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Competitiveness of the Banking Sector and the Single Market in Banking

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1. The role of a competitive banking sector in the EU economy

Banks play a key role in the EU economy and a strong, integrated and competitive banking sector is essential to finance growth, innovation and strategic priorities. Banks are the main source of financing for EU households, large corporates, and small and medium enterprises (SMEs). Beyond their traditional role in lending, banks facilitate access to capital markets, helping firms to obtain equity and debt financing and enabling savers to invest, including in Europe's strategic priorities. In a rapidly evolving geopolitical landscape, improving European banks' ability to perform critical financial functions, and ensure sufficient credit provision to the EU economy, foster capital markets, compete and innovate domestically and internationally is of strategic importance for the EU.

The Savings and Investments Union (SIU) strategy[1] aims to improve the way the EU financial system, including the banking sector, channels savings to productive investments, creating a more diversified range of financial opportunities for citizens and businesses. The SIU strategy calls for an efficient and integrated EU banking sector, based on a single rulebook and a complete Banking Union. This objective is aligned with the EU's Competitiveness Compass[2], which integrates the recommendations of the Letta[3] and Draghi[4] reports, the Single Market Strategy[5] to remove obstacles to integration and the 'One Europe, One Market' roadmap[6] setting ambitious timelines for adoption of relevant EU legislation. This objective also underpins the set of proposals that the Commission tabled in 2025 to revitalise the EU's securitisation framework[7].

Banking and capital markets are inter-dependent and should evolve in parallel. Banks can help to foster the development of EU capital markets, notably on a cross-border basis while benefitting from important revenue streams linked to related investment and corporate services. EU banks also have a role to play in transforming savings into productive European investments for example by developing European investment products for retail investors. Completing the single market for banking and the work started with the Market Integration and Supervision Package (MISP) share the same key objective: to unlock economies of scale and provide more financing options to the EU economy. A more balanced funding structure of EU companies, with more equity and lower reliance on debt, benefits innovation, growth, and overall increases

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[1] European Commission, *Savings and Investments Union Strategy*, 2025

[2] European Commission, *EU Competitiveness Compass*

[3] Enrico Letta, *Much more than a market*, 2024

[4] Mario Draghi, *The future of European competitiveness*, 2025

[5] European Commission, *A strategy for making the Single Market simple, seamless and strong*, 2025

[6] European Commission, *One Europe, One Market Roadmap of the European Parliament, the Council of the European Union and the European Commission*, 2026 [to be updated]

[7] Proposal for a Regulation amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions as regards requirements for securitisation exposures (COM/2025/825 final), and Proposal for a Regulation amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation (COM/2025/826 final).

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productivity. A broader distribution of risk across the financial sector contributes to financial stability and more developed capital markets improve the effectiveness of monetary policy. A more efficient complementarity between EU banking and capital markets will help EU banks to become more competitive domestically and internationally, reducing the EU's reliance on foreign international banks for critical financial services. In this way also, the EU banking sector can help in financing the EU's economy, including its strategic priorities, such as defence and the twin transitions.

The banking sector can support activity in the wider economy in various ways. It can support sustainable output growth, while meeting the needs of both households and businesses. Banks role is to allocate savings to productive uses so as to maximise returns for savers and optimise the financing conditions for those borrowing. Within the EU, the most efficient bank intermediation requires that banks have the capacity to operate as seamlessly as possible across borders and to acquire appropriate scale in accordance with prudential requirements and competition rules. In this way, they can exploit economies of scale and scope in providing their services. At the same time, a competitive banking market needs to be sufficiently flexible, able to foster innovation and allow new entrants. Bank business models should remain diverse, able to serve the needs of diversified clients.

A poorly performing or fragile banking sector cannot support economic activity on a sustainable basis. Accordingly, the performance of the banking sector must be sufficiently robust and resilient to potential shocks, with solid fundamentals (e.g. profitability, market valuations, return on equity, lean cost structures, robust governance), and adequate levels of capital and liquidity. Indeed, such resilience can be regarded as a crucial element of competitiveness in the banking sector and its capacity to finance the EU economy.

This Communication and the accompanying Staff Working Document deliver on the Commission's commitment to assess the current state of competitiveness in the EU banking sector. The following sections highlight the substantial progress made in improving the framework and the sector performance over the past 15 years, outline the main problems that still need to be addressed and propose a positive, forward looking reform agenda.[8] It is based on extensive consultations with stakeholders and the public to ensure its assessment and conclusions are rooted in evidence.

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[8] The analysis is based on extensive consultations with stakeholders and is supported by an accompanying Staff Working Document providing additional detail. Consultations include a *targeted consultation* on the competitiveness of the EU banking sector open to the public from February to April 2026, an *Implementation Dialogue* with Executive Vice-President Séjourné and Commissioner Maria Luís Albuquerque on Banking Integration and Competitiveness, as well as two *workshops* in 2025 on the economics of the single market in banking and on the complexity of the EU banking regulatory framework. It also takes into account studies and reports prepared by key stakeholders, in particular the European Central Bank, the European Banking Authority, the Single Resolution Board and banking industry representatives.

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In considering the way forward, several objectives must be met and trade-offs acknowledged. These include:

- *Promoting innovation and growth whilst preserving resilience*. Promoting innovation and growth in the EU economy will require rebalancing, taking some responsible and measured risks with respect to the banking framework.

- *EU level harmonisation versus national discretions*. The ambition to deliver on the single market in banking cannot be achieved at EU level only. Deepening market integration by harmonising the rulebook at EU level should not be offset by persistent fragmentation at national level via gold-plating, diverse implementation of the rules, or the overreach of national powers.

- *Market integration and appropriate safeguards in all Member States*. Enhancing the integration of the banking market cannot be achieved without a discussion on the credibility of the safeguards needed to protect financial stability in all Member States. Similarly, the implementation of strong and credible safeguards cannot be envisaged without a discussion on the appropriate level of resources which can be managed more flexibly by banking groups on a cross-border basis.

- *Simplification versus capital neutrality*. Improving market integration, removing overlaps, simplifying the regulatory framework, harmonising methodologies for certain requirements or introducing more proportionality, will have an impact on the requirements applied to certain banks in certain policy areas. The objectives of these reforms are to enhance the competitiveness of EU banks and strengthen the efficiency of the framework, while retaining the overall level of resilience of the system. In achieving these, some degree of reduction or increase in certain prudential requirements may be inevitable.

Managing these objectives and trade-offs will require a combination of technical expertise and political judgement, and a careful rebalancing of risk-taking and resilience.

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2. The EU banking sector: progress achieved and remaining challenges

In response to the great financial crisis, the EU has developed a robust single rulebook and reformed its supervisory, resolution and macroprudential frameworks over the past 15 years. These reforms have helped to improve banks' resilience, financial stability and facilitated effective crisis management. In the Banking Union, the Single Supervisory Mechanism (SSM) is responsible for authorising all banks and directly supervises 111 banks representing over 85% of the total banking assets. The Single Resolution Mechanism (SRM) is responsible for crisis preparedness and management and is supported by a Single Resolution Fund (SRF) of more than EUR 81 billion. National deposit guarantee schemes are well funded and were reinforced to be able to offer quick redemptions, thus reinforcing trust. The European Banking Authority (EBA) has played a central role in developing the single rulebook and strengthening supervisory convergence across the EU, while the European Systemic Risk Board (ESRB) has accompanied the implementation of national macroprudential measures.

These regulatory and institutional reforms have been accompanied by a profound transformation in the EU banking sector. In contrast to the period leading up to great financial crisis, EU banks are resilient with strong capital and liquidity positions. This resilience has been consistently confirmed by EU-wide stress testing exercises carried out by the EBA and the ECB, including the most recent exercise conducted in 2025[9]. More importantly, the framework has proven its effectiveness in real-world conditions. During the COVID-19 pandemic, the energy shock following Russia's invasion of Ukraine, and the banking turmoil in the United States and Switzerland in spring 2023, the EU banking sector remained resilient. Banks acted as shock absorbers rather than amplifiers of economic stress. Since 2023, EU banks have also returned to sustained profitability, reaching pre-crisis returns on equity, showing that resilience and profitability can go hand in hand and demonstrating that a robust prudential framework can support both financial stability and a healthy, profitable banking sector.

Banks are resilient and profitable, but the EU banking market remains fragmented and has become overly complex in certain areas. This hinders competitiveness and requires households and businesses to pay more for credit than they should. Action to address these constraints on competitiveness is now essential.

The Commission has identified three main challenges holding back the full potential of the banking sector to support the EU economy. First, the single market for banking is still too fragmented, preventing upscaling, efficiency gains, productive use of resources, and geographic diversification across Member States. Second, the adoption of international standards to the EU banking industry could better consider the specificities of the EU banking sector and its diversity. Third, certain aspects of the regulatory framework are unduly complex and burdensome and should be simplified. Addressing all three of these challenges is essential to build a banking sector that moves beyond resilience and better supports the EU economy by financing growth, innovation, security and long-term prosperity.

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2.1 *Persisting fragmentation in the single market for banking*

The single market for banking is still fragmented along national borders. Market integration has increased over the past years but remains at unsatisfactory levels and is mostly limited to the interbank market, with the provision of cross-border services still very limited. According to the ECB, cross-border corporate lending within the euro area represents only about 16% of total

[9] For more details, see here the report of the 2025 EU wide stress test exercise run by the EBA (link) and the ECB (link).

corporate lending[10], mainly due to difficulties in reaching clients in other Member States without a physical bank presence, or in expanding and establishing a bank presence into new markets, either organically or through cross-border consolidation. Consolidation of the EU banking market has occurred almost exclusively domestically since the great financial crisis, as cross-border mergers and acquisitions across the EU have significantly dropped in recent years. This leads to an outcome where many banking groups in the EU are large relative to the size of their home national economy, but not relative to the size of the EU or the Banking Union economy. Many factors contribute to this fragmentation of the banking market.

The national dimension in EU prudential regulation remains very pronounced. The EU single rulebook, unlike other banking frameworks, requires banks to comply with liquidity and capital requirements at both consolidated level and individual legal entity level across borders. This feature restricts cross-border banking groups from managing more of these resources centrally at group level, thereby limiting efficiency and synergies. The ECB estimates that removing constraints to the liquidity in subsidiaries of EU banking groups would free up around EUR 230 billion of high-quality liquid assets[11]. The strong national dimension in prudential regulation reflects concerns about the potential impacts of a cross-border bank failure on the economies of the Member States concerned. Such concerns persist despite the implementation of the single rulebook, the significant levels of resilience achieved by banks, and progress in developing the Banking Union which, however, remains incomplete notably in absence of a Banking Union-wide mechanism for deposit insurance. The divergent treatment of domestic and cross-border intra-group exposures, the heterogeneity and the lack of predictability in setting prudential requirements or the lack of coordination among supervisors, resolution and macroprudential authorities are other factors contributing to persistent fragmentation.

National gold-plating and differences in the transposition of EU rules is a further source of market friction. Gold-plating undermines the application of the single rulebook, while increased reliance on guidance and soft-law instruments – often interpreted as binding constraints by banks' compliance officers and external auditors – can compound this effect.

National interventions in cross-border bank mergers prevent banks from acquiring scale at the EU level. The Commission is revising its merger control guidelines, with a view to updating them to meet the needs of the ever more digital, globalised and geopolitically complex economy. However, supervisory suasion from national authorities and political intervention in commercial decisions hinder the ability of banks to take independent business decisions. As a result, EU banks do not scale up and reach a critical size[12]. This impacts their valuations and ability to generate

[10] European Central Bank, *ECB response to the Commission consultation on the competitiveness of the EU banking sector*, 2026

[11] European Central Bank, *ECB response to the Commission consultation on the competitiveness of the EU banking sector*, 2026

[12] Scale is an important factor determining a bank's contribution to the economy in a number of areas pertaining to investment banking activities, e.g. underwriting sovereign or commercial debt issuances, equity issuance,

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efficiency gains, limits their capacity to undertake critical financial services for households and businesses and prevents them from reaching sufficient scale to compete in EU and global financial markets in corporate and investment banking activities.

National rules or differences in the transposition of EU rules in areas other than prudential banking rules also limit cross-border banking activities (non-prudential barriers). These include consumer protection, anti-money laundering, civil law, data protection, taxation, insolvency law and foreclosure rules. The implementation of these rules can disincentivise banks in pursuing cross-border provision of services, in particular in retail banking. In today's increasingly digital environment, one of the crucial limitations is that IT platforms developed by banks to cater for the needs of a national market cannot be easily replicated across the EU. This constrains the business model of cross-border banking, limits competition among banks, reduces choice for clients, and increases prices.

2.2 *International standards not sufficiently taking into account EU specificities*

Diversity in the EU banking sector can be a competitive advantage but requires appropriate and proportionate application of the regulatory framework. There are more than 4500 banks and around 650 banking groups in the EU, creating a diverse banking ecosystem ranging from globally systemically important banks operating worldwide to much smaller banks often active within very limited geographical areas. Banks' business models also vary extensively, ranging from complex business activities to full digital players, to banks focused only on traditional deposit-taking and lending activities. Despite efforts to reflect the diversity in the EU's regulatory framework, banks and their supervisors must still apply largely the same rules irrespective of size or business model. This can result in unnecessary administrative burden for many banks and so detract from the benefits that a diverse banking sector can offer to the economy.

The EU supports global regulatory standards as the foundation for a fair international competitive environment. The Commission remains committed to engaging with international peers in the design and implementation of international standards. However, because these international rules often do not fit the diverse reality of Europe's banking sector, they require careful adjustment during implementation to maintain a level playing field, also to take into account EU specificities, including the existence of additional EU requirements.

EU banks compete globally in an environment where implementation of international standards differs across jurisdictions. Recent delays and deviations from agreed international standards in some major jurisdictions have increased concerns regarding EU banks' competitiveness in global markets. While the EU remains committed to international standards,

custodian services, primary dealing in EUR forex and derivatives markets, M&A advise and deal structuring, financing of large critical projects and others.

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implementation must take account of developments elsewhere with a view to preserving a level playing field.

2.3 *Undue complexity of the bank regulatory framework*

The reform of the EU regulatory framework since the great financial crisis has significantly improved the resilience of the banking sector, but the framework has become unduly complex. The complexity arises in part from the multi-layered regulatory framework and its application. It is based on distinct levels: Level 1 "framework legislation" (Regulations or Directives), Level 2 "technical measures" (Delegated Acts), Level 3 "supervisory convergence" guidance (European Supervisory Authorities' Guidelines), interpretative questions-and-answers and supervisory practices, combined with national laws. While these multiple layers allow for faster and tailored amendments whenever necessary without recourse to a lengthy legislative amendment process, they are at times burdensome to implement, in particular for smaller banks. The increasing burden in implementing the EU framework also reflects an effort to limit divergence in how rules are applied at the national level. Banks often create unnecessary complexity by over-interpreting regulations or by seeking regulatory and supervisory guidance to minimise risks.

Complexity in the framework is compounded by the interaction of three separate but inter-related sets of rules relating to microprudential, macroprudential, and resolution aspects. These sets of rules are in some cases inconsistent or duplicative and may go beyond what is strictly necessary to preserve financial stability. This is because parts of the banking framework have been reformed in several stages and co-legislators have largely accommodated national specificities across Member States. The overlaps among the various requirements that banks must meet at the same time can give rise to the risk of duplications and limit buffer usability (the capital stack issue)[13].

The implementation of the regulatory framework lacks a holistic overview due to the multiplicity of actors involved. National supervisors, macroprudential authorities, national resolution authorities, the ECB, the SRB, the ESRB and the EBA are all involved in the implementation of the regulatory framework, resulting in significant coordination challenges. While the Banking Union has improved the situation by providing single supervision and resolution of the larger banks within scope, there is insufficient consideration of how requirements set by different authorities interact, their combined impacts and the extent to which resulting inefficiencies are passed on to EU households and businesses.

Reporting and disclosures requirements can be a source of complexity. While data reported by banks is needed to supervise banks and promote market integrity, the framework has become

[13] [reference to the EBA capital stack paper - to be published in the next days]

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overall burdensome and costly, especially for small and non-complex banks with relatively simple business models.

Certain elements of the framework are excessively demanding for small and less-complex banks. All the mentioned examples of undue complexity in the regulatory framework weigh even more on small and less complex banks, making the case for improved proportionality.

3. The way forward

A coherent package of policy measures addressing all those issues is required. Acting on some elements alone will not be sufficient to create the conditions for a sustainable and structural improvement in competitiveness or to ensure that those improvements are durable over time.

3.1 Fostering market integration with appropriate safeguards

Inefficiencies linked to market fragmentation are clearly undermining competitiveness in the EU banking sector and must be addressed by actions in a range of areas.

- *Prudential and supervisory barriers*

Currently, EU banking groups must comply with prudential requirements at every level, from the main parent company down to each individual subsidiary. EU law allows exceptions to these rules, mostly if a subsidiary is located in the same Member State as its parent company. These restrictions give reassurance in relation to local financial stability concerns but can hinder a more efficient allocation of resources within banking groups active in more than one Member State and ultimately affect the overall resilience. Banking group-wide supervisors should have the powers to ensure that liquidity and capital are distributed more efficiently within groups. A more integrated market, where banks can allocate resources across borders, would bring significant benefits - diversifying risks, improving efficiency through economies of scale, boosting competition to better serve households and businesses and enhanced resilience against economic shocks. These benefits would make the banking sector more competitive overall, would support the financing of key EU priorities and foster diversification in bank exposure, notably as regards sovereigns[14].

➢ The Commission will propose to enhance efficiency in the group-wide allocation of capital and liquidity within the Single Market. Group-wide supervisors should have the power to ensure that capital and liquidity requirements are met at the level of the parent entity in groups that operate cross-border. The power should also trigger the legal obligation for the parent to move resources to its subsidiaries. The exercise of those powers should take into account the diversity of banking groups, including the nature of the subsidiaries and the group, their resilience, as well as the level of integration and the commitments made within groups.

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[14] Claudia Buch, *The bank-sovereign nexus: securing progress by completing the banking union*, 2026,which also notes that the home-bias in bank's holdings of sovereign exposures has decreased in recent years, in particular for large banks supervised by the SSM.

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- ➢ The Commission will propose to apply the same regulatory treatment of intragroup exposures[15] at both domestic and EU levels.
- ➢ The Commission will consider addressing the risk of excessive concentration of sovereign exposures and further encourage the diversification of sovereign bond portfolios by banks,
- ➢ The Commission is committed to continue using its enforcement toolkit where there is breach of Union law, notably on mergers and acquisitions[16].

- *Safeguards*

Enhancing market integration will require appropriate safeguards. Concerns persist that local subsidiaries of non-domestic banking groups could face capital and liquidity shortages in times of crisis, leaving national authorities to manage failures without sufficient support from the parent. Many EU banking groups operate under a *single-point-of-entry* resolution strategy, where crisis measures are applied at the parent level, potentially leaving subsidiaries - especially those critical to local economies - vulnerable if group-wide support falters and potentially triggering national DGS intervention. In addition, while DGSs are fully built and some of them exceed the minimum target level, they may remain vulnerable to local shocks resulting from the failure of one or several small banks, creating potential liquidity shortfalls that would often force them to rely on public support.

Addressing these risks requires building trust among authorities by ensuring that capital, liquidity, recovery and resolution plans are strong enough to prevent disorderly outcomes by providing additional safeguards. This also includes mechanisms to ensure the financial soundness of banks emerging from resolution to restore market confidence and ensuring that they can access temporary liquidity that can be used to support the group as whole.

The SSM and the SRM, supported by the single rulebook, are well placed to perform this balancing exercise. Three quarters of the covered deposits in the Banking Union are now under the direct oversight of the SSM and SRB and are held in banks planned for resolution at EU level, as opposed to liquidation under national insolvency proceedings. These banks have adequate loss-absorbing capacity and potential access to the SRF, ensuring already a high degree of loss mutualisation within the banking sector. However, additional elements are needed to ensure a more cohesive, EU-wide approach to crisis management and, as a result, lead to a better allocation of funds within banking groups.

- ➢ The Commission will propose to revise the structure of the deposit insurance framework to better align the responsibilities and financing of crisis management and deposit insurance

[15] Any asset, liability, or financial relationship between entities within the same group.

[16] While regulatory barriers play a role, banks themselves have often been slow to leverage available tools, such as expanding their cross-border presence via branches or the free provision of services, whether due to strategic choices or supervisory and political pressures

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measures within the existing structures of the Banking Union, both at central and national levels. The proposal will ensure efficient crisis management and deposit insurance at parent and subsidiary level and provide safeguards that the failure of cross-border banks does not create distortions in national markets or liabilities to DGSs and budgets.

- ➢ The Commission will propose measures to improve the predictability of group resolution strategies, support a more integrated allocation of funds within cross-border groups, including in times of stress.
- ➢ The Commission will continue supporting Member States in progressing towards the strengthening of backstop mechanisms for the provision of liquidity in resolution, in line with international standards, to increase financial stability and provide reassurance about the availability of funds to support group resolution strategies.

- *Non-prudential barriers*

Non-prudential barriers may be hard to navigate when conducting business across Member States' borders and significant investments may be required to overcome them. AML and consumer protection rules are harmonised but often applied in divergent manners in Member States. This discourages banks from offering pan-European banking products – such as deposits or mortgages – preventing banks from scaling their business. These issues are also often linked to the high cost generated by IT systems that need to be adapted to the national legal orders of 27 Member States.

- ➢ The EU's single AML rulebook will start applying on 10 July 2027. The AML Regulation will harmonise Know Your Customer requirements and Suspicious Activity Reporting across the Union. As these requirements are now set out in a Regulation, they will be directly applicable in EU Member States. The newly established Anti-Money Laundering Authority will support the implementation of these AML requirements through common instruments, in accordance with its mandate.
- ➢ The Commission will review the national application of the rules in the area of consumer protection with a view to facilitating and fostering cross-border activity, while maintaining an adequate level of consumer protection and ensuring that consumers can more easily access to a broader offer of bank services.
- ➢ The Commission will continue to monitor the digital potential and the IT implications for the single market in banking. The focus will be on ensuring that the regulatory framework is sufficiently agile to support digitalisation in the provision of banking services and to foster innovation, while preserving cyber-resilience (i.e. open banking, tokenisation of assets, the impact of artificial intelligence including access to high-quality data, adaptation of rules to new business models such as deposit platforms, client facing apps, e-wallets).

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3.2 Implementing the international standards taking into account EU specificities

- *Adapting the implementation of the international standards to the EU framework*

The EU is committed to the international standards set by the Basel Committee for Banking Supervision and recommendations of the Financial Stability Board, which help to protect financial stability and preserve the level playing field. The design and implementation of such international standards and recommendations should take due account of the specificities of the EU banking sector. The EU banking sector is diverse and operates within an institutional framework involving multiple regulatory, supervisory and resolution authorities at both European and national level. In this way, the EU differs in important respects from other major jurisdictions. Taking these elements into account when designing and implementing global standards can help avoid disproportionate effects on certain activities or banks and ensure that the framework delivers its prudential objectives in an efficient and balanced manner.

In addition, EU banks must operate based on a level playing field with peers in other jurisdictions in global markets. Pending implementation elsewhere, the Commission has taken steps to delay the entry into application of certain aspects of the Basel market risk framework (Fundamental Review of the Trading Book) in the EU until 1 January 2027 and has adopted, on 4 June 2026, a delegated act to mitigate some of its effects until end-2029. The delegated act is now under scrutiny in the Council and the European Parliament.

The EU is also progressively introducing the output floor[17], combined with a number of transitional measures, designed to allow banks and authorities to progressively adapt to the Basel framework. Meanwhile, within third country jurisdictions various approaches have been taken, including removing the output floor altogether. EU-based stakeholders have expressed different views on the future of the output floor, including on the appropriate level of calibration, the level at which the requirement should apply (solo or consolidated level), the scope of risks covered by the framework and its interaction with the underlying standardised approach, for instance in areas like specialised lending, project finance and trade-related finance.

The prudential treatment of unrated corporates is a structural challenge in the EU banking framework. Since EU companies, and particularly SMEs, mostly rely on bank financing rather than capital markets, the vast majority do not hold an external credit rating. This creates an immediate operational disadvantage under international prudential standards, which requires banks to hold more capital if they finance unrated corporates. While permanently removing the need for an external rating may ease the access to bank financing for such companies such a policy

[17] The output floor is a regulatory safeguard that limits the extent to which banks can reduce their capital requirements with internal risk models, relative to standardised approaches.

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may also actively disincentivise companies from seeking a rating, to the detriment of transparency and the long-term growth of a deeper equity and corporate bond EU market. This implies a clear trade-off between immediate European investment needs which could be met by bank lending and the strategic goal of the SIU to promote more diversified funding sources through the single capital market.

The Commission is assessing the way forward regarding residential real estate exposures. In this context, the Commission is also carefully considering the potential implications that prudential requirements may have for access to housing finance and specific market segments. The framework should remain risk sensitive, even if the past behaviour of markets does not always predict future risks. It should also be considered that steps to increase lending may push housing prices higher in conditions of limited supply, thereby worsening affordability.

In other areas, amendments to the prudential framework could be considered to reinforce competitiveness, such as the treatment of software assets. EU rules require banks to largely deduct software investments from their core capital. That approach treats software like a physical cost rather than a competitive business asset and is considered by many as putting EU banks at a disadvantage compared to peers in other jurisdictions. Yet, the prudence of the EU approach can also be seen as an asset in a moment when artificial intelligence developments call into question the value of software assets.

- ➢ The Commission will evaluate the impact of the output floor and its transitional arrangements on unrated corporates and mortgage lending on the competitiveness of EU banks, its interaction with the other parts of the framework and propose measures to properly balance resilience and the broader financing of the economy.
- ➢ The Commission continues to monitor the implementation of the international standards across jurisdictions and will implement an EU long-term approach to market risk capital requirements, based on the experience gathered and on level playing field considerations.
- ➢ The Commission will propose to revise the prudential treatment of banks' investments in software assets with a view to ensuring that the framework is prudentially sound, consistent with the digital and cyber-risk environment and provide the correct incentives for banks to invest in innovation and digital resilience.
- ➢ The Commission will also investigate the effectiveness of current remuneration rules and their impact on the EU banking sector.

- *Preserving diversity and enhancing proportionality*

Europe needs large banks capable of competing internationally in markets where scale is essential but also benefits from smaller more locally oriented banks. The regulatory framework already

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recognises the specificities of smaller and non-complex banks, but complexity in the framework may still impact smaller banks in a disproportionate way. A regime for small and non-complex banks should preserve adequate risk-based requirements to safeguard financial stability and maintain incentives to enhance risk management practices.

- The Commission will propose to define in CRR a regime allowing small and non-complex banks to be better and clearly identified. The current criteria and threshold for identifying small and non-complex institutions could be adjusted to reflect the reality of the EU banking sector, with adapted requirements for the prudential, macroprudential and resolution dimensions. The regime should enable the EBA to work on Level 2 and Level 3 measures in a way that caters more effectively for small banks, with simpler requirements and processes.

Similarly to banks, there is also room for strengthening the contribution of investment firms to the functioning of EU capital markets. Investment firms contribute to the diversity and depth of the capital market by offering both complementary and competing services to credit institutions, such as the provision of liquidity, contributing to an efficient allocation of capital and support the issuance of equity and debt securities. Any barriers to the contribution of investment firms to the development of capital markets should be addressed. The joint EBA and European Securities and Markets Authority opinion on the functioning of the prudential framework for investment firms[18] concluded that the regulation meets its original objectives, while suggesting targeted amendments.

- The Commission will propose targeted changes to the prudential framework for investment firms, including in the threshold structure, governance and remuneration requirements and review the calibration of capital and liquidity requirements.

3.3 Simplifying the microprudential, macroprudential and resolution aspects of the regulatory framework

Simplification of the regulatory framework can bring tangible benefits for banks and authorities without undermining resilience. Complexity and administrative costs that are not proportionately improving resilience and integration should be reduced or removed from the framework. The regulatory framework has been made more complex by successive reforms of the microprudential, macroprudential and resolution rules, often conducted independently with little attention to their interactions. Measures are required to remove overlaps and inconsistencies. However, reducing undue complexity should not lead to de-regulation, as the resilience of the EU banking sector is a precondition for its competitiveness.

- *Microprudential framework*

[18] European Banking Authority, *The EBA and ESMA recommend targeted revisions to the investment firms' prudential framework*, 2025

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Pillar 2 requirements are the main tool at the disposal of supervisors to set bank-specific requirements related to risks not covered or not sufficiently covered by the Pillar 1 requirements. These are complemented by Pillar 2 guidance, which is non-binding and reflects supervisors' expectations of the level of capital banks should maintain to withstand periods of stress. Apart from risk-based requirements, supervisors can also set Pillar 2 leverage ratio requirements.

Stakeholders have raised concerns about the current design and application of Pillar 2 requirements and guidance, notably possible overlaps with other requirements which can lead to double counting. Concern has also been raised regarding the limited transparency of the methodologies used to set Pillar 2 measures with a demand for a clearer breakdown of decisions, increased clarity and incentives relating to remediation and a better reflection of underlying risks.

The ECB has already committed to implementing a series of improvements relating to Pillar 2 measures. It has recently implemented a new methodology for Pillar 2 requirements and has proposed a reform agenda intended to increase the efficiency, effectiveness and risk-based focus of prudential supervision more generally. These reforms are an important step in ensuring an adequate supervisory review framework and should be tested before further changing the framework. To complement those ongoing efforts, further steps might be considered to ensure that supervisory requirements remain risk-based, proportionate and avoid unnecessary complexity or overlaps with other aspects of the capital framework.

- ➢ The Commission will propose measures to increase transparency and predictability of Pillar 2 requirements and guidance.

- *Resolution framework*

The EU resolution framework requires banks to hold a minimum amount of own funds and eligible liabilities (MREL) to ensure they can absorb losses and reopen after a bail-in post-resolution. While this has increased the resilience of EU banks, the current MREL design has become complex and, in some cases, duplicative, with different eligibility criteria and calibration compared to the Total Loss-absorbing Capacity (TLAC) stemming from international standards and applicable only to Global Systemically Important Banks. This complexity hinders predictability and consistency, thus weakening the level playing field across EU banks.

In addition to determining MREL, the SRB and national resolution authorities are required to draw up resolution plans for banks. This is a lengthy and burdensome process, which does not reflect the fact that after several iterations, bank resolution plans have today reached a more mature stage and could be streamlined to free up resources by both banks and authorities to focus on their operationalisation and testing.

The resolution framework also includes ancillary provisions, derived from the own funds' regime, which are sometimes unduly complex for MREL instruments. For instance, the prior permission regime, designed to protect banks' loss-absorbing capacity, has introduced complexity and

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administrative burden on banks and resolution authorities. Although the SRB has proposed a new streamlined approach to accelerate the granting of these permissions for banks willing to buy back or replace their MREL instruments, further improvements are needed.

- The Commission will propose to revise the MREL framework bringing it closer to international standards, by eliminating unnecessary discrepancies with the TLAC standard and by introducing a simpler, more automatic and predictable calibration to minimise the scope for discretionary adjustments and reduce the number of parallel MREL-related capital stacks. The revised framework will preserve the resilience of the resolution framework, retain incentives for resolvability, and ensure that requirements are proportionate, in particular for smaller banks.
- The Commission will propose a streamlined process for banks in sound financial position to facilitate buybacks and liability management to reduce compliance costs and enhance flexibility, while maintaining resolvability and adherence to the TLAC standards.
- The Commission will consider whether certain assessments in the resolution planning phase could be made more proportionate – including regarding the frequency of resolution planning cycles or the related adoption procedures – to reflect the fact that resolution planning activities have matured since the introduction of the crisis management framework.

- *Macroprudential framework*

The Commission, as well as other stakeholders, acknowledge the need to reform the macroprudential framework, while preserving the system's financial stability. National macroprudential authorities are responsible for setting macroprudential measures, while taking into account the specificities of their banking sectors and economic cycles. The macroprudential toolkit includes capital buffers, a risk weight adjustment toolkit and borrower-based measures.

The most impactful macroprudential measures are the capital buffers, which are set in addition to minimum capital and Pillar 2 requirements and may be used by banks in time of distress to avoid deleveraging and preserving lending to the economy. The high number of capital buffers, their design catering to specific risks and events, and the flexibility of national authorities in setting their level, and identifying banks subject to systemic buffers, without a harmonised EU methodology have created a heterogeneous application causing undue complexity and overlaps. Such outcome is perceived by some stakeholders as a friction to further integration since cross-border banking groups with similar contribution to systemic risk are treated differently under the macroprudential framework. The lack of predictability and consistency in the application of this framework may be potentially weighing on banks' business decisions such as cross-border consolidation or reorganisation. Moreover, the multilayered governance involving EU and national authorities creates further complexity. The recommendations of the ECB's High level task force

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on simplification[19] as well as the replies to the targeted consultation are confirming these challenges.

➢ The Commission will propose to revise the macroprudential framework to ensure a simpler toolbox and greater convergence and consistency in the application of macroprudential tools across the EU, which would improve the level playing field and the integration in the single market. For this purpose, the Commission will consider reducing the number of buffers and improving their design and calibration, with the aim of achieving more consistency and harmonisation in the level of capital required. The Commission is considering establishing one releasable buffer covering risks linked to the business cycle as well as other structural risks, which could be released in a downturn to sustain lending to the economy. It also considers improving the framework for other systemically important institutions (O-SII) by addressing shortcomings in the O-SII identification and harmonising the buffer rates to ensure that banks with similar contributions to systemic risks have similar requirements. The processes and governance would also be revised and simplified.

- *Interactions between different aspects of the regulatory framework*

Bank requirements are largely set independently by microprudential, macroprudential and resolution authorities, resulting at times in duplicative and inconsistent requirements. This risks overburdening banks through overlapping layers of capital that are set for different purposes but may in some cases address the same risks. The way the different parts of the framework interact today also leads to a suboptimal situation where capital buffer usability in times of stress is limited by structural and behavioural constraints. Capital buffers are not minimum requirements; they are built to be used in times of stress to avoid deleveraging and continue lending to the economy. Double-counting certain instruments at the same time towards compliance with capital buffers and other minimum requirements (leverage ratio and MREL) prevents banks from dipping into buffers without breaching these requirements. Other barriers to buffer usability include restrictions to the minimum distributable amount, which limits distributions of dividends/coupons if buffers are used, creating market stigma further restraining their use. Moreover, broader issues like investor perceptions and profitability concerns complicate buffer usability beyond their design.

To enhance the competitiveness of the EU banking sector, authorities need to adopt a holistic approach to setting microprudential, macroprudential and resolution requirements. The calibration of those requirements is a highly technical exercise, with a key discretional component. While the authorities involved in setting prudential requirements should retain such discretion, requirements should be more predictable to allow banks to perform more efficient capital planning and offer increased transparency to the market of EU banks' shares and bonds. This requires

[19] European Central Bank, *Simplification of the European prudential regulatory, supervisory and reporting framework*, 2025.

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authorities involved to regularly exchange information to prevent duplications and to act transparently in accordance with agreed methodologies.

- The Commission will propose stronger coordination mechanisms between authorities across the microprudential, macroprudential and resolution spaces, to ensure that requirements are set coherently and under clear accountability. There will be the need for authorities to better coordinate their decision and to exchange information, so to have a holistic view to assess what is the appropriate level of capital for the individual bank.
- The Commission will propose to review the procedure to amend, where necessary, technical standards across the framework, strengthen the requirement for impact assessments by the EBA and enhance accountability/control mechanisms on how mandates are granted and applied.
- To enhance supervisory convergence and reduce administrative burden, the Commission will propose to move certain prudential, macroprudential, crisis management and deposit insurance requirements into directly applicable regulations.

- *Reporting and disclosures*

Reporting and disclosure requirements are essential for a well-functioning banking sector. Data reported by banks is essential for supervisors to supervise banks effectively, thereby preserving financial stability and market integrity, and protecting consumers, investors and other users of financial services. However, the reporting framework for banks is overall burdensome. Total reporting costs for EU banks, comprising of all expenditure related to the operation of the reporting system (staff, IT, legal, accounting, auditing and consultancy services), have previously been estimated at EUR 11.2 billion per year[20]. The main reporting burden stems from the frequent changes of reporting requirements, unnecessary complexity, lack of clarity and consistency, and redundancy of reporting stemming from the limited data sharing among authorities.

Significant steps have already been taken to simplify and streamline reporting requirements in recent years, in line also with the Commission's strategy on supervisory data[21]. These include legislative changes to facilitate the reuse of supervisory data for disclosures and other measures to significantly ease the reporting burden for small and non-complex institutions (Pillar 3 Data Hub), the Better Data Sharing Regulation which will curb duplicative data requests and requires EU authorities to regularly review and remove redundant reporting and also advance on their efforts on integrated reporting[22], and the Omnibus package and subsequent simplifications to the EU

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[20] European Banking Authority, *Study of the cost of compliance with supervisory reporting requirements*, 2021.
[21] European Commission, *Strategy on supervisory data in EU financial services*, 2021.
[22] OJ L, 2025/2088, 21.10.2025, ELI: http://data.europa.eu/eli/reg/2025/2088/oj

taxonomy and European Sustainability Reporting Standards[23]. The European Single Access Point, once up and running, will also improve accessibility and reduce duplication by providing easy centralised electronic access to public data about banks and their products. EBA has already implemented several substantive measures to reduce the reporting burden for banks. Together with additional measures proposed in 2026, the number of data points in EU reporting frameworks is expected to be cut by 50%[24].

While significant progress has been made to date, stakeholders confirm the need for further streamlining and modernisation, with the priorities being reporting integration, proportionality and a technological upgrade.

- The Commission will support the transition from the current reporting approach to more integrated prudential, statistical, and resolution reporting, with robust governance arrangements and a common data dictionary as cornerstones. It calls on the relevant authorities, advised by the Joint Bank Reporting Committee, to proceed with the technical work and deliver tangible improvements. Where necessary, the Commission will support this with a legal mandate.
- The Commission will propose targeted legislative changes where needed to enable EBA to deliver further proportionality, simplification and automation of reporting at technical level, including as regards materiality thresholds for minor reporting errors and other aspects that unduly increase the reporting burden.
- The Commission will apply better regulation principles to assess the impact of reporting and disclosure requirements, including the timelines and sequencing of changes. It calls on the EBA and other authorities to regularly review, reduce and remove duplicative reporting, in line with the Better Data Sharing Regulation.
- The Commission also calls on national authorities to show utmost restraint in requiring additional national reporting, as it adds significant complexity and burden for reporting entities. It also calls national authorities to make full use of the option to share data under the Better Data Sharing Regulation.
- The Commission calls on the EBA and other authorities to introduce innovative IT solutions to improve data quality, reduce reporting errors, and enhance automation. Where necessary, the Commission will support this with changes to the legal framework.

4. Competitiveness: a shared responsibility

[23] Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements, COM/2025/80 final

[24] European Banking Authority, *Efficient reporting: simpler, smarter, proportionate*, 2026.

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Improving the competitiveness of the EU single market for banking can foster the competitiveness of the EU economy. Yet, this also requires a cultural shift by all stakeholders in the banking market. Regulators and supervisory authorities should focus on material risks that matter most for overall financial stability, avoiding a zero-risk tolerance as this could hinder banks in supporting the economic activity and investments necessary for Europe's competitiveness. The EU needs a more proactive and effective risk management attitude in banking. Risks must be taken seriously, especially in the current environment. The "traditional" risks (credit, operational and market risk) are now compounded by cyber, geopolitical and climate threats that add up on banks' balance sheets. But taking risks seriously also means focusing on what matters the most, on the biggest threats that banks face, moving away from compliance-based approaches. This approach is demanding, but also more efficient, holistic and focused in approaching the prevention and the management of risks.

Banks, their senior managers and staff, as well as auditors and accountants must be willing to be part of this cultural shift and take responsibility in applying the law. While regulators should take a more proportionate approach and act to reduce the complexity, length and the level of detail of their measures – be it law, guidance or Q&As – banks need to play their part in restraining themselves from a continuous demand for guidance. These respective behaviours have created the shared perception that the banking environment is hyper-prescriptive and overly complex, without fully guaranteeing legal certainty. Compliance officers and auditors also need to be part of this cultural evolution. While they must not lower the bar of necessary checks and balances, they could work to increate trust and to establish collaborative relationships with the bank's business functions they control. By focusing their resources strictly on material risks, banks and supervisors can increase their operational efficiency. Ultimately, this comprehensive alignment in risk culture will produce far better results than any legislative change. It is our shared responsibility to get there.

- ➢ The Commission calls on all stakeholders in the banking market to share the responsibility to engage in a cultural shift, whereby regulators, supervisors, banks and their staff, auditors and any person involved in the interpretation of the regulatory framework takes a more substantive and risk-sensitive approach to banking.
- ➢ The Commission calls on the EBA, supervisors and market participants to draw a clearer distinction between requirements – which need to be complied with – and non-binding guidance that serves the purposes of harmonising the way requirements are applied. Such a clear distinction needs to be better communicated and understood, be it for guidance of horizontal nature, such as EBA guidelines (based on the comply or explain principle), or for that of individual nature, such as Pillar 2 guidance (whose breach does not imply regulatory consequences).
- ➢ To operationalise ex post accountability checks, the Commission will assess if the EBA could be tasked with a mandate to produce regular reports assessing the adequate and aggregate level of capital requirements across the Union. This would also serve as a tool to inform the existing accountability processes (in the context of European and national

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Parliaments, as well as of the Council and national governments), ensuring that supervisors and resolution authorities are held accountable for the cumulative economic impact of their decisions.

- ➢ The Commission calls on regulators, supervisors, resolution and macroprudential authorities to consider embedding and more clearly explaining how proportionality elements can provide relief from administrative burden for small and non-complex banks and for other banks with relatively simple and prudent business models.
- ➢ The Commission invites EU and national authorities to ensure that supervisory practices are neutral with respect to the organisational model of a bank and should not discourage cross-border banking activity, including via branches and the free provision of services.

5. Engagement and next steps

Improving the competitiveness of the EU banking sector is a joint endeavour. Collective efforts from all stakeholders, including European and national authorities and the banking industry itself, are needed to achieve an efficient, simpler and competitive single market in banking. It means effective, consistent and proportionate implementation of EU law and the development of a supervisory culture that also caters for the contribution of the banking sector to the competitiveness of the EU economy. Banks must play their part by using the tools at their disposal to grow and compete in the single market.

The Commission has a long-term vision for a competitive banking market and its role for the EU economy. A competitive banking market is one that connects savings to investments. It is a market that exploits the potential of the EU and allows banks to more easily operate across borders but also domestically, so that households and businesses get a wider variety of financing options, better service and lower prices. The banking sector needs to remain resilient, profitable and open to innovation and to the markets. Banks must handle risks safely so they can support long-term growth, complement and reinforce the role of capital markets, and withstand crises of financial and non-financial nature. **This communication sets out this vision.**

Enhanced competitiveness via simplification and encouraging more cross-border activity in a more integrated banking market cannot be done with minimal changes. Delivering on this objective can only be achieved through substantial reforms, focused on areas where high-impact improvements are possible, in an environment that has become much more resilient over the past 15 years. The Commission therefore encourages all stakeholders to be ambitious and consider meaningful and impactful changes which can boost competitiveness in banking and thus serve the EU economy while preserving adequate resilience.

The Commission welcomes stakeholders' feedback on this Communication to prepare a banking package due by the first quarter of 2027, as announced in the 'One Europe, One Market' roadmap.

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