Brussels, 18 February 2025

Subject: EU competitiveness

Dear

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We are one quarter of the way into the 21st Century. Twenty-five years ago, we were at the dawn of a new period of European integration, an optimistic time when many of us assumed a linear path towards deeper and broader economic integration and liberal democracy, not only in Europe but across the globe. Today, we face a very different world with several serious threats, both external and internal. These threats challenge our way of life, prosperity and social peace as Europeans, our standing in the world, our economic resilience, our ability to defend ourselves and our capacity to respond to shocks. Despite these significant challenges, I remain optimistic that we have the answers to these challenges in our hands. Equally, I am convinced we have only a small window to enact reforms to restore the EU's economic vitality, and with it, our global competitiveness.

Europe's banks – which I have had the honour to represent over the last two years as President of the European Banking Federation (EBF) – are today an important part of the solution to accelerate building up the EU's resilience and to restore our global competitiveness. We can achieve this by partnering with more of our entrepreneurs, corporates, savers and investors and of course, governments to facilitate their investment and growth ambitions. To do this, we must, first and foremost focus on the right priorities and have the right incentives in our regulation to support in an even better way banks' capacity to deploy their balance sheets.

The right priorities for me start and finish with the EU providing the best conditions for our entrepreneurs to innovate, for our existing companies to scale-up and for global investors to

European Banking Federation aisbl

Brussels / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711 / info@ebf.eu
Frankfurt / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany
EU Transparency Register / ID number: 4722660838-23

www.ebf.eu

invest. A fundamental building block to achieve these conditions would be to deliver EU Savings and Investments Union (SIU) to provide efficient and affordable access to our companies to finance their investments. We can also unlock additional growth for the broader economy if we strike the right balance on energy transition. This entails working with the grain of the market to incentivise the transition since investors and companies that move forward courageously in the transition will be in the best position to gain market share and achieve attractive returns. Coupled with pension products that are viewed as assets rather than liabilities, given their capacity to invest into Europe's future, I see many opportunities for the EU to flourish, despite the significant headwinds we all must agree we face. In this regard it is very positive to see the SIU and other shared priorities on the top of the political agenda of the EU and the Member States.

At the same time, we also need to consider why and how we regulate and assess the unintended consequences of the cumulative impact of EU regulation in combination with supervision. The EU regulatory framework is comprehensive and has largely underpinned our financial stability over the last 15 years. Few in the industry are looking for wholesale deregulation in the EU. We can all agree, however, that our regulatory environment does not exist in a geoeconomic vacuum, agree that EU banks have made significant progress, so now is the moment to look again at how banks – the engines of Europe's economic resilience, growth, and prosperity – are regulated. Crucially, we need to ensure that that supervisors at Levels 2 and 3 apply the rules consistently and in accordance with both the spirit and the vires of the regulation set at Level 1. In this spirit, I strongly advocate for close attention to three items:

- The global level playing field across jurisdictions.
- A review and simplification, including proportionality – but not broad deregulation – of the rules that govern banking activities.
- The cumulative impact of the primary and secondary legislation and the effect of how the rules are applied in practice by supervision authorities.

Below I make ten specific recommendations that, taken together, I believe would allow banks to better serve Europe's societies and in so doing help to address the challenges Europe faces in 2025 in an ever more meaningful way.

These recommendations align well, in my opinion, with the strategic approach outlined in the Competitiveness Compass you presented on 29 January, which establishes competitiveness as one of the EU's overarching principles for action. We welcome and are greatly encouraged by this positive development. We also applaud the progress to date to streamline sustainable finance legislation through the Omnibus initiative. We particularly note the Savings and Investment Union and the simplification agenda. In this spirit, we also encourage policymakers to further reflect on the advent of a wholesale digital euro. A wholesale digital euro would increase European competitiveness through opportunities in the wholesale space (capital markets, comex), promote a tokenized economy and increase the role of the euro at global level. We believe it is important to go even further on certain points, including on increasing the financing capacity of banks to meet Europe's vital needs and on considering the competitiveness of the EU banking sector itself as an essential lever for growth.

<u>Address the global level playing field</u>

1. Global alignment: to remain globally aligned, push back the implementation of the Basel 3 Fundamental Review of the Trading Book (FRTB). We call on the European Commission to grant an opt-in allowing banks to choose whether to implement it on 1 January 2026 or to postpone it to 1 January 2027, as decided in the UK. This would also allow more time for the US to clarify its approach under the Trump administration.

2. Global consistency: to remove a disincentive to the further modernisation of EU banks and address differences that arise for example due to the unfavourable accounting treatment of software assets which hamper banks' investments in new technologies, essential for both innovation and their cyber resilience. To maintain the current treatment of reverse repos in the Net Stable Funding Ratio as other main jurisdictions, to avoid shifting the business out of the EU.

Review and simplify the rules

3. Boost banks' capacity to lend: Create the capacity for EU banks to lend more by delivering meaningful reform of securitisation legislation, including on prudential aspects.

4. Accelerate the greening of the economy: Advance the green transition by maintaining the temporary risk weight of 65% for unrated corporates and the preferential treatment of residential mortgage loans, and potentially extending it beyond the output floor. This will support the companies/SMEs and households in financing their transition towards more sustainability.

5. Stimulate increased economic activity: Streamline the overly complex macroprudential buffers framework, reducing the overall requirement and scrutinising other buffers like the EU Systemic Risk Buffer (goldplating), or the OSII buffers that put EU banks and the EU economy at a disadvantage vis-à-vis international peers. The Countercyclical Capital Buffer (CCyB) was set at a level to dampen credit exuberance but is de facto used as an additional permanent buffer and in today's market conditions de facto dampens economic activity.

6. Need to ensure that Level 2 published remain proportionate, risk-sensitive and entirely coherent with the intentions of the legislative process and with the Level 1 texts, without goldplating international standards nor going beyond what is strictly necessary: For example, review the EBA draft standards on prudent valuation (PruVal) and on off-balance sheet items to avoid double counting and to allow EU banks to compete effectively. Also, Level 1 measures aimed at allowing flexibility or incentivising credit should be effectively implemented (for example, greater flexibility in the treatment of forbearance).

7. Consider the cumulative impact of rules: Apply more rigour in the secondary law making accompanying every Level 2 draft standard, with a much closer control of the Commission over ESAs works, systematic consultations and impact assessment of how the proposed measures impact the end-client and in aggregate, Europe's economic resilience.

Application of rules

8. Facilitate additional investment by EU companies: EU companies that seek to invest and grow should not be categorised as companies undertaking leveraged lending, as is currently the case under ECB guidance.

9. Reflect on the EU's changing place in the world: Extraterritoriality of EU rules often leads to conflicting or overlapping requirements and double reporting with negative impacts on the competitiveness of EU firms as they are competing with local banks that often face less constraining local requirements. In such cases, the local regulation

and supervision of those countries that are Basel- and/or IOSCO-compliant should be respected and the view of local regulators should also be taken in consideration.

10. Increase transparency, predictability and accountability of the European approach to supervision. The supervisory goals of financial stability, safety and soundness of banks should go hand in hand with the need to promote growth. This can be achieved by adding more transparency and accountability toward strict application of Level 1 and 2 legislation into supervision. This would reduce the current laying of conservativeness which results in continuous capital increases, and it avoids overlaps between Pillar 1 and Pillar 2R capital requirements. As a result, banks receive more predictability for their own planning and strategy processes and ultimately, improve their ability to provide funding to the economy.

I conclude as I started this letter, with a sense of optimism despite all the challenges we face, because Europe still has many strengths. But we cannot afford to stand still. We need to realise the important advantages we currently enjoy but equally understand that the world is moving apace and unless we take steps to work together – and to view EU banks as a primary agent of successfully addressing these challenges – our assets will quickly turn into liabilities. The ten recommendations I make in this letter are small steps that taken together could represent one important step in pivoting to the growth mindset we need to restore the EU's global competitiveness. We stand ready with more detailed proposals we are happy to share with you as well.

I remain at your full disposal to discuss further.

Yours sincerely,