking sector concentration and size, or a move of the O-SII framework to the Banking Union level with predefined calibration corridors.

49.2. Instruments whose complexity has somewhat high impact

49.2.1. Level 1

49.2.1.1. EMIR and MiFIR

In the most recent legislative cycle, the increased prescriptiveness of Level 1 texts, particularly in EMIR and MiFIR seems to reflect a deliberate shift by co-legislators to lock in specific policy outcomes directly in primary legislation, rather than confining Level 1 to high-level objectives. This has been driven by political sensitivities around market location, strategic autonomy and financial stability, with a desire to limit supervisory discretion and ensure that key policy choices are not revisited during the technical phase.

As a result, Level 1 has increasingly been used not only to set direction but also to determine detailed operational design choices that would traditionally be calibrated at Level 2, informed by supervisory expertise and market evidence.

This trend is evident in areas such as the EMIR active account requirement and MiFIR's post-trade transparency regime for nonequity instruments, where Level 1 provisions prescribe core elements of the framework, leaving ESMA limited scope to adjust parameters through regulatory technical standards (RTS) or to incorporate stakeholder input.

These choices have been reinforced by concerns about uneven implementation, regulatory arbitrage and supervisory divergence across Member States, as well as legislative cycle pressures to demonstrate delivery within a single mandate. The inclusion of fixed application dates and detailed obligations in Level 1, decoupled from the completion of Level 2 measures, has resulted in inflexible implementation timelines, higher costs and legal uncertainty for industry and outcomes that run counter to the original Lamfalussy objective of efficient, adaptable and technically sound regulation. This adds undue complexity that impacts the competitiveness of EU banks.

In this context, we would welcome a move back towards the original aims of the Lamfalussy process, combined with granting ESMA further, well-defined powers under the current Market-Integration and Supervision (MISP) proposal, to ensure effective technical calibration and to avoid unintended impacts on financial markets.

49.2.1.2. AMLR

In Art. 67(4) of AMLR, banks are obliged to inform non-EU foreign legal entities and foreign legal arrangements about their requirement to register beneficial ownership under certain conditions. They then need to require a certificate of proof of registration or an excerpt of the beneficial ownership information held in the central register to proceed with the business relationship or occasional transaction. This is a prerequisite to commencing with the



business relationship or proceeding with the occasional transaction. As a result, AMLR creates undue complexity.

The requirement creates a centralised, systemic risk to the European financial system. If there is a failing in a system, in operations, a human error or other cyber incident, this would delay market operations, on-boarding, transactions, liquidity, and deal-making across multiple sectors of the EU economy. Delays could manifest even without a specific incident, which is likely to affect EU banks' competitiveness and corporate customers' willingness to engage obliged entities in business.

There should be an option for banks to enter the business relationship before registration with the central register, in certain scenarios of e.g. failure to obtain the certificate despite best efforts by the bank (safe harbour).

49.2.2. Level 2

There is a long series of level 2 instruments, primarily Regulatory Technical Standards (RTS) that add undue complexity in the EU regulatory framework. Note also our concerns with the PruVal Level 2 regulation (an EBA RTS), which is discussed under 49.1.1.1. and also questions 11, 21, 25, 52:

Act	Legal reference	Subject matter	Reason for qualifying as adding to complexity
EBA RTS	Commission Delegated Regulation (EU) 2024/1780 of 13 March 2024	Securitisation: Calculation of KIRB in relation to the underlying exposures of a securitisations	Restricts the use of securitisation as there is an expectation of having exactly the same criteria for PD and LGD calibration for on-balance sheet exposures and for the fall back approach there is no recognition of collateral that allows banks to achieve the reduced Foundation IRBA LGDs (i.e. Art 230(2)).
EBA RTS	Commission Delegated Regulation (EU) 2024/1728 of 6 December 2023	Identifying Group of Connected Clients	The primary challenge and undue complexity in the identification of Group of Connected Clients arises from the RTS, which changed the assessment of economic dependency, eliminating the materiality threshold (lending limit) that existed in the EBA Guidelines covering the same topic (EBA/GL/2017/15). Both the RTS and the Guidelines are still valid, but the RTS takes legal precedent. By lifting the materiality threshold, the EBA RTS introduced uncertainty, because the banks' assessment of the relationship between companies now is more judgmental and less readily observable. This is especially the case for smaller clients. This now needs a case by



			case judgement to support risk/exposure aggregation decisions. This could also lead to inconsistent application economic dependency criteria for large banks where the relevant dependency indicators may be dispersed across regions and legal entities.
EBA RTS	Commission Delegated Regulation (EU) 2022/2060 of 14 June 2022	FRTB - Risk factor eligibility assessment and Non-Modellable Risk Factors	<p>RFET: Specification of many complex requirements which need to be met for assessing a risk factor as modellable, which adds operational costs and complications without obvious value for the quality of the outcome. This includes special rules for parametric risk factors and additional requirements such as showing how to extract the value of a risk factor from a verifiable price.</p> <p>NMRF: Specification of a complex, multi-branch waterfall approach dependent on how many data points exist for the non-modellable risk factor.</p>

Q50. Would you support less complexity in the bank regulatory framework even if this means...

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>...less risk sensitivity within risk-weighted requirements</u>					X	
<u>...increase in capital requirements</u>					X	
<u>...less consideration for EU specificities</u>					X	
<u>...less consideration for national specificities</u>		X				
<u>...higher contributions to safety nets (DGS and resolution funds)</u>				X		
<u>...less resilience/ financial stability</u>					X	

Please explain.



Given question 49 was about “undue” complexity, we do not see a trade-off between such undue complexity and the effects described in this question. Our answers to question 49 show that it should be possible to reduce undue complexity, without sacrificing financial stability, resilience, risk sensitivity and without adding costs on the banking industry which will be passed on to our clients in the economy.

Given that we believe undue complexity mainly arises from level 2 and level 3 instruments, the undue complexity can be addressed by authorities constraining themselves when producing regulatory instruments. The European Commission can consider tests or processes to enforce that discipline, one example being a secondary mandate for supervisory and regulatory authorities, or better requirements for impact assessment, to include also Q&As.

Q51. 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?

There are many provisions that would benefit from less national discretion in the transposition of Directives. Some are analysed in earlier responses, e.g. the provisions on staff remuneration (question 24).

While in our answer to this question, we take a view as to whether the provisions would be more effectively established through directly applicable regulations, we also see instances where regulations leave national discretion, for example in CRR Art.465(5), the lower Risk Weight in the transitional arrangement for mortgages depends on Member State discretion.

This shows that the issue with deviations is not necessarily with the regulatory legal tool, but the willingness of Member States or authorities to tolerate or insert deviations.

Below we provide specific examples of national deviation that have the biggest impact on the EU Single Market, on the competitiveness of EU banks and our ability to finance the economy.

51.1. O-SII

For CRD, the most important provisions are those related to prudential capital requirements, i.e. provisions that, in the national implementation, result in unnecessary capital requirements. There are specific areas.

We refer to the issue of O-SII, discussed under question 49.

51.2. Pillar 2 Requirement and overlap with Pillar 1

Certain provisions currently set out in directives, particularly within the CRD, would be more effectively established through directly applicable regulations. This is especially true for



aspects aiming to ensure consistent application and avoid regulatory arbitrage, excessive supervisory discretion or cumulative burdens that undermine competitiveness.

Specifically, CRD Article 104a addresses the interaction between Pillar 1 requirements (including the CRR III/Basel III Output Floor) and Pillar 2 capital add-ons. The article stipulates that supervisory authorities, when assessing a bank's internal capital adequacy under Pillar 2, should not require additional capital for risks already covered by Pillar 1 requirements, particularly those constrained by the Output Floor. The intention is clear: to prevent inefficient double-counting of capital requirements for the same risks, which would unnecessarily burden EU banks and thus the cost of financing the economy.

Our concern stems from the practical implementation of this provision by EU supervisory authorities and specifically the ECB. While Article 104a aims to provide clarity and prevent overlaps, we have seen no evidence as to the methodology the ECB will use to eliminate these overlaps in practice, through the ongoing SREP reform (ECB Supervision Newsletter by Ronan Sheridan, Stephen Woulfe and Eva Catarineu Rabell, of 14 May 2025; ECB Supervision Blog by Claudia Buch of 11 March 2025; Contribution by Patrick Montagner of 3 July 2025).

The related EBA guidance so far (in the form of Opinion EBA/Op/2025/01 from 21/01/2025) is also not providing sufficient safeguards.

Because it is a provision in a Directive, the theoretical safeguard offered by Article 104a is not robust enough to guarantee its consistent and effective application by EU supervisors. The wording, while prescriptive in its intent, still leaves room for supervisory discretion in identifying and addressing overlaps. We are concerned that this discretion will be exercised in a way that leads to continued and significant overlaps, ultimately imposing an excessive capital burden on banks without a commensurate increase in financial stability.

Specifically, we are concerned that the ECB's methodology for assessing Pillar 2 risks (e.g., through the annual Supervisory Review and Evaluation Process – SREP) will not precisely differentiate between risks already captured by the Output Floor and genuinely unaddressed risks requiring additional Pillar 2 capital. This difficulty in granular differentiation could lead to a 'default' approach where Pillar 2 add-ons are imposed even for risks implicitly or explicitly constrained by the Pillar 1 Output Floor.

This is linked to the lack of transparency in the Pillar 2 methodology: While the ECB publishes high-level SREP methodologies, the granular details of how they will specifically implement Article 104a and avoid double-counting with the Output Floor remain largely opaque. Without a clear and transparent framework, including concrete examples and quantitative methodologies, it is difficult for banks to anticipate how the ECB will ensure Pillar 2 add-ons are genuinely incremental and not duplicative. This lack of transparency undermines our ability to engage effectively with our supervisor on this matter.

Our concerns are supported by the external assessment of the ECB SREP conducted by an expert group, with the results published on 17 April 2023. In section 2.3, the group noted that the ECB approach does not achieve “the conceptual rigour of a risk-by-risk approach”, which would be needed to ensure risks are not double-counted.



The Output Floor is explicitly designed to act as a backstop, and if Pillar 2 then 'adds back' capital for risks already addressed by that backstop, it defeats the purpose of the Output Floor and Article 104a.

To truly ensure the objectives of Article 104a are met and to foster a more competitive and efficient banking sector, this provision should move to a Regulation, potentially coupled with a prescriptive set of conditions to be set out in a level 2 EBA RTS on the specific methodologies to be used by supervisors to avoid overlaps. This should also establish a clear, transparent, and enforceable mechanism for banks to challenge perceived overlaps in their SREP outcomes, ensuring due process and accountability in the application of Article 104a.

This is clearly possible, given that the UK Prudential Regulation Authority (PRA) is pursuing the same objective of avoiding overlaps between Pillar 1 and Pillar 2 (Statement of Policy 5/15, The PRA's methodologies for setting Pillar 2 capital, January 2026).

Gold-plating, government interventions and enforcement

Q52. Do you have concrete examples of gold-plating of EU rules via transposition of EU directives, national options and discretions? If so, please list them here.

Yes, we have examples of gold-plating of EU rules via transposition of EU directives, national options and discretions, but also other regulatory activity. These are instances where either a Member State, a national authority or a supervisory authority exceeds the requirements envisaged by the EU co-legislators. This harms the functioning of the Single Market and the competitiveness of EU banks, both within and outside the EU, and thus ultimately it impacts their ability to finance the economy.

A prime example of gold-plating is the O-SII framework, described in our answers to questions 49, 51 and 72.

Another is the treatment of IPC by the ECB, see our response to question 25.

A further example is the ECB guide on options and discretions, and instances of gold-plating on liquidity (answer to question 32) and minority interest recognition (answer to question 49).

Another material example of gold plating arises from the EU implementation and interpretation of the Prudent Valuation (PruVal) framework in relation to Day One Profit (DOP) deferral, resulting in systematic double counting of valuation uncertainty in regulatory capital.

Under the EU PruVal framework, institutions are required to deduct Additional Valuation Adjustments (AVAs) from CET1 capital in order to achieve a prudent value with a prescribed level of confidence. Separately, under IFRS 9, institutions must defer Day One Profit where fair value is based on unobservable inputs, with the deferral also reducing CET1 capital.

While Article 8(3) of Commission Delegated Regulation (EU) 2016/101 provides that AVAs should represent only the excess of valuation adjustments over any fair value adjustments addressing the same source of valuation uncertainty, the EBA has determined through a binding Q&A (2019_4458) that Day One Profit deferral is not eligible to offset AVAs, even



where both address the same valuation uncertainty. This takes the deductions for valuation purposes beyond the level 1 expectation of 90% of valuation uncertainty.

As a result of this gold plating, EU institutions are required to capitalise the same valuation uncertainty twice in cases where both Day One Profit deferral and PruVal AVAs address the same source of uncertainty.

This is a clear and significant case of gold-plating, arising from supervisory interpretation rather than being explicitly required by the CRR, and results in conservatism significantly beyond that needed to satisfy the CRR's prudential objective. This further widens the PruVal related competitiveness gap with non-EU peers, particularly U.S. institutions, given that PruVal requirements do not apply locally, and that US GAAP does not require the deferral of Day One Profit.

Given the overlaps with other regulatory requirements, we propose the elimination of the PruVal framework, or at least being allowed to offset AVAs against the deferred Day One Profit, i.e. to disapply the EBA Q&A 2019_4458.

For our concerns on PruVal see also replies to questions 11, 21, 25, 49.

Q53. Do you have concrete examples of excessive government intervention in business decisions of banks? If so, please list them here.

No. We do not have anything to observe on this question.

Q54. How would you assess the level of enforcement of EU banking rules? How can this be improved?

We do not have anything to observe on this question.

Relevant authorities

Q55. How would you evaluate the various authorities responsible for banks in terms of:

		<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Some what disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>... effectiveness (the extent to which authorities identify weaknesses and address them)</u>	<u>Supervisory authority</u>				X		
	<u>Macroprudential authority</u>				X		
	<u>Resolution authority</u>			X			
<u>... risk-based (the extent to which authorities focus on the most material risks in a</u>	<u>Supervisory authority</u>					X	
	<u>Macroprudential</u>					X	



<u>proportional way)</u>	<u>authority</u>						
	<u>Resolution authority</u>				X		
<u>... efficiency (extent to which authorities are reacting timely and are outcome focused)</u>	<u>Supervisory authority</u>				X		
	<u>Macroprudential authority</u>				X		
	<u>Resolution authority</u>			X			
<u>Other</u>							

Please explain.

We appreciate the work by the various authorities responsible for overseeing EU financial services. At the same time, we see scope to improve their effectiveness and efficiency by focusing on the key risks and issues in each area. Currently, we have the feeling that authorities often try to pursue too many priorities, which in turn can also harm their effectiveness in identifying new risks.

This is linked to our particular concerns with risk-sensitivity. Our experience is that especially the supervisory and macroprudential authorities treat every issue as a major risk, regardless of materiality or size. Such a conservative approach results in excess regulatory requirements and constrains resources both within banks and in authorities, without material benefit for financial stability.

On resolution planning, and the question of applying risk-based views, the authorities (SRB) are in many cases bound by the level 1 text that is very comprehensive (e.g. regarding requirements on inclusion of bail-in clauses / waiver to this, or what is deemed as bail-in able liabilities that includes liabilities that in the view of the industry should clearly be excluded (as derivatives)). On the one hand, this binds the authorities from applying a risk based approach. On the other hand the resolution rules and the respective requirements are formulated quite broadly (e.g. via BRRD Annex C on the requirements for a resolvability-assessment) and hence translated into very broad requirements that overlap with prudential regulations in many instances (e.g. on reporting).

Q56. How would you rate the degree of accountability of various authorities responsible for banks?

	<u>Low</u>	<u>Somewh at low</u>	<u>Adequate</u>	<u>Somewh at high</u>	<u>High</u>	<u>No opinion</u>
<u>Supervisory authority</u>		X				
<u>Macroprudential authority</u>		X				
<u>Resolution authority</u>		X				



Please explain.

The accountability of supervisory and macroprudential authorities seems to be lop-sided. If something goes wrong, e.g. if a bank fails or a fraud scandal is revealed, authorities might be called out, at national or (never seen yet) EU level, to justify that failure, and there may be political repercussions, e.g. a reorganisation, change of management etc.

However, the same is not happening when authorities over-react, e.g. in the case of imposing excess requirements. There is very little questioning of “too much” regulation or “too strict” requirements, and the impact this may have on the economy.

The situation is different in other jurisdictions, for example the UK and U.S., where the public discourse by elected parliamentarians and governments aims to balance regulatory requirements (expected to be strict and avoid financial instability) and financing the economy.

To remedy that, the European Commission could consider updating the mandate of authorities such as the European Supervisory Authorities (EBA, ESMA, EIOPA) and the ECB SSM with a mandate to also consider the negative effects of regulation, for example with a secondary mandate for competitiveness.

Intellectual property rights

Q57. Has your institution granted loans where intellectual property (IP) rights (patents, trademarks, designs) were accepted as: stand-alone collateral or collateral only in addition to tangible assets? Please indicate the approximate share of total SME/scale-up lending for each category.

No

Q57.1. If intellectual property rights are not used as stand-alone collateral, please indicate the main reasons:

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagreed</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Regulatory capital treatment</u>	X					
<u>Valuation uncertainty</u>	X					
<u>Legal enforceability concerns</u>	X					
<u>Internal risk policies</u>			x			
<u>Lack of risk-mitigation instruments</u>	X					
<u>Other (please specify)</u>						

In general, there is limited use of intellectual property (IP) as collateral. While intellectual property is increasingly recognised as a critical asset for high-growth firms, it remains largely under-utilised as collateral by EU banks.



In specific scenarios, for instance in Leveraged Debt Capital Markets, IP rights can be accepted as collateral on a standalone basis, but IP rights can and do form part of broader collateral packages, where we consider the borrower’s total Enterprise Value and would have liens against their entire asset portfolio, IP included. In many cases (e.g. Tech, Media (e.g. movie rights, patents with known cashflows)) the IP would be the underlying asset behind the free cash flow that is used to collateralize the loan.

Our impression is that most financial institutions still view IP as too risky for stand-alone collateral due to valuation complexities and the lack of a liquid secondary market.

This is typically seen as either i) a collateral element in Venture Debt – which is typically undertaken by non-bank providers or ii) an enhancement (with limited technical scoring impact) on top of more traditional asset-based lending – where creditors would bundle the IP on top of more traditional collateral / tangible assets in higher risk lending scenarios.

Additionally, it should be noted that in many instances, finance providers will assess a high-growth tech firm on whether they own the IP that they operate/base their model upon – IP owners typically have a lower rate of default, as their ownership of IP provides a stronger argument for investment / less cost & contract variability.

IP pledging to support financing of FinTech / High Growth Tech segments would benefit from a higher level of normalised valuation metrics to support the creation of a secondary market – this would be a critical step in supporting high-growth financing in the EU.

Q58. Which of the following EU-level measures would materially increase your institution’s willingness to lend against intellectual property assets?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagreed</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Public guarantees covering part of IP-backed loans</u>		X				
<u>IP collateral protection insurance supported by public schemes</u>		X				
<u>EU-level standardised IP valuation methodologies</u>		X				
<u>Securitisation frameworks for IP- backed loan portfolios</u>		X				
<u>No measure would materially change our current approach</u>			X			
<u>Other (please specify)</u>						

Please explain:



See our response to question 57.

3.2. Prudential framework

Q59. 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.

There are several areas that create undue complexity in the prudential framework. These have a significant impact on EU bank competitiveness, the ability of EU banks to invest in their technology, service clients and lend to the economy. They also influence the ability of EU banks to operate or consolidate across the EU Single Market. As a result, these areas impact the EU economy.

We include key elements and proposals in our answers to the following questions, and see also our response to question 49, 51 and 68.

We also want to raise concerns with the overlapping prudential consolidation perimeters.

The parallel applications of CRR Art. 22 and the Investment Firms Regime (IFR) lead to overlapping prudential consolidation perimeters, an issue that has been raised in EBA Q&A 2021_6274 following the introduction of the IFR in 2021 and is under review. The issue is the consequence of a still missing alignment between CRR Art. 22 and IFR.

CRR Art. 22 sub-consolidation is triggered due to the presence of subsidiaries that qualify as financial institutions in third countries. In a situation where all relevant third country subsidiaries are in scope of the consolidation of a separately supervised investment firm group that forms part of a consolidated banking group, an additional consolidation based on CRR Art. 22 is an undue multiplication of sub-consolidations layers.

This additional sub-consolidation layer results in an unnecessary operational burden for banking groups with no added value for supervisory or financial stability purposes. This issue was also raised in the “AFME response to the EBA/ESMA Discussion Paper on Call for Advice on the investment firms prudential framework” of 3 September 2024 which included a proposal for amending CRR Art. 22 to clarify that such multiplication is not intended.

Whilst the EBA’s “Report on EU prudential consolidation framework under Article 18(19) of the CRR” of 9 January 2026 includes commentary on sub-consolidation under CRR Art. 22, it fails to propose an exemption to avoid the parallel application of consolidation requirements in the aforementioned situation.

To eliminate this overlapping excess requirement, the European Commission should make a legislative proposal to introduce an exemption for the instances described above.

Risk sensitivity

Q60. Does the prudential framework balance sufficiently risk sensitivity and complexity? If not, how should this disequilibrium be addressed?

No, it does not balance risk sensitivity and complexity. See our responses to the following questions about undue complexity and points on excess requirements.



Q61. Does the prudential framework strike the right balance between risk-weighted requirements and backstops (output floor, leverage ratio) or Pillar 2 requirements?

Yes

No X

No opinion

See our replies to the following questions and also question 51

Q1. Leverage ratio

Q62. 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 needs improvement. It shows several unintended incentives for bank behaviour and risk-taking, which have a negative impact on the EU economy and financial stability.

In particular, banks are expected to provide important economic functions, including protecting companies' and citizens' deposits (store of wealth) and providing liquidity to primary and secondary financial markets through trading.

Both of these functions are negatively impacted by the current calibration of the Leverage Ratio framework.

62.1. Cash levels and deposits volumes

System-wide cash levels are determined by Central Bank operations. When Central Banks expand operations, commercial bank reserves rise automatically, despite the reserves being risk-free and non-discretionary. This creates a Leverage Ratio drag, unrelated to risk-taking or balance sheet usage decisions.

To respond to the pressure on the Leverage Ratio, which can become a binding constrain, commercial banks are incentivised to lower other assets by shrinking economically valuable activities such as lending or refusing to accept additional deposits. One way of doing that is passing on costs to bank customers by lowering deposit rates or charging deposit fees.

This behaviour by banks, incentivised by the Leverage Ratio framework, has the unintended effect of tightening monetary policy transmission, when authorities would want liquidity flow. It also adds unnecessary costs to citizens and companies.

The European Commission should make a legislative proposal to introduce an exclusion of Central Bank reserves from the Leverage Ratio denominator. This change would ensure the Leverage Ratio framework is cycle-neutral and does not hinder the smooth functioning of the economy at the most critical times.

Such a change would also help banks manage their liquidity requirements and thus the liquidity they can offer to the market. That is because banks often hold a high volume of High Quality Liquid Assets (HQLR) in cash with Central Banks, in order to meet their liquidity



requirements (Liquidity Coverage Ratio – LCR, Net Stable Funding Ratio – NSFR). Exclusion of Central Bank reserves from the Leverage Ratio denominator would eliminate the pressure banks face on their Leverage Ratio from such holdings, without harming financial stability. That is because accepting deposits and passing that cash to Central Banks is only extending a bank's balance sheet but does not change the underlying economic leverage, i.e. risk, of the bank.

We recall that during the Covid-19 stress, temporary exclusions of Central Bank reserves from the Leverage Ratio introduced in the EU proved this could be done without undermining financial stability.

The exclusion of Central Bank reserves from the Leverage Ratio should be applied uniformly across the euro area banking system to maintain Leverage Ratio comparability and credibility. It could also be subject to caps (such as a fixed percentage of reserves) to prevent a full mechanical escape from the Leverage Ratio in the extreme tail-end scenario that reserves become extremely large.

For comparison, in the UK since 2016, the Financial Policy Committee (FPC) has excluded claims on Central Banks from the UK banks' leverage exposure measure on a permanent basis. This is primarily to prevent regulatory requirements from impeding the transmission of monetary policy, particularly during periods of high liquidity or Central Bank asset purchases.

62.2. Complexity reduction for MDA triggers

The Leverage Ratio is designed to be a backstop measure. Currently EU banks have the same MDA consequences when breaching Leverage Ratio as for the solvency ratios (i.e. Risk Weighted Asset requirements). This is unnecessarily complicating the operational landscape for banks.

In order to support EU bank competitiveness and simplify the framework, we recommend a removal of the Leverage Ratio-based MDA triggers.

Pillar 2 capital components

Q63. Do you think the Pillar 2 Requirement needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Requirement?

Yes, the Pillar 2 Requirement (P2R) framework needs improvement, in order to ensure it does not harm EU bank competitiveness and does not unnecessarily reduce banks' capacity to finance the economy.

We include below our thoughts, and see also our response to question 48 and 51.

The CRR has a minimum total capital requirement of 8% of Risk Weighted Assets. Pillar 2 Requirements for banks supervised by the ECB are set at the moment in a range of 1.25% to 4.5% for 2026, according to the latest P2R publication of the ECB. The middle quartiles range from 2.0% to 2.53%. Compared to the 8% legal minimum, this suggests the supervisor feels EU banks are under-capitalised by a quarter for their risks, which seems high. Given the persistence of high P2R settings over time, management of Pillar 2 risks or deficiencies does not seem to be targeted.



Our experience suggests that P2R setting by supervisory authorities remains complex and lacks transparency, despite various efforts over the last few years to increase such transparency. This was confirmed by the Expert Group assessment of the ECB's SREP in 2023

(https://www.bankingsupervision.europa.eu/ecb/pub/pdf/annex/ssm.pr230417_annex.en.pdf). While we note ECB's efforts to update SREP, there is little transparency about how that will happen, and in any event our fundamental concerns remain unaddressed.

The consequence of that complexity and lack of transparency is that EU banks do not see a way to reduce their P2R and therefore free up capital for lending. Instead, P2R has become a permanent, structural and almost stable feature of the EU prudential capital framework, regardless of other developments in the capital framework.

In particular, there are concerns that the inherent overlap between on the one hand P2R and on the other hand other elements in the framework are not addressed, leading to duplicative capitalisation. Other elements include cyclical buffers (SyRB, CCyB), G-SII or O-SII, but also Pillar 1 capital, which can also increase structurally, for example through the Basel III/CRR III Output Floor. All these elements and tools can result in additional capital requirements on EU banks horizontally (i.e. not on specific banks). There is no obvious interaction with the P2R and thus no reassurance that those horizontal risks will not be double-counted by the P2R.

This harms the competitiveness of EU banks, when compared with other jurisdictions that have a coherent micro- and macroprudential framework, and it also restricts funding capacity from EU banks.

To balance the need for supervisory discretion in imposing capital requirements, the European Commission should propose changes to the P2R framework in the CRD, requiring supervisors to quantify the various drivers of P2R in the supervisory dialogue with banks. This will allow banks to understand the relative importance of the various elements, and focus their actions and mitigations, with a potential path for reduction if risks are addressed.

We welcome the recommendations of the ECB High Level Task Force on simplification from December 2025, especially recommendation 8 to make the ECB Governing Council responsible for taking a holistic view of the overall level of capital demand within and across the Banking Union. We would welcome that role codified in the EU prudential framework. However, we note that without veto power or the power to actually set or lower requirements by the ECB Governing Council, this will only become another coordination/review role without impact on the actual aggregate level of capital in the system.

See also our response to question 51.

Q64. Do you think the Pillar 2 Guidance needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Guidance?

Yes, the Pillar 2 Guidance (P2G) also needs to be improved, in order to ensure it does not harm EU bank competitiveness and does not unnecessarily reduce banks' capacity to finance the economy.

P2G is formally non-binding but in practice it is binding. That is because supervisors have a wide range of discretion, including the ability to react to (potential) breaches in a stress



scenario, by requiring banks to reduce lending or excessively restrict capital distributions. As a result, EU banks hold higher management buffers above P2G, to avoid being subject to such restrictions. This means that the P2G is not operating as intended and produces the unintentional effect of reducing overall lending capacity.

An additional source of ambiguity and unintended consequences comes from differing approaches across EU Member States as to whether disclosure of a P2G breach is required under the EU Market Abuse Regulation (MAR) (e.g. Belgium, Italy, Austria). In an attempt to harmonise the landscape, ESMA introduced guidelines (5 January 2022 | ESMA70-159-4966), but they brought more, not less, ambiguity. That is because the guidelines require issuers to evaluate whether P2G is in line with market expectations.

It is worth looking at international practices, to understand whether a better framework is possible, without eliminating the P2G tool altogether.

In the UK, a firm which does not meet its PRA buffer (also known as Pillar 2B, the equivalent of P2G for EU banks) must prepare a capital restoration plan. If the PRA is satisfied with the rationale presented, the PRA “will be content for firms to rebuild their buffers over a reasonable period of time [...]” (PRA Policy Statement | PS2/20, January 2020). If the PRA is not satisfied with the capital restoration plan or with the firm’s reasons for using the buffer, it may consider using its powers under primary legislation (section 55M, Financial Services and Markets Act) to require the firm to raise sufficient capital to meet the buffer “within an appropriate timeframe”.

We would recommend that the European Commission introduces similar language and clarification in the CRD in relation to P2G breach. This would ensure that banks still have to comply with P2G and supervisors maintain this tool. At the same time, EU banks would have clarity as to the supervisory expectations and process.

Management buffer

Q65.1. What determines the level of the management buffer? How much does the management buffer weigh in the overall capital set aside by banks?

Q65.2. Do you think there are unwarranted pressures to set such a buffer, if yes do you have any suggestions that would help reduce undue external incentives to set management buffers?

We define the management buffer as the current CET1 ratio of the bank above the supervisory requirements, meaning the level of the CET 1 ratio at which the combined capital buffer requirement would be breached, or the level at which maximum distributable amounts are calculated (MDA level). This management buffer covers therefore the level of Pillar 2 guidance (P2G). As the P2G is not disclosed in public, it cannot be used as a reference.

The management buffer is the protection the bank uses to still be able to make discretionary capital distribution in case of capital depletion, before mandatory restrictions that come with breaching the MDA. As a general rule, banks tend to operate at a CET1 ratio well above the MDA level. That is to ensure banks remain attractive for investors, and thus able to raise capital when needed, but also to protect shareholder value.



The exact determination of the management buffer depends on several factors, discussed below. While some are out of the control of regulatory authorities, others are within their control and unintentionally put unwarranted pressures on banks to set a management buffer.

We include below suggestions to reduce such undue external incentives.

65.1. Investor / rating agency expectations

As an example, one of the three leading rating agencies, Moody's, typically considers 1.5% - 1% CET1 buffer as a minimum prudent buffer vs minimum regulatory requirements across all jurisdictions, where they consider likely regulatory action but also including various systemic buffers (See their Banks | Rating Methodology).

Other rating agencies informally communicate a higher 2% CET1 of buffer as their minimum.

This factor in the determination of the size of the management buffer is out of the control of regulatory authorities.

65.2. Automatism of MDA restrictions

If a bank breaches its MDA level, MDA restrictions kick in automatically, i.e. without any supervisory discretion or other supervisory action. These restrictions mean the MDA level is a hard lower bound for banks' buffer requirement, and forms the hard floor of the management buffer.

Such a level of automatism of MDA restrictions is not necessary to achieve the objective of banks maintaining their total capital requirement level, and can even be counter-productive in times of wider market stress, in that they create an incentive for banks to not lend to the economy, even if authorities may wish them to. This means that the automatism of MDA restrictions results in banks maintaining a higher-than-needed management buffer. This impact EU bank competitiveness, and more importantly prevents them from playing a constructive role at times of wider stress in the economy.

In a recent investor outreach by the Basel Committee of Banking Supervision (BCBS), market participants said that dividend or coupon (for AT1 instruments) suspension in ad hoc cases where this is a reasonable management action is accepted well by the market. At the same time, the automatism of the MDA framework was seen as unhelpful and would only act as a confidence-destroying measure, for little to no capital and liquidity conservation.

To ensure that banks still maintain their combined capital requirement, but also that they do not face unwarranted pressures to set a too high management buffer, the European Commission should propose to replace the MDA automatic restrictions with the requirement of the bank to agree with the supervisor a capital restoration plan, including the reduction of discretionary payments to capital instrument holders.

65.3. Supervisory requirements:

The SREP guidelines provide that risks to capital scores are influenced by the level of the CET 1 ratio as a higher ratio may cover more potential risks that the supervisor has identified (see e.g. Article 449 in the EBA SREP guidelines on supervisory considerations for assigning a score to capital adequacy). While this does not constitute an unwarranted pressure, it means EU banks have an incentive to increase their management buffers.



To ensure that banks still maintain their combined capital requirement, but also that they do not face unintentional incentives to establish high management buffers, the European Commission introduce specific changes in the level 1 legislation to limit such incentives by the SREP guidelines.

Non-performing loans

Q66. Are, in your view, the various elements of the framework aimed at reducing NPLs working as intended? If you answer 'No', please specify the potential areas of improvement

Yes

No X

No opinion

Please explain and, if deemed relevant, provide suggestions to improve the framework.

No, the framework aimed at reducing NPLs is not working as intended. In particular, the CRR provisions for CET1 deduction for NPLs (the so-called NPL Prudential Backstop, in CRR Art.47a-47c) are another example of a horizontal measure which was introduced at a time of elevated NPL levels in specific banking markets, and does not contribute to the broader financial stability. Instead, the measure adds complexity and administrative burden for EU banks. It also destroys value for clients, therefore it has a negative impact on the EU economy.

Below we explain why and we include suggestions for improvement.

66.1. Rationale for NPL backstop

EU authorities should have conducted a more careful assessment as to whether the build-up of NPLs was exclusively an issue of inadequate regulation, or whether other factors were at play, for example macroeconomic trends, recession etc.

The application of a horizontal NPL Prudential Backstop deduction for all EU banks' NPLs after a number of years (vintage) has resulted in disincentives for EU banks to work out loans with clients, when they are in difficulty. This may mean that banks have a capital incentive to quickly dispose of the exposure from their balance sheet, either by writing it off or by selling it to a non-bank entity. The client and the exposure then leave the regulated banking system.

It is unclear what the effect that approach has on the EU economy in terms of workout chances and practices and value destruction, given that such analysis would need a counterfactual of a regime without the NPL Prudential Backstop. Given the prominent role of EU banks in financing the economy, the long-term view they take in corporate lending and the suite of products they offer to clients, it is doubtful that any other purchaser of the NPL would be looking at the client with the same interest.

66.2. Increase cost of banking services and loans



The current regime creates an incentive for EU banks to seek resolution and workout of non-performing loans outside the banking sector. Besides implications in relation to how such non-performing clients might be treated by non-banking entities, this incentive also has an economic cost than if done by banks. That is because, while the originating bank only tries to limit the loss, the third party involved needs to cover costs and equally earn an adequate return from the loan. This is especially the case for more complex (multiple loans in a multi-national/subsidiary corporate Group) or lengthy workouts (due to insolvency proceedings and speed of judicial systems).

66.3. Technical deficiencies

For banks, there are three layers of adjustments relevant to cover credit losses in CET1 capital for NPLS:

- i) credit loss provisions per accounting rules;
- ii) for IRB-portfolios, the Expected Loss (EL) of defaulted exposures that exceeds the accounting rules (EL Shortfall) need to be deducted from CET1 capital on an aggregated level;
- iii) the transaction individual NPL backstop, where the required minimum loss coverage is offset by the available loss coverage through credit loss provisions per i), an allocated expected loss shortfall per ii), some more eligible capital deductions.

According to the new EBA guidelines for Loss Given Defaults (LGD) for defaulted exposures, the LGD which defines the expected loss under item ii) above has a vintage component, i.e. it increases with time in default. Similarly, the NPL backstop under item iii) above is also constructed with a vintage component, i.e. it increases with time. However, the two frameworks have a different vintage, which means they do not increase consistently, and there is no clear reason why that is the case.

This creates complexity in regulatory requirements, creating further incentives for EU banks to pass the workout of non-performing loans outside the banking sector, beyond what was intended by each specific measure.

66.4. Suggestions for improvement

Given that NPL amounts and ratios across EU banks have returned to the historic normal, we recommend the European Commission eliminates of the CRR Prudential Backstop as a hard measure for all NPLs.

The requirement to calculated NPL backstop on transaction level should be replaced with a requirement on the banking group. The transaction specific minimum loss coverage should be aggregated and compared to the total available loss coverage on the same level from credit loss provisions, EL Shortfall, and other eligible loss coverage. This would significantly simplify implementation and review.

Alternatively, the European Commission should propose reducing the three-layer logic described under 66.3 above, by restricting the NPL Prudential Backstop to exposures risk-weighted using the Standardised Approach. That is because, for banks and portfolios using internal models, the LGD in default and thus the EL Shortfall works identical to the NPL Prudential Backstop but is adequately calibrated to observed data history.



Alternatively, the NPL Prudential Backstop should feature a threshold of 5% at the bank level, i.e. when the bank's NPLs exceed 5%, then the requirement could apply. This will ensure that there is adequate built-in incentive to keep NPLs low, but also tolerance to a non-zero NPL to ensure banks continue to look at clients holistically and stand by them in difficulties.

Lastly, the Commission should require that the NPL Prudential Backstop is not complimented by dedicated supervisory guidance, such as the current ECB guide. That is because the additional supervisory guidance does not contribute to reducing NPLs, but adds to complexity and administrative burden.

Own funds instruments

Q67. Do you see any issues with the current rules on own funds instruments (CET1, AT1, Tier 2)?

Yes, there are several issues with the current rules on own funds instruments (CET1, AT1, Tier 2), which impact EU bank competitiveness and add unnecessary costs to the financing of the EU economy.

Issues around excess CET1 are explained in our responses to previous questions. Issues with AT1 are explained the responses to the following questions.

Q67.1. If you see issues with AT1 instruments, what measures would you recommend for improving the functioning of AT1 instruments?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagreed</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>Increasing conversion trigger</u>			X			
<u>Imposing conversion instead of write-down</u>					X	
<u>Facilitate coupon cancellation by making them more automatic and common</u>					X	
<u>Review minimum distributable amount (MDA) triggers</u>	X					
<u>Other (please specify)</u>	X					

Overall, AT1 instruments are an important element in the capital structure of banks and offer technical and structural benefits. In our response to this question, we explain these benefits and discuss the drawbacks of removing the ability of EU banks to hold AT1 instruments. We



then offer some suggestions for limited changes to improve the functioning of AT1 instruments.

67.1. Benefits of AT1 and Tier 2 for the prudential framework

Overall, AT1 instruments are an important element in the capital structure of banks and offer technical and structural benefits. We strongly support the ability to continue using them, as we see clear prudential benefits.

- They provide the ability to raise deeply subordinated and loss-absorbing capital from the fixed income markets.
- They are currency agnostic (subject to bank preference for currency of issuance).
- They are typically sold to institutional investors in EU and UK.
- The status and subordination, positioned between CET1 and T2 (and for T2 between AT1 and senior non-preferred (SNP)), give important structure and layering in resolution.
- AT1's non-cumulative coupons impose a more severe form of loss absorbance than omission of common dividends.
- AT1 serve as important vehicle to transmit concerns among fixed income investors to the management and serve as 'canary in the coal mine' which imposes the need for strengthening the capital structure, way before regulatory intervention takes place.
- AT1 are perpetual and do not need to be redeemed which leave the funds available to the institution in all circumstances.

T2 instruments serve an auxiliary purpose which supplements AT1:

- They give additional granularity to the layering of the capital stack, specifically for resolution purposes.
- They are relatively long dated and subject to regulatory approval for any redemption or repurchase.

AT1 instruments also have benefits for banks' prudent risk management. That is because AT1 'speaks' and bank management tends to listen.

- AT1 and T2 together form an important layer in the capital structure, sourced from the fixed-income markets. They shield the upper layers of the capital structure, including MREL and deposits – not only in resolution and through the order of bail-in but also in being the first instruments to show (and thus "absorb") volatility based on sectorial or institutionally-specific market concerns.
- AT1 serve as important vehicle to transmit concerns among fixed income investors to the management and serve as 'canary in the coal mine' which imposes the need for strengthening the capital structure, way before regulatory intervention takes place.
- AT1 offer higher yield due to their enhanced risk profile but that yield also makes many investors interested (and able) to invest in the effort to analyze bank's balance sheets and strategies more thoroughly. This way the market performs and important function of 'auxiliary supervision'.
- AT1 are also high-profile mandates which banks can use to reward good coverage (that is sharing of market analysis, technical advice and best execution across the entire capital stack).



AT1 and T2 also represent an appropriate distribution of risk. AT1 and T2 are typically held by institutional investors. The ability and preparedness to manage and absorb price volatility and losses is more appropriately placed with such investors rather than retail.

67.2. Benefits of AT1 and Tier 2 for the resolution framework

Capital instrument layers are an important feature of resolution as well. Having AT1 and T2 before other MREL in a bail-in scenario de-risks senior non-preferred (SNP) instruments, as well as the more senior capital stack. AT1 and T2 absorb some of the price volatility and as such allow the more substantial positions in SNP and senior preferred (SP) to be more insulated and benefit from more stable pricing.

67.3. Potential removal of AT1 and T2 from the Own Funds stack

The perceived complexity of the capital structure is not a result of AT1 and T2. It is the structure of the CET1 buffers (described in the questions above in this section) and the calibration of capital requirements (described in other sections in this consultation) that leads to complexity in capital management.

Removing the ability of EU banks to use AT1 instruments, as suggested by some stakeholders, would not offer any simplification of the EU framework, it would not contribute to financial stability and it would not support EU bank competitiveness.

AT1s are meant to begin to become subject to going-concern loss-absorbance upon breach of statutory buffers (excluding Pillar 2). They prevent accessing the CET1 buffers, so they add to the resilience of EU banks.

Removing AT1 instruments would also be costly for EU banks, without any corresponding benefit. EU banks would have to replace 3.5% or more of their Own Funds stack. Replacing AT1 and T2 with CET1 would require a long phase-out period, while there would be a risk that the market would impose an expectation from EU banks to comply sooner, similar to capital build-up in 2008-2009.

EU banks choosing not to issue new share capital or retain profits (both with potentially negative implications for their competitiveness) would have the option to increase their ratio by reducing RWA, i.e. lending. This would have a negative impact on the EU economy.

Finally, removing AT1 and T2 would lead to replacement with CET1, i.e. common shares. This would result in a transfer of risk from institutional investors to citizens, as common shares are held directly by retail investors or indirectly through broadly distributed investment products, like mutual funds. This would also contradict the aims of the EU's Savings and Investments Union (SIU) agenda, which aims to make capital market participation of retail investors more attractive, not less.

Such a removal would also put EU banks at a disadvantage versus non-EU peers, who would not have a similar constrain.

67.4. Recommendations for improvements



Rather than removing AT1, the design of the CET1 buffers and the system of MDA restrictions should be re-considered, as per our suggestions in previous questions above.

When banks face restrictions in capital distribution via CET1 dividend and AT1 coupon ban, these typically apply on a cumulative basis. However, AT1 coupons are non-cumulative and no longer recoverable once cancelled, while CET1 dividends in future years may draw on accumulated retained earnings. Investors in these instruments report that they feel this puts into question the capital hierarchy, as investors in AT1 are treated worse, not better, than investors in CET1, while AT1 is actually senior to CET1. This treatment puts AT1 investors at a disadvantage. To address that, the European Commission should introduce changes, so that dividend stoppers codify AT1 hierarchy as senior to CET1.

Output floor

Q68. What are your views on the following considerations regarding the EU implementation of the output floor?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>The current rules introduced by CRR3 achieve the right balance - no need to revise the output floor framework</u>					X	
<u>Some or all of the transitional derogations related to the output floor should be prolonged</u>	X					
<u>Some or all of the transitional derogations related to the output floor should be made permanent</u>	X					
<u>The output floor should only apply at consolidated level</u>	X					
<u>The calibration of the output floor (72.5%) should be increased</u>					X	
<u>The calibration of the output floor (72.5%) should be made more risk-sensitive</u>	X					



<u>The calibration of the output floor (72.5%) should be reduced</u>	X					
<u>Other</u>						

Please explain

The EU implementation of the Output Floor, and in particular the fact that the transitional derogations (referred to as “arrangements” in CRR) expire, creates significant challenges for EU bank competitiveness. If not changed, the Output Floor would have an impact on the capacity of EU banks to finance the European economy. For that reason, targeted adjustments are needed.

We include below a detailed explanation of why the calibration of the Output Floor is problematic, the potential impact, and our recommendations on what would need to change.

68.1. General comments on the calibration of the Output Floor

The concept of the Output Floor and its calibration should have been revised at the level of the Final Basel III level. If a more fundamental review is not possible, it is appropriate that at least its application through CRR is subject to transitional arrangements, which should be made permanent. To explain why, it is necessary to look at the origins of the measure and parallel regulatory activity.

The Output Floor was conceived as a measure to address excess divergence of banks’ internal models for risk weighting in both Credit and Market Risk, identified through analytical work of the Basel Committee, with the contribution of experts by EU bodies and supervisory authorities of EU Member States. This work was summarised in two reports in 2013 (BCBS RCAP Analysis of risk-weighted assets for credit risk in the banking book, July 2013; and BCBS RCAP Analysis of risk weighted assets for market risk January/February 2013).

While both reports found variation in bank’s risk weighting, not all divergence was attributed to diversity in practices by banks and supervisors. Especially on credit risk, the report attributed divergence also to risk composition and risk appetite. Similar analysis was undertaken at EU and national levels.

The Final Basel III, published in December 2017 and FRTB was finally published in 2019, years after the 2013 reports. Besides a revision of the calibration of the model and standardised approaches to risk weighting, it also included the Output Floor, “to reduce excessive variability of risk-weighted assets and to enhance the comparability of risk weighted capital ratios”.

In parallel, EU supervisory and regulatory authorities undertook exercises to improve the quality of risk weighting and consistency of RWA: The EBA undertook a programme to “repair” internal models (IRB Roadmap) while the ECB undertook a Targeted Review of Internal Models (TRIM). The ECB exercise was formally concluded with a report in 2021 (ECB, Targeted Review of Internal Models Project report, April 2021), which noted that “Overall, the outcomes of the TRIM investigations confirmed that the internal models of SIs



can continue to be used for the calculation of own funds requirements. However, for a certain number of models, limitations were needed to ensure a level of own funds that was appropriate to cover the underlying risk.”

The EBA has also been running annual benchmarking of EU banks’ internal models for Credit and Market risk since at least 2017. While the exercise is subject to data quality limitations, the findings annually point to a limited, and diminishing, undue variability of risk-weighting.

This shows that the regulatory community had concerns about risk weighting practices, and acted both at Basel Committee level, as well as at jurisdiction level, at least in the EU. Given that the Final Basel III standard did not condition its provisions on national activity, it is questionable why the calibration of the Output Floor in the 2017 Final Basel III standard is the appropriate one for EU transposition in CRR so many years after its finalisation, as if no supervisory activity took place. In addition, internal models are themselves restricted in the Final Basel III standard. For example, on Credit Risk, they feature floors for Probability of Default (PD) and Loss Given Default (LGD).

If after all this work and restrictions, the RWA outcome from models is still regularly and materially below the level of the Output Floor, this is an indication the floor is too high.

The European Commission, in its proposal for CRR III, included transitional arrangement for the Output Floor, lowering the risk weighting or capital impact for key asset classes, where the impact was deemed to be unintentional, in particular for bank exposures to corporates without external credit rating (unrated), mortgages and derivatives.

The co-legislators expanded the transitional arrangements with other asset classes during the negotiation, but all expire in 2030-2033.

68.2. Impact of the expiry of transitional arrangements on prudential capital and corporate lending

Despite the existence of the transitional arrangements, in July 2025 EU banks were required to publicly disclose the data for their fully-loaded Standardised Approach, i.e. assuming 2025 balance sheet but without the transitional arrangements.

For many EU banks, if nothing changes in their banking book, CET1 ratios would drop materially. If banks want to avoid that CET1 ratios decrease, and if they choose not to issue new common shares or retain profits, they would reduce their RWA, which means lending reduction. Such a move would be the opposite of what would be needed if banks wanted to achieve larger scale, either through organic or inorganic growth, and lend more to the economy, as is needed for the European economy transition.

The current calibration of the Risk Weight in the Standardised Approach for Credit Risk leads to a penalising capital treatment for loans to high quality corporates, most of whom do not have external rating. In other words, the regulation gives a capital incentive to banks to lend less to high quality corporates, and more to low quality corporates.

While the transitional arrangements have been in place already for a number of years, there is no evidence of increased risks, and no such assessment or warning by EU banks supervisors. It can therefore be derived that the application of the transitional arrangements does not undermine financial stability.



68.3. The issue of unrated corporates

We recognised the intent behind the CRR III transitional arrangement (65% RW for investment-grade unrated corporates) expiring may not have been to lend less to high quality corporates, but to incentivise the use of external credit ratings. We have sought to find solutions that mitigate the punitive RWA increase if the transitional arrangement is let to expire. We assessed various approaches, however the results do not show a sustainable solution.

We therefore ask for the transitional arrangements for unrated corporates to be made permanent, since it does not undermine financial stability but it will ensure that the majority of EU corporates, especially those of high quality, can continue to receive finance by EU banks and will not face penalising capital requirements.

68.3.1. Pooled ratings

We considered using proxies for external credit rating for the RW in the SA CR, for example through pooling of internal bank ratings of multiple entities for the same corporate. The main problem with this approach is that for many of our corporate clients we may be the only EU bank that has business with them. Therefore, we would not be able to pool our internal rating with another bank and thus we would not be able to use this “pooled” rating. Instead, the SA CR 100% RW would apply, leading to the same impact as per the Final Basel III SA CR. This approach would also raise serious competition law concerns as banks competing for the same business would be expected to share their assessment of the company’s credit-worthiness.

68.3.2. Extend Parent Rating to Unrated Subsidiaries

This solution proposes extending the external rating of a parent company to its unrated, integrated subsidiaries, particularly when there is majority ownership and coherent group brand recognition, implying a guarantee. Unfortunately, it concerns a relatively small number of corporates and, in isolation, still results in a substantial RWA increase when the transitional arrangement expires.

68.3.3. Central Bank ratings

We looked at the use of Central Bank ratings to be considered as external ratings, on the basis of an existing system by the Banque de France. This solution has two key drawbacks: Speed to establish and scope. On the one hand, it is doubtful that such a comprehensive system can be established in a meaningful time, given it is not even at concept phase.

Even if it was established, it would only cover at best all EU corporates. This would mean that bank exposures to non-EU corporates would still face the punitive 100% RW. While this may seem at first sight irrelevant for EU policy-making, we recall that non-EU corporates seek financing from EU banks and they are often clients, or suppliers, to EU corporates. Therefore, more expensive financing for them would directly impact the cost base of EU corporates.



68.3.4. Encourage external ratings

We have tried to encourage our unrated corporate clients to obtain an external credit rating. We note here that the three leading external credit rating agencies are U.S. companies. It remains to be seen whether European rating agencies can provide an alternative and whether they can build up the relevant scale, quality and capacity.

It is also questionable why European corporates need to face additional costs to obtain external ratings, given that there is no evident concern for financial stability with the current setup.

68.4. SA-CCR

The transitional arrangement for SA-CCR (alpha 1 instead of 1.4) should also be made permanent. The alpha factor in SA-CCR has been adjusted by both the U.S. and the UK through its implementation of the Final Basel III (Basel 3.1), suggesting wider concerns about the calibration of the Basel SA-CCR rule. These adjustments are on the back of extensive evidence that the SA-CCR with a calibration of alpha 1.4 exaggerated the derivative exposure value (see for example ISDA paper: <https://www.isda.org/a/hTiDE/isda-sa-ccbrieffing-paper-final1.pdf>).

There is no evidence that the lower alpha from the transitional arrangement has created any negative effects on financial stability either in the EU or in the U.S. and UK. In fact, the lower alpha allows not only for a more appropriate exposure value from derivatives, but it also permits EU banks to provide these products to EU clients at the appropriate cost, and thus help with their risk hedging needs, for instance for commodities pricing, foreign exchange risks or interest rate fluctuations.

An expiry of the SA-CCR transitional in 2030 would result in EU banks having higher capital requirements for derivative products than other jurisdictions, thus placing EU banks at a competitive disadvantage.

68.5. Mortgages

With the same logic, the transitional arrangement for mortgages should also be made permanent. There is no evidence that the transitional arrangement has led to excess risks to EU banks from mortgage exposures, and there are always other measures available to supervisors to address mortgage concerns, such as the macroprudential Systemic Risk Buffer (SyRB), which Germany activated in March 2022 at 2% CET1, lowering to 1% as of May 2025.

Idiosyncratic risks in the mortgage market can therefore be addressed better with these instruments, while keeping a risk-sensitive general risk weight of mortgages. This is to recognise inherent characteristics in EU mortgages that make them a safer asset than the Final Basel III implies, for example the dual recourse banks have to the collateral and the borrower. This results in historically low mortgage defaults across the EU.



We therefore ask the European Commission to make all the transitional arrangements permanent.

68.6. U.S. Fed Basel III reproposal

On 19 March 2026 the U.S. Federal Reserve Board issued a re-proposal for the implementation of the Final Basel III reform in the U.S. In that proposal, among other things, the Fed proposes to also distinguish between the RW of an investment grade corporate (65% RW) and a sub-investment grade (100%), regardless of external rating. Given that the majority of EU corporates is unrated, this means that, if the transitional arrangement were to expire, EU banks would need to apply 100% RW for loans to most corporates. This therefore supports the EU taking the same approach and making the transitional permanent.

In the same vein, the U.S. Fed has also proposed small adjustments to the treatment of mortgages and SA-CCR, to tailor to the specificities of the U.S. market. The European Commission should do the same and make the transitionals permanent, because they are adapting the regulatory treatment of the EU specificities, and financial stability is still ensured.

68.7. Securitisation

While the European Commission proposal to revise the securitisation framework represents a step into the right direction from the current regulation, it is crucial to ensure capital requirements for securitization positions better reflect the actual underlying risks without excessive level of conservatism, as articulated in a previous response. Therefore, among others, it is also important that the revised calibration of the capital non-neutrality parameter (“p factor”) under the Standardised Approach (ultimately determining prudential requirements for securitisation exposures) does not result in an outcome that is more conservative than the current CRR III/Basel III Output Floor transitional arrangement (CRR 465(13)).

3.3. Macroprudential framework

Q69. In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
<u>The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks</u>	X					



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

Please explain.

The current framework of macroprudential buffers is fragmented and ineffective. There are several areas that create inefficiencies and undue complexity.

While the individual buffers may seem on paper to have a valid reason to exist as tools for the macroprudential authority, their use does not contribute to financial stability and they end up being additive or overlapping capital requirements. This approach impacts EU bank competitiveness and reduces lending to the economy.

See our response to questions 49, 51 and 72 in particular for the Other Systemically Important Institution (O-SII) buffer. See also our response to question 81 on improvements for the governance in the overall macroprudential framework.

In the following questions we will expand on the other two capital buffers available to national authorities, the Countercyclical and the Systemic Risk buffer Buffers (CCyB, SyRB).



Q70. How can the macroprudential buffer framework be streamlined, while at the same time preserving resilience and the ability of responsible authorities to address systemic risks? Which buffers could be merged and what should be their role?

The current macroprudential framework is overly complex with a multitude of buffers, the involvement of various national macroprudential authorities and a very complex system of national recognition decisions. There is scope for streamlining, without sacrificing the ability of responsible authorities to address systemic risks. This will help the competitiveness of EU banks and will free up lending capacity, without harming financial stability.

This applies in particular to the Systemic Risk Buffer (SyRB) which is an EU specific additional buffer beyond Basel standards, representing an example of gold-plating. The increasing use of SyRB by national authorities leads to a high complexity for banks to implement the buffers and maintain them, without adding to financial stability.

The following table from the ESRB lists currently applicable systemic risk buffers and illustrates the wide and diverse application by national authorities.

Country	SyRB	Exposures	Type of SyRB
Austria	0.5-1	All exposures (Bank specific)	general
Austria	1	Exposures to real estate companies located in Austria	sectoral
Belgium	6	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Belgium	sectoral
Bulgaria	3	Domestic exposures	general
Croatia	1.5	All exposures	general
Czech Republic	0.5	Domestic exposures	general
Denmark	7	Exposures to real estate companies located in Denmark (Exemption for exposures secured by real estate in the 0 to 15 percent loan-to-value range)	sectoral
Faroe Islands	2	Domestic (Faroe Islands - Denmark)	general
Finland	1	All exposures	general
Germany	1	Exposures secured by residential property to legal and natural persons	sectoral
Hungary	0-2	Exposures to commercial real estate	general
Iceland	2	Domestic exposures	general
Italy	1	Domestic credit and counterparty credit risks exposures	sectoral
Liechtenstein	1	All retail exposures to natural persons secured by residential property and exposures to legal persons secured by commercial immovable property	sectoral
Lithuania	2	Retail exposures secured by residential property	sectoral
Malta	1.5	All retail exposures to natural persons secured by residential property	sectoral
Norway	4.5	Domestic exposures	general



Portugal	4	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal	sectoral
Romania	0-2	All exposures (Bank specific)	general
Slovenia	0.5	Retail exposures secured by residential property and other exposures to natural persons	sectoral
Sweden	3	All exposures (Bank specific)	general

In addition to the current complexity, banks have to monitor all macroprudential authorities in the EU and project these national buffers as part of their capital planning. Uncertainty about future additional applications of such national buffers requires banks to maintain a higher management buffer.

Applying the SyRB sometimes as a general buffer and sometimes as sectoral buffer, at different sectors, adds to the complexity in banks' assessment of their capital requirements and implementation. It is questionable whether the identification and calibration of a capital buffer at such levels of specificity is possible, given econometric challenges and broader geopolitical and other developments. It is also unclear why authorities cannot achieve the same results through other macroprudential buffers or tools, or even microprudential tools. It is therefore not evident that the SyRB adds value for financial stability, while it is clear it adds complexity and potentially duplicates capital requirements.

To streamline the EU buffer framework, the SyRB should be removed entirely or, alternatively, it should be merged with the Countercyclical Capital Buffer (CCyB).

See also our response to questions 49, 51, 72 and 81 for other concerns and suggestions.

Q71 What are your views regarding the need for a buffer for tackling sectoral risks? Is there a need to maintain a sectoral buffer specifically for real-estate exposures to ensure a more targeted application?

Yes

No X

No opinion.

Please explain.

No, there is no need for a buffer for tackling sectoral risks, nor is there a need to maintain a sectoral buffer specifically for real-estate exposures. See our response to question 70 on the SyRB, and our responses to questions 49, 51, 72 and 81.

Q72. What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks?

	<u>Fully agree</u>	<u>Somewhat</u>	<u>Neutral</u>	<u>Somewhat</u>	<u>Fully disagree</u>	<u>No opinion</u>
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		<u>agree</u>		<u>disagree</u>	<u>e</u>	
<u>The methodology for the identification of O-SIIs should be revised to ensure an enhanced cross-country consistency while considering national specificities.</u>					X	
<u>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</u>	X					
<u>Maintain the current state of play regarding the O-SII buffer calibration while enhancing transparency and accountability (including through public disclosure) regarding the calibration methodology and its application.</u>					X	
<u>Other (please specify)</u>						

Please explain.

The identification of O-SIIs and the calibration of the buffer for systemically important banks require improvement to support intra-EU bank competitiveness and a Single Market for banking. While in theory the O-SII framework is harmonised at EU level, in reality the discretion afforded to national authorities means that banks are treated differently depending on their location and not their systemic risk.

Specifically, Germany's O-SII buffer framework is more conservatively calibrated than the one of other Member States, and thus creates a competitive disadvantage for German banks. The unlevel playing field contributes to the fragmentation of the Single Market for banking. Germany's current approach results in significantly higher O-SII buffer requirements compared to other EU Member States and banks.

Germany unilaterally employs a threshold of 100 points for O-SII designation, much lower than the EBA's recommended range of 275-425 points for automatic designation. This low threshold, which does not seem to be based on a specific market concentration or other



concern, inflates the number of designated O-SIIs in Germany and means German banks have to hold capital buffers that are higher and inconsistent with similar banks in other EU Member States, when comparing size in the EU and their market share in the home market. German O-SII buffers often stand 50% above even the most conservative EBA-proposed floor.

The European Commission can rectify this situation through a legislative proposal for a more harmonised framework. Specifically, the European Commission should mandate a harmonised Equal-Expected-Impact (EEI) methodology with a reference bank score of 200 across the EU, rather than Germany's outlier 100-point system. This can be achieved by reducing the maximum O-SII in CRD or leveraging ECB "push-down" powers. This adjustment would still ensure robust, conservative O-SII buffers while creating the level playing field across the EU.

There could also be a requirement for national macroprudential authorities to align the resulting O-SII buffer with the Global Systemically Important Institution (G-SII) buffer calibration, which limits the O-SII buffer excess over the G-SII buffer.

Q73. Is the current share of releasable buffers (countercyclical buffer and the systemic risk buffer) in the total combined buffer requirement adequate, so as to ensure that sufficient resources can be released in a downturn to support lending to the economy?

Yes

No X

No opinion

Please explain.

No, the share of releasable buffers in the total combined buffer requirement is not adequate. This means that capital buffers do not operate as intended, because they do not create more lending capacity for banks in an economic downgrade. Therefore, the current setup can harm the EU economy especially at times of stress.

See our response to questions 49, 51, 72 and 81 about the concerns with the current macroprudential buffers.

Q74.1. How could the risk-weight toolkit under Article 458 CRR be fine-tuned?

Q74.2. Would its role change in the context of a streamlined buffer framework?

The toolkit under CRR Art.458 requires changes, in order to eliminate unintended consequences that harm EU bank competitiveness, lending to the economy and potentially creating additional risks to financial stability.

The measures under CRR Art.458, which allows altering risk weights of transactions, can change capital requirements for specific exposures. The key problem with risk weight floors is their distortion of the relative riskiness of transactions. Losing the risk differentiation of



best clients, and thus overcapitalising for banks' exposure to them, leads banks having the incentive to finance higher-risk clients instead, where the risk-return relation is more beneficial. In other words, regulation incentivises banks to make their balance sheets riskier than they would have been without the extra measure. This cannot be an intentional consequence of the framework.

CRR Art.458 has been written as a measure of last resort. However, the high number of cases in which Art.458 is called for application suggests other options have been not used or the harm to the financial system has been overestimated. The frequent use of this measure increases the risks to financial stability inherent in its calibration.

Instead, concerns about cyclical risks can be addressed via the basic risk-weighting framework. For banks using internal models to risk-weight their exposures (Internal Ratings-Based Approach), supervisors can address cyclical risks by frequently revising banks' approaches. The Standardised Approach (SA) for risk-weighting is also conservative by definition and does not require an add-on. In addition, the Basel III/CRR III Output Floor means that risk weights applied by all banks will be limited by the SA, adding further conservatism and capital requirement to the system.

To limit the negative consequences of the measures under CRR Art.458, the European Commission should make changes to the provisions, in order to require Member States to sufficiently demonstrate they have already used other measures to address the risks to the financial system. Another option would be to deleting Art. 458 altogether, which would simplify the regulatory framework without harming financial stability, given all the other tools available to authorities.

3.4. Crisis management framework

Q75. Are there areas that create undue complexity in the crisis management framework and if yes, how could this undue complexity be reduced without undermining financial stability?

See our response to the second question 76.

Q76. Are the current rules related to the determination of MREL targets effective, efficient, clear and predictable?

See our response to the second question 76.

Q76. How can the determination of MREL targets be rendered less complex, while preserving the resilience of the system?

	<u>Fully agree</u>	<u>Some what agree</u>	<u>Neutral</u>	<u>Some what disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>



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

Please explain.

The determination of MREL targets can be made less complex through the reduction of MREL/ TLAC metrics banks must adhere to, in order to support EU bank competitiveness.

Specifically, we propose the removal of Maximum Distributable Amount related to MREL (M-MDA) and sM-MDA triggers. Breaches of the overall MREL calibration levels should be treated in a similar way as the breach of P2G, namely that banks be asked for an MREL restoration plan. The Single Resolution Board (SRB) or the relevant Resolution Authority should then have the discretion, depending on the circumstances, to allow the bank to restore MREL levels over a reasonable timeframe or require the firm to raise eligible liabilities within a specified deadline. While a 9-month grace period is potentially granted within the M-MDA framework, much like prudential MDA, the impact of the confidence-destructive signal to investors would far outweigh any liquidity, MREL or capital restorative benefits of coupon or dividend cancellations. Banks would have fewer binding constraints to manage and the framework would be less complex for investors to understand.

Prior permission regime

Q78. Do you consider that the prior permission regimes for the redemption and replacement of MREL resources should be simplified?

Yes X

No opinion

Please explain.



Yes, the prior permission regimes for the redemption and replacement of MREL resources should be simplified, in order to support EU bank competitiveness.

Capital redemption approval by the supervisory authority can occur in less than 2 weeks for simple structures. Approval for an instrument which is inherently less complex and short-dated (senior debt) by the supervisory authority should occur in the same timeframe.

We note the Single Resolution Board (SRB) has proposed a shortening of the approval timeframes from 4 months to effectively 3 months, which still appears too long, especially in volatile market conditions. Ad hoc permissions are in theory a solution, but it is challenging for banks to obtain them, due to difficulties in communication and coordination between the SRB and ECB.

Use of safety nets

Q79. What is your view on the rules allowing to use resolution funds to support a resolution action, in particular the minimum bail-in of 8% of the total liabilities of own funds of the distressed bank? Are they proportionate and give sufficient flexibility to handle bank failures adequately? Do they create level playing field issues vis-à-vis other jurisdictions?

No comment.

3.5. Interactions across parts of the framework

Q80. 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?

	<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Somewhat disagreed</u>	<u>Fully disagreed</u>	<u>No opinion</u>
<u>Overlapping requirements addressing the same or similar risks (P2R/P2G/certain macroprudential buffers);</u>	X					
<u>Limited buffer usability resulting from double counting CET1 both in macroprudential buffers and in other minimum requirements (leverage ratio, MREL)</u>	X					



<u>Multiplicity of MDA restrictions with varying triggers stemming from prudential and resolution frameworks</u>	X					
<u>Cross-framework governance and coordination issues and data sharing.</u>				X		
<u>Other (please specify)</u>						

Please explain.

See answers to previous questions.

Q81. How could the governance in the macroprudential framework be improved to achieve a more consistent application of macroprudential tools across the EU?

A more consistent application of macroprudential tools across the EU would help EU bank competitiveness.

For improvements in the governance of specific macroprudential tools, see our response to questions 49, 51 and 72.

Overall, we support the recommendation by the ECB High Level Task Force in December 2025 to make the ECB Governing Council responsible for taking a holistic view of the overall level of capital demand within and across the Banking Union. We would recommend that this role should be coupled with binding correction powers to eliminate duplicative buffers/requirements, otherwise it will be a superfluous addition of another bureaucratic check in the system. Currently the system does not need additional checks and balances.

Q82. What ways could be envisaged to reduce undue complexity in the interactions across the three parts of the framework, including in relation to the capital stack and governance arrangements between the authorities in charge of the prudential, macroprudential and crisis management rules, without undermining financial stability?

See our response to question 81.

Q83. How could the governance arrangements across the three parts of the frameworks be improved, having in mind the objective of ensuring the adequacy of requirements applying to individual banks and avoiding overlaps?

See our response to question 81.

3.6. Proportionality



Q86. Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks?

<u>Fully agree</u>	<u>Somewhat agree</u>	<u>Neutral</u>	<u>Some what disagree</u>	<u>Fully disagree</u>	<u>No opinion</u>
					X

Not relevant for DB, no view.

Q85. 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.

No comments.

Q86. 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?

No opinion

Not relevant for DB, no view.

Q87. 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?

No comments.

3.7. Corporate governance

Q88. Taking into account the need to put in place sound remuneration policies that do not provide incentives for excessive risk-taking behaviour, but also the need to remain competitive and reduce financial and administrative burden, how would you evaluate the following provisions on the pay of directors and other material risk takers?

	<u>Very positive</u>	<u>Somewhat positive</u>	<u>Neutral</u>	<u>Somewhat negative</u>	<u>Very negative</u>	<u>Don't know/ No opinion</u>



<u>Requirement that the variable component shall not exceed 100 % of the fixed component of the total remuneration for each individual ('bonus cap')</u>					X	
<u>Requirement that the variable remuneration shall consist of different types of instruments ('balancing requirement')</u>				X		
<u>Requirement that a significant part of the remuneration is deferred and vest on a pro-rata basis ('deferral')</u>				X		
<u>Requirement that up to 100 % of the total variable remuneration shall be subject to malus or clawback arrangements ('malus/clawback')</u>				X		
<u>Other</u>						

Please explain.

See also our answer to question 24 on the limitation of the relationship between variable and fixed remuneration.

Requiring a portion of variable remuneration to be awarded in instruments such as company shares helps align incentives with long term value creation to a limited extent only, because share price development is subject to many external factors which do not necessarily reflect sustainable risk-taking behaviour of employees.

Where instruments are awarded as part of variable remuneration in non-EU regimes, we see key differences when compared to the EU framework. These differences make those regimes and banks operating in them more competitive, without sacrificing risk behaviour incentives.

Typically, non-EU regimes where instruments are awarded as part of variable remuneration typically do not have a minimum requirement of 50% of variable compensation to be delivered in those instruments. They also normally do not require that minimum 50% to be applied uniformly to upfront and deferred variable compensation. Dividends on restricted equity during the deferral period are usually not prohibited. Where part of variable remuneration is awarded in restricted cash, there is no prohibition of paying interests on restricted cash.

While deferral of variable remuneration is practice in non-EU jurisdictions, the EU's mandatory 60% deferral for variable remuneration above EUR 500,000 or the mandatory



40% deferral for Material Risk Takers (MRT) at lower levels creates a competitiveness disadvantage for EU banks.

In addition, clawback arrangements, even though required by the EU regulation, are likely not enforceable by employment law in many jurisdictions.

Q89. Where do you see potential for simplification of the EU rules on internal governance and remuneration policies of financial institutions without undermining the institutions' sound and prudent management?

See also our answer to question 24 on the limitation of the relationship between variable and fixed remuneration.

There are several areas where EU rules on internal governance and remuneration policies can be simplified or improved to restore EU bank competitiveness, without undermining sound and prudent management:

- Remove the binding fixed to variable remuneration ratio.
- Adopt a more principles-based approach to the currently prescriptive requirements on minimum deferral and the proportion of variable remuneration awarded in instruments and removing the retention period for equity-based variable compensation.
- Increase the current EUR 50,000 variable compensation threshold for individual derogations.
- Remove the requirement for “small institutions” (as per CRR Article 4(1)(145)), to identify MRTs, as this obligation does not meaningfully contribute to the prevention of excessive risk-taking. This requirement currently results in unnecessary administrative burden without corresponding prudential benefit, because, under the proportionality principle, the enhanced MRT remuneration framework is already disapplied at institutional level.
- Simplify the criteria for MRT identification, similar to the UK model, under which remuneration-based criteria are limited to the top 0.3% of highest-paid staff (e.g. remove rigid thresholds such as the EUR 750,000 and the requirement related to remuneration equal to or exceed the average of the Management Board, Supervisory Board and Senior Management.
- For institutions consolidated within a group, limit reporting obligations (e.g. EBA Benchmarking, Gender Pay Gap and Higher Ratio reporting, EBA High Earner reporting, and EBA benchmarking on diversity of members of the Management and Supervisory Body) to the level of the highest consolidated entity.
- Remove reporting obligations (e.g. EBA Benchmarking, Gender Pay Gap and Higher Ratio, High Earner, and diversity reporting) for small and non-interconnected institutions, regardless of whether they are part of a consolidated group, to reduce administrative burden.
- Align local requirements that result from the local transpositions of EU rules to reduce regulatory fragmentation. For instance, requirements for variable compensation caps, deferrals and variable compensation instruments should be consistent across the EU.



- Reduce deferral period to 3 years (instead of 5 years for Senior Management and 4 years for all other MRT).

Q90. In your view, which regulatory measures regarding the EU rules on internal governance and remuneration policies of financial institution could lead to improvements?

See our answer to question 89.

3.8. Reporting and disclosures

Q91. Which of the implemented or planned EU or national measures have in your opinion the most impact on reducing undue complexity and burden as regards bank reporting requirements?

Please rank the measures according to their impact and provide evidence.

No comment.

Q92. What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs?

	<u>Low impact</u>	<u>Medium impact</u>	<u>High impact</u>	<u>No opinion</u>
<u>Number of data points</u>				X
<u>Frequency of changes of the reporting obligations</u>				X
<u>The difficulty of using regulatory reporting for internal risk management purpose</u>				X
<u>Ad hoc reporting requests from supervisory authorities</u>				X
<u>Frequency of submission of reporting obligations</u>				X
<u>Other</u>				

No comment.

Q93. What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

Modernising reporting and reducing the reporting burden is a helpful way to improve the competitiveness of EU banks.



The EU should progress with the European Single Access Point and introduces a digital reporting tool and data platform that enables standardised, structured ESG data transfer, reducing reliance on bilateral, manual data exchanges between banks and clients.

It should also harmonise EU sustainability legislation to avoid overlapping and conflicting requirements (e.g. between definitions used in prudential disclosure requirements and ESG reporting requirements).

Q94. 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.

Yes. The complexity of the EU Taxonomy's technical criteria makes alignment assessments resource-intensive for corporates, reducing the practical feasibility of issuing European Green Bonds and EU Green Loans. The lack of publicly available digital reporting channels leads to manual and often repeated exchange of the same information between corporates and multiple banks, which adds costs and inefficiencies. These create an undue burden on bank clients, which has an impact on the competitiveness and operational cost for EU companies.

Q95. 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?

Yes. To support the current revision of EU legislation on sustainability, we recommend that reporting requirements under Pillar 3 and the CSRD European Sustainability Reporting Standards (ESRS) should be harmonised in terms of methodology and definitions. There should also be an EU-wide standardisation of transition plan disclosure requirements, to strengthen forward-looking transition risk management. Specifically, there should be an explicit recognition of Transition Finance as a tool for banks for forward-looking transition management. There should also be stronger requirements and supporting guidance on factoring adaptation and resilience considerations into physical climate risk management.