



EUROPEAN CENTRAL BANK

EUROSYSTEM

Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector

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1 Executive summary

The Eurosystem welcomes the European Commission’s targeted consultation and supports an ambitious reform agenda to enhance the competitiveness of EU banks, while preserving the resilience and stability of the financial system.

Amid increasing geopolitical and geoeconomic fragmentation, the Commission’s consultation represents a timely opportunity to consider holistically what is necessary to establish a truly integrated European banking market, which is a prerequisite for achieving the long-term economic objectives of the Union. The continued fragmentation of EU banking markets acts as a brake on European banks scaling up, realising economies of scale and competing both within and outside the EU, and limits private risk-sharing. To break the current deadlock, the Eurosystem calls strongly for synchronised progress on key banking union components, taking concrete steps towards the finalisation of a European Deposit Insurance Scheme (EDIS), with a clear timetable for implementation, and fostering deeper capital markets by progressing on the savings and investment union. This also requires strengthening the crisis management and deposit insurance framework which should proceed in coordination and synchronisation with deepening banking integration via more harmonised rules and the removal of barriers to the free flow of capital and liquidity in cross-border groups. These steps should be accompanied by adequate safeguards promoting resilience holistically for credit institutions and their subsidiaries, branches and consolidated groups, including through fair and timely transfers of resources within groups, particularly in times of stress. These necessary initiatives should have full regard to the diversity of European banks, which the Eurosystem recognises as a source of systemic resilience.

The report of the High Level Task Force on Simplification (HLTF) – endorsed by the ECB’s Governing Council in December 2025 – forms the basis and is an integral part of the Eurosystem’s response to the European Commission’s targeted consultation on the competitiveness of the banking sector. The proposals in both reports complement each other, and should be read in conjunction. The HLTF report is annexed to this document.

The ECB is implementing a four-pronged agenda to increase the efficiency, effectiveness and risk-based focus of European banking supervision. The agenda includes (i) the ongoing reform of the Supervisory Review and Evaluation Process (SREP); (ii) implementing several operational initiatives to achieve gains in effectiveness and efficiency across supervisory activities as part of the “next-level supervision” project; (iii) promoting a unified supervisory culture within the SSM; and (iv) assessing supervisory effectiveness.

The principles underpinning the HLTF recommendations are essential to ensure that any proposal to simplify the EU prudential framework will be effective in promoting the sustained competitiveness of euro area banks.

Those principles are as follows (i) Resilience should be maintained – any proposal to change the EU prudential framework should preserve current levels of resilience; (ii)

effectiveness in meeting prudential objectives needs to be maintained – microprudential, macroprudential and resolution authorities should be able to meet their respective objectives in an effective manner and capture all relevant dimensions of risk; (iii) European harmonisation and financial integration should be fostered – proposals shall take a European perspective and aim to foster more harmonisation across Member States in areas where a lack of harmonisation is a source of complexity or inconsistency; and (iv) international cooperation should be upheld – international standards and multilateral cooperation are crucial, and all jurisdictions should ensure full, timely and faithful implementation of Basel III.

By delivering on its mandate to maintain price stability and contribute to the safety and soundness of the European banking system and the stability of the financial system, the Eurosystem is fostering the conditions for euro area banks' to be competitive. The debate on competitiveness of European banks should be part of a broader, holistic reflection on how to strengthen Europe's growth, innovation and investment in an increasingly challenging global environment, as also highlighted in the Draghi (2024) and Letta (2024) reports. The role of EU banks should not be assessed in isolation. Any review of the regulatory and supervisory framework should consider not only the competitiveness and efficiency of banks, but also that of the euro area economy, as well as the stability and resilience of the financial system. Euro area banks play a key role in providing funding to households and corporates across sectors. It is therefore essential to safeguard their resilience and to create the conditions for them to operate effectively both in the EU and globally, so they can contribute to sustainable economic growth.

The competitiveness of euro area banks is multi-dimensional and shaped by a range of factors, with diversification and scale playing an important role. Competitiveness, both individually and relative to international peers, is related to banks' productivity, efficiency, profitability, and ability to innovate. It also depends on their resilience. These dimensions are affected by a number of external and bank-specific factors. A stable macroeconomic environment with low levels of uncertainty and resilient growth supports consumption and encourages firms to engage in productive investments, which may be financed through bank loans. A large and integrated market allows banks to increase scale, enhancing efficiency and diversifying risks. Clear and stable rules, aligned with international standards, ensure banks can adequately plan their business and risks are adequately covered, preserving confidence in euro area banks while creating a level playing field. Sound business models focused on sustainable and long-term economic growth, supported by strong internal governance and risk management processes, act as a safeguard against excessive risk-taking by banks. Long-term investments and good data-architecture allow banks to build informatic systems that are scalable and adaptable to technological innovations, for example in cloud computing, artificial intelligence and tokenisation. Finally, investments allow banks to build IT systems that are resilient to cyber and operational risks and adaptable to technological innovations in the areas of e.g. cloud computing, artificial intelligence and tokenisation.

The reforms implemented in the EU since the Global Financial Crisis (GFC) have been instrumental in strengthening resilience and restoring confidence in

euro area banks. Today, they are significantly better capitalised, hold higher levels of liquidity, and adhere to more robust internal governance and risk management frameworks compared to a decade ago. Evidence shows that these reforms have increased resilience, without restricting banks' ability to finance the economy. On the contrary in fact, these strengthened positions – together with other economic policy measures - have enabled banks to maintain lending to the economy even during recent periods of acute stress. This is even more relevant at a time when banks are subject to heightened risks and uncertainty driven by geopolitical events which require robust financial and operational resilience.

However, the full potential of the Single Market remains unexploited, as European banking markets continue to remain nationally fragmented, while persisting barriers hinder banks from fully capitalising on the advantages offered by the Single Market. Over the last decade, cross-border banking has remained stagnant. Prudential and non-prudential barriers to cross-border integration stifle euro area banks' cross-border activity, limiting their scale compared to international peers. The reliance on directives, coupled with the lack of harmonisation in areas such as insolvency law, the mortgage market and corporate law create undue complexities and duplications, creating conflicts with the principle of the Single Rulebook. This increases market fragmentation and reduces the system's ability to manage bank crises. These constraints add to other challenges faced by banks, including the impact of technological changes in the financial industry, the increase in cyber risks and heightened geopolitical uncertainty, and may limit banks' ability to support investment and growth at a time when structural changes in the real economy, including those driven by rapid technological developments require substantial investments.

Simplification and further harmonisation – but not deregulation – can foster competitiveness. Lowering standards would ultimately leave risks unaddressed and may incentivise banks to engage in high-risk practices with little benefit to the real economy or their resilience.

Close multilateral cooperation remains pivotal for effectively regulating financial markets and safeguarding global financial stability. Through global bodies like the Basel Committee on Banking Supervision and the Financial Stability Board, the Eurosystem also closely monitors initiatives undertaken by other countries globally and engages in close international cooperation on this matter to strengthen the coherence of global policy frameworks and enhance policy consistency. Within the EU, the operationalisation, impact analyses and effective implementation of simplification proposals should take place in close cooperation with the relevant EU authorities, duly considering the impact they may have on Member States not participating in the Single Supervisory Mechanism.

This document articulates three key messages. First, financial and regulatory fragmentation of the Single Market, including the incomplete banking union, constrain the competitiveness of banks. Measures to solve these constraints would significantly enhance the efficiency of the Single Market and increase their competitiveness. Second, the resilience of euro area banks is a key prerequisite for economic growth and competitiveness. Finally, undue complexity in regulatory

frameworks should be tackled, while maintaining a level playing field to ensure fair competition while supporting innovation and containing risks.

Specifically, complementing the two reports on simplification by the ECB published in December 2025, the main policy proposals advanced by the Eurosystem and further detailed in this note are the following:

- **The banking union should be regarded for the purpose of financial regulation as a single European jurisdiction by all relevant competent and designated authorities.**
- **As a well-designed European Deposit Insurance Scheme (EDIS) would enhance financial stability, the Eurosystem calls for concrete steps towards the finalisation of EDIS, with a clear implementation timetable.** A fully-fledged EDIS with risk-sharing at European level is needed to protect all deposits equally and enhance the resilience of national banking systems and Member States. Progress on EDIS with a clear implementation timetable would support the removal of undue fragmentation in the Single Market by creating the conditions for seamless cross-border transactions and would ensure a level playing field for deposit insurance. The pooling of resources at EU level would create a larger European deposit insurance fund which is less likely to be exhausted than national deposit guarantee schemes with national governments as the ultimate fiscal backstop, weakening the link between a credit institution and its sovereign.¹
- **Capital and liquidity should be allowed to flow freely within a cross-border banking group in the banking union** and be subject to the same conditions applicable to domestic banking groups. This should be accompanied by adequate safeguards promoting resilience holistically for credit institutions and their subsidiaries, branches and consolidated groups, including through fair and timely transfers of resources within groups, particularly in times of stress.²
- **It is proposed 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 to fulfil the need for increased coordination.** This could be done by enhancing the role of the Macroprudential Forum, which already brings together the Governing Council and the Supervisory Board to discuss matters of joint relevance. Leveraging on the Macroprudential Forum would also avoid the multiplication of bureaucratic layers, while keeping the separation principle intact. While macroprudential policy decisions should remain at national level, with possible top-up measures by the ECB, and the ECB's supervisory powers should remain unchanged, there is a need for increased coordination and a process whereby the overall level of capital demand and cross-country heterogeneities can be discussed from a qualitative angle.
- **The regulatory framework should be further harmonised, and non-prudential barriers reduced.** A refocus of directives to regulations would significantly improve the effectiveness of the EU prudential framework by creating a harmonised toolkit. A first best solution would be to merge the CRD

into the CRR, significantly reducing scope for regulatory divergences due to the transposition of prudential rules into national legal frameworks. Further harmonisation in the areas of insolvency law, the mortgage market and corporate law, for example, would also benefit banks operating across borders.

- **Regulatory backstops, including the output floor and the non-performing exposures (NPE) backstop, are key to ensure risks are not underestimated.** Any initiative aimed at ensuring the effectiveness of the output floor should avoid undermining its intended backstop purpose. Deviation from the Basel standards are not justified from a prudential or financial stability perspective and should remain temporary in nature. The Eurosystem encourages banks to confine the use of internal ratings-based (IRB) models to their most material exposure categories, restricting their use for small portfolios with scarce data coverage. The non-performing exposures (NPE) backstop has been pivotal in reducing non-performing loans since the GFC. The NPE framework include a set of rules and expectations which reduce moral hazard, safeguard asset quality and enhance transparency for investors, despite the heterogeneity in EU national insolvency and debt recovery regimes.
- **The macroprudential framework should be simplified by reducing the number of macroprudential elements while preserving current competencies.** The existing five macroprudential buffers can be merged into two buffers, namely a non-releasable buffer (merging the current Capital Conservation Buffer and the buffers for Global and Other Systemically Important Institutions) and a releasable buffer (merging the current Countercyclical Capital Buffer and Systemic Risk Buffer). Any reduction in the number of buffers, as well as any other proposed change to the macroprudential framework, must maintain the current allocation of macroprudential and microprudential powers and preserve the competencies of national and supranational authorities within the banking union. The releasable buffer should foresee a positive rate (whether at a predefined rate or not) already in the early phases of the financial cycle when risks are neither subdued nor elevated, i.e. in a “standard” risk environment. This early activation approach will ensure a timely implementation of the buffer and the availability of releasable capital buffers also in the early stages of the financial cycle.
- **To harmonise the setting of macroprudential elements and avoid unwarranted overlaps or inconsistencies, the calibration of all elements should be guided through clear common principles and methodologies, including a single exercise.** To ensure that national macroprudential authorities rely on harmonised approaches as a starting point for the calibration of buffers, common methodologies should be developed in close cooperation with national macroprudential authorities (to ensure national specificities are accounted for) as well as with the ESRB and the ECB. This does not mean that the buffer setting would be uniform across banks and Member States, as the ultimate calibration would continue to depend on the respective risk levels. Common methodologies should enable macroprudential authorities to address European and country-specific systemic risks in line with European and national

economic and financial cycles. Common methodologies would not prevent national authorities from using complementary methods tailored to national-specific needs and exercise expert judgment, nor alter their decision-making competencies on the setting of buffers. The single exercise could be based among others on a modified EU-level stress test, reflecting European and national financial cycles and risks, as a starting point for the releasable buffer and the P2G.

- **The Eurosystem proposes aligning the MREL and TLAC frameworks more closely – without reducing gone-concern resources – while reviewing their interactions with the going-concern framework.** An option for aligning the MREL and TLAC frameworks would be to reduce the number of elements and stacks in the MREL framework, while remaining compliant with the international standards set by the Basel Committee on Banking Supervision and the Financial Stability Board, maintaining the current level of gone-concern resources. Access to additional funds also needs to be ensured. MREL could consist of a uniform floor – calibrated at the level of the TLAC requirement – and a bank-specific component determined by the resolution authority on top.
- **The Eurosystem proposes expanding the degree of proportionality in the EU under the existing SNCI regime in a prudent manner.** In addition, the Eurosystem proposes regulatory changes to facilitate and further increase consistency in the application of the proportionality principle in supervision. Complementing these changes, any simpler regime for smaller banks needs to be accompanied by a credible, flexible and efficient crisis management framework for these institutions.
- **Achieving a more integrated and streamlined reporting framework is key to enhance efficiency, both for banks and supervisory authorities.** The HLTF has issued six recommendations outlining relevant areas for simplification, including fostering data sharing among European authorities through the Joint Bank Reporting Committee, establishing a fully integrated European reporting system, defining a supervisory tolerance margin for errors based on a materiality concept, publishing an inventory of non-market sensitive reporting requirements imposed on banks, periodically reviewing the relevance of reporting requirements and reforming the EU public disclosure process. These should be achieved while ensuring that the “supervisory need to know” principle is maintained. Furthermore, reviewing relevant Level 1 and / or Level 2 texts would bring significant benefits to the overall EU reporting framework. Finally, ECB Banking Supervision is committed to delivering on its efforts to streamline reporting, as detailed in the report “[Streamlining supervision, safeguarding resilience](#)” and contributing to the work of other European authorities in this area.

Adjusting the prudential framework to close regulatory gaps between banks and non-banks would help preserve the level playing field and reduce disintermediation risks, while supporting innovation. Non-banks may re-bundle bank activities while remaining subject to lighter regulatory regimes and solo entity supervision, creating the risk of regulatory arbitrage and unfair competition. Some of

these entities have already reached a substantial footprint, serving both end-users and financial institutions, and play a critical role in the financial infrastructure. To safeguard the financial system's resilience while supporting responsible innovation, a comprehensive oversight covering the full range of financial and ancillary services provided by these entities is needed, together with enhanced prudential requirements for large and complex non-bank groups. This approach aims to ensure that similar risks are subject to comparable regulatory treatment irrespective of an entity's legal form. However, it does not imply that all non-banks should be brought under the CRR/CRD framework.

2 Euro area banks

2.1 Resilient banks: the backbone of the EU financial system

Banks play a key role in the EU financial system, and are essential in supporting investment, innovation and growth. This chapter describes the role of banks in financing the EU economy, the evolution of competition within and beyond the euro area, and the remaining obstacles, such as limited scale and financial fragmentation, hindering banks' ability to compete internationally.

Banks serve as the primary source of funding for European corporates across all sectors, especially for small and medium-sized enterprises. At the end of 2022, approximately 80% of euro area firms³ relied on external funding to finance their investments, with banks serving as the primary source (see **Chart 2.1** - panel a).⁴ Even for large, listed firms with access to debt markets, bank loans remained the main source of credit, accounting for an average of 58% of total external funding. Micro-firms, on the other hand, tend to rely on self-financing, as access to external finance for smaller and younger firms is typically difficult in bank-centric financial systems like the euro area.⁵ Although banks play a key financing role in the EU, other financing sources might be better suited to fund riskier projects that fall outside banks' risk appetite.⁶ For example, banks may hesitate to finance innovations related to intangible or firm-specific assets that are difficult to collateralise. Additionally, unlike venture capital and private equity firms, banks might lack the expertise to evaluate early-stage technologies or directly enhance operational efficiency.⁷

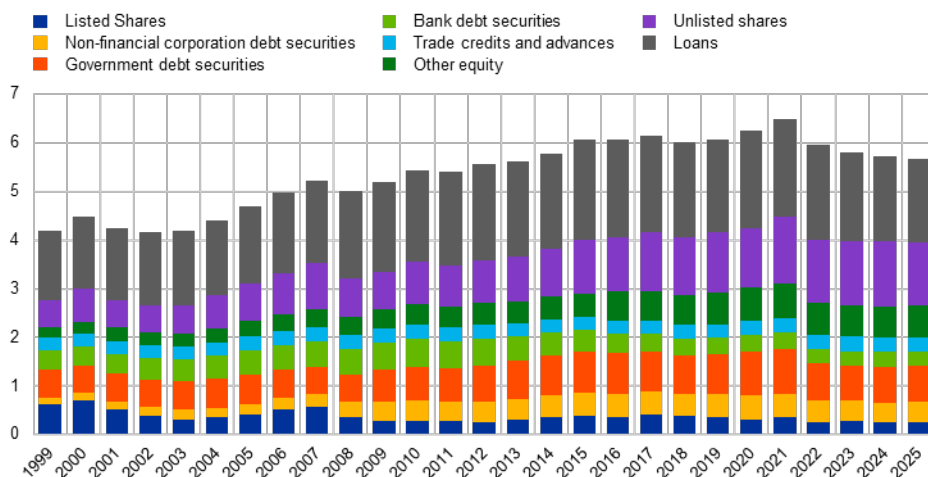
While firms' reliance on bank credit differs across sectors, credit growth to corporates has seen some recovery since the start of monetary easing in 2024, though it remains subdued. ICT firms use bank credit to finance only a small fraction of their assets, opting for a more diversified financing structure (see **Chart 2.1** - panel b). Credit growth to corporates remains subdued due to global uncertainty, trade tensions, and banks' risk perceptions. This is consistent with findings from the Survey on the Access to Finance of Enterprises (SAFE), which indicate a generally limited financing gap for SMEs. However, the gap widened slightly in the fourth quarter of 2025 due to a modest increase in financing needs coupled with a slight decline in the availability of credit.

Chart 2.1

Banks: the primary source of funding for European corporates

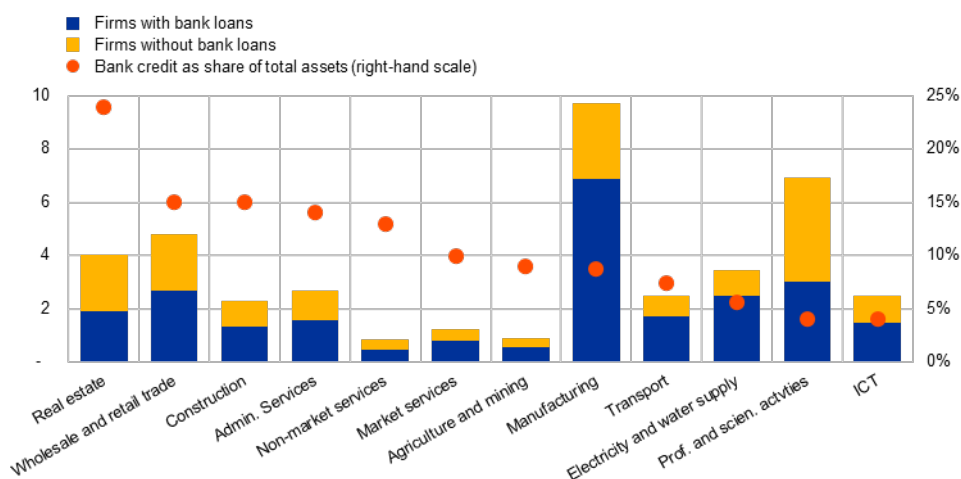
a) Financing of the euro area economy

(annual data: 1999 - 2025; ratio to nominal GDP)



b) Size of euro area corporate sector and share of assets financed by bank credit

(2023; left-hand scale: total assets, € trillions; right-hand scale: percentages)



Sources: BvD Electronic Publishing GmbH – a Moody’s Analytics company, ECB (AnaCredit, QSA, MNA), European Commission (KLEMS) and ECB calculations.

Notes: Panel a: The chart is constructed from the liabilities of all economic sectors, excluding liabilities to the rest of the world, loans from NFCs (to net out intra-company loans in this non-consolidated data), currency and deposits, investment fund shares or units, entitlements from pension, insurance and standardised guarantee schemes, financial derivatives and employee stock options as well as other accounts payable. Other equity refers to equity claims that are not securities listed on an exchange and not unlisted securities, such as equity in incorporated partnerships, equity in limited liability companies whose owners are partners, capital invested in cooperative societies or investment by the government in the capital of public corporations whose capital is not divided into shares. Panel b: bank credit includes credit lines, loans, trade receivables and overdrafts reported in AnaCredit. A firm is defined as having access to bank lending if it has at least one outstanding credit exposure in AnaCredit or Orbis.

Bank lending to firms investing in productivity-enhancing technologies and more dynamic industries is still limited. In their reports, Draghi (2024) and Letta (2024) both highlight the importance of providing sufficient financing to support EU priorities, including innovation, productivity growth, and the green and digital transitions. Expanding green financing and supporting industries adopting advanced technologies, like AI and automation, could significantly enhance productivity and narrow the euro area’s widening productivity gap with the United States. However,

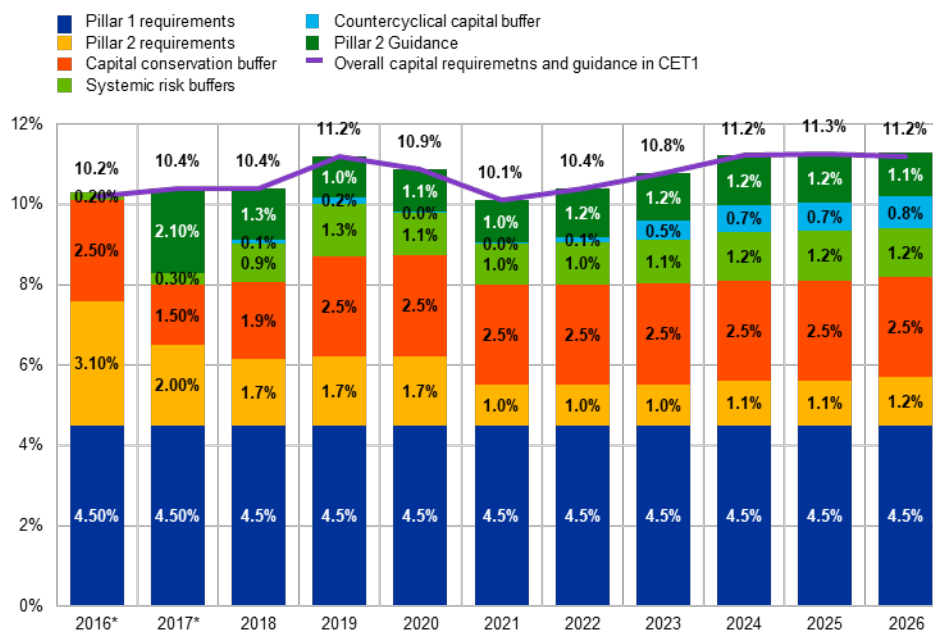
challenges such as limited access to capital markets and higher monitoring costs for green firms persist.⁸

In the aftermath of the GFC, banking regulators and supervisors in Basel agreed to strengthen the levels of banks' capital and establish liquidity requirements (Basel III). As a result of the implementation of the Basel III reforms, the aggregate CET1 requirement in the euro area exceeded 10% by 2016 and has remained broadly stable since then. During the COVID-19 pandemic, the ECB temporarily released prudential requirements⁹ aimed at maintaining continued credit provision to the real economy, complementing the significant fiscal and monetary policy support measures. Since then, capital requirements have returned to their pre-pandemic levels, as lower Pillar 2 Requirements¹⁰ were accompanied by an increase in releasable macroprudential buffers (see Chart 2.2). The recent implementation of the remaining Basel III rules has not materially increased risk-weighted assets (RWAs) or capital requirements. A comparison between banks' positions at the end of 2024 under CRR II with those in the second quarter of 2025 under the initial CRR III framework reveals that, on aggregate, RWAs rose by only 0.2% between the fourth quarter of 2024 and the second quarter of 2025, even though underlying accounting assets grew by 2.8% over the same period. Several offsetting effects explain this limited increase despite the expansion of banks' balance sheets. Credit risk RWAs reduced overall RWAs, mainly owing to changes in certain internal ratings-based (IRB) parameters. By contrast, operational risk RWAs increased, pushing total RWAs upwards.

Chart 2.2

Aggregate CET1 requirements and Pillar 2 guidance remained broadly stable, with a shift towards releasable macroprudential buffers

(percentages of RWAs)



Sources: ECB Supervisory Banking Statistics, ECB SREP database and ECB calculations.

Notes: The reference period for the data is the requirements applicable as of the fourth quarter of each year. The sample selection follows the internal SSM SIs filter and varies each year. "Overall capital requirements": Pillar 1 minimum requirement + Pillar 2 requirement + combined buffer requirements (i.e. the capital conservation buffer + systemic buffers (G-SII, O-SII, SRB) + CCyB). Rounding differences may apply. The chart shows RWA-weighted data. However, due to data limitations for 2016 and 2017 (noted with *) the values are simple averages and not weighted averages. The P2G is added on top of the overall capital requirements. The methodology changed in 2015 to bring in P2G and accommodate the phase-in of the capital conservation buffer. Under CRD V, which came into effect on 1 January 2021, the P2R capital should have the same composition as under Pillar 1 – i.e. at least 56.25% should fall under CET1 capital and at least 75% should fall under Tier 1 capital, in line with the minimum requirements. By way of derogation from the first sub-paragraph of Paragraph 4, Article 104a of CRD V, the competent authority may require the institution to meet its additional own funds requirements with a higher portion of Tier 1 capital or CET1 capital, where necessary, and having regard to the specific circumstances of the institution.

The implementation of the post-GFC reforms was effective in strengthening the resilience of euro area banks and restoring investors' confidence. The NPL ratio of euro area banks has declined from 7.5% in 2015 to 1.9%.¹¹ Following regulatory reforms, the aggregate Tier 1 capital ratio of euro area banks almost doubled in the decade after the GFC, from 8.4% at the end of 2008 to 15.8% in the third quarter of 2019. Today, euro area banks' aggregate Tier 1 capital ratio stands at 17.4% and the leverage ratio of significant institutions is close to 6%, above the 3% minimum requirement. The introduction of liquidity requirements has strengthened banks' ability to withstand unexpected shocks. Banks have also significantly enhanced their internal governance and risk management practices, which are key to address the uncertainty determined by current trends related to geopolitics, climate and nature-related crises, demographic shifts and technological disruptions.

These achievements have enabled banks to navigate several challenges, including the COVID-19 pandemic, the energy crisis in 2022, the 2023 market tensions triggered by significant bank runs and failures in the United States, changes in the interest rate environment and, more recently, the uncertainties stemming from geopolitical risks. Maintaining strong capital and operational

resilience strengthens confidence, allows banks to grow, invest and innovate, and supports durable competitiveness rather than constraining it. Recent periods of stress, such as the COVID-19 pandemic and the 2022 energy crisis, were accompanied by substantial fiscal and monetary policy support. While such policy responses played an important role in past crises, the scale and nature of future support measures cannot be assumed. Resilience is essential to ensure banks can withstand future shocks and continue supporting the economy, even in scenarios where public policy support may be more limited. Finally, resilience is key to enabling banks to respond to changes in the external environment, particularly the digitalisation of financial services and the changing geopolitical environment.

Having outlined the economic importance of banks, we next examine how euro area banks perform in terms of competitiveness and what structural factors shape their ability to compete.

2.2 The competitiveness of euro area banks

The competitiveness of euro area banks has several dimensions and is shaped by multiple factors. Competitiveness is related to banks' productivity, efficiency, profitability, and ability to innovate, individually and relative to international peers. These dimensions are affected by several factors, both external and bank-specific. Stable macroeconomic conditions, low levels of uncertainty and resilient growth enable consumers and firms to invest, including by leveraging banks' lending. A large and integrated market allows banks to increase scale, enhancing efficiency and diversifying risks. Clear and stable rules, aligned to international standards, ensure risks are adequately covered and preserve confidence in banks while creating a level playing-field. Sound business models focused on sustainable and long-term growth, supported by strong internal governance and risk management processes safeguard banks against excessive risk-taking. Long-term investments allow banks to build IT systems that are operationally resilient and adaptable to technological innovations in, for example, cloud computing, artificial intelligence and tokenisation.

Within the euro area, evidence suggests an easing of competitive pressures in recent years. Banks' pricing power – captured by the extent to which they can price their services above marginal cost – has followed an overall upward trend since the GFC indicating that it is gaining in strength¹² Post-crisis consolidation likely reduced the number of competitors, increasing market concentration and potentially easing competitive pressure.¹³ The cross-border lending market is more competitive in the larger euro area economies, which host the largest and globally-active banks.¹⁴

When looking at international competitors, both profitability and valuation gaps between euro area and international peers, including US banks, have narrowed significantly in the last few years. After lagging behind their US counterparts for much of the post-GFC period, euro area banks' profitability has improved steadily since 2021, with their ROE reaching 9.5% in the third quarter of 2025.¹⁵ This also helped euro area banks to narrow, but not close, the profitability gap versus their US peers, to around 2 percentage points. Similarly, since early

2025, the price-to-book ratios of euro area banks have risen sharply, they now stand at a level close to 1.5x, reflecting sustained improvements in profitability as well as higher payout ratios (roughly 54% or €93 billion in 2025, compared to 51% in 2024). This has also led to a narrowing of the valuation gap between euro area and US banks, although significant structural differences persist.

Evidence¹⁶ shows that capital requirements for banks in the EU are not significantly more stringent than those in other jurisdictions and have not hampered competitiveness.¹⁷ Recent contributions have found no evidence that capital requirements for banks in the EU are significantly more stringent than those in the United States as regards large, internationally active banks.¹⁸ For instance, Resti (2025) finds that EU lenders are not burdened with disproportionately high supervisory requirements.¹⁹ Likewise Lopez and Véron (2025) agree that large banks under SSM supervision do not face significantly different requirements than their US peers.²⁰ Behn and Reghezza (2025) find that, for euro area banks, capital requirements are not statistically significantly associated with competitiveness, measured as an indicator of profit efficiency.²¹

Similarly, evidence shows that capital requirements have not constrained bank lending for the average bank. Behn et al. (2024) find that the tightening of macroprudential capital buffers in the euro area since 2021 has had a minimal impact on overall banks' credit supply, with only a small set of the most capital-constrained banks significantly reducing lending.

At the same time, additional factors have contributed to subdued lending dynamics. Following the interest rate cuts that started in mid-2024, bank lending to firms has been gradually recovering albeit at a subdued pace. Credit standards have eased less for firms than for households due to global uncertainty, trade tensions, and banks' risk perceptions. This has been accompanied by broader external financing for firms, including other sources of financing such as debt securities issuance and non-bank lending, being below the historical levels relative to nominal economic activity. For instance, based on a range of models, the credit-to-GDP gap was still negative as of Q4 2025, reflecting mainly cyclical factors – such as lingering effects of past tightening, increased uncertainty, and risk aversion – rather than structural factors.²² This is also in line with the 2025 Q4 [ECB bank lending survey](#), in which banks reported minor increases in capital costs amid high equity valuations, but continued to highlight further tightening of credit standards, accompanied by increasing risk perceptions and lower risk tolerance.

2.3 Financial fragmentation and lack of scale are key constraints on competitiveness

Notwithstanding the positive developments discussed above, financial fragmentation and lack of scale undermine competitiveness in the euro area.

Achieving scale is essential for banks to compete in activities where size, technological investment and global reach matter - such as investment banking, global markets such as repo markets and foreign exchange trading. However, euro

area banks operate in a fragmented regulatory, supervisory and legal environment which limits cross-border consolidation and prevents them from realising economies of scale. Furthermore, it reduces scope for private risk-sharing, and ultimately weakens their ability to compete with globally integrated peers - particularly US banks.

Evidence shows that barriers to trade in goods and services, including in the financial sector, are preventing the EU from tapping into the full benefits of the Single Market. A recent ECB analysis found that obstacles to the Single Market, including regulatory, administrative, enforcement and competition-related barriers linked to the inconsistent application of EU rules or lack of oversight mechanisms across Member States undermine the Single Market. Evidence shows that, despite the decrease recorded between 2005 and 2023, intra-EU service trade costs, including in the financial sector, are roughly equivalent on average to a *ad valorem* tariff of around 95% compared to domestic trade. These estimates are best interpreted as upper bounds for trade frictions that can be reduced through policy action. Still the analysis indicates lower trade barriers for services, including financial services, would achieve a larger increase in trade (14.5%) and a larger welfare increase (1.8%) than a similar reduction of barriers for goods.²³

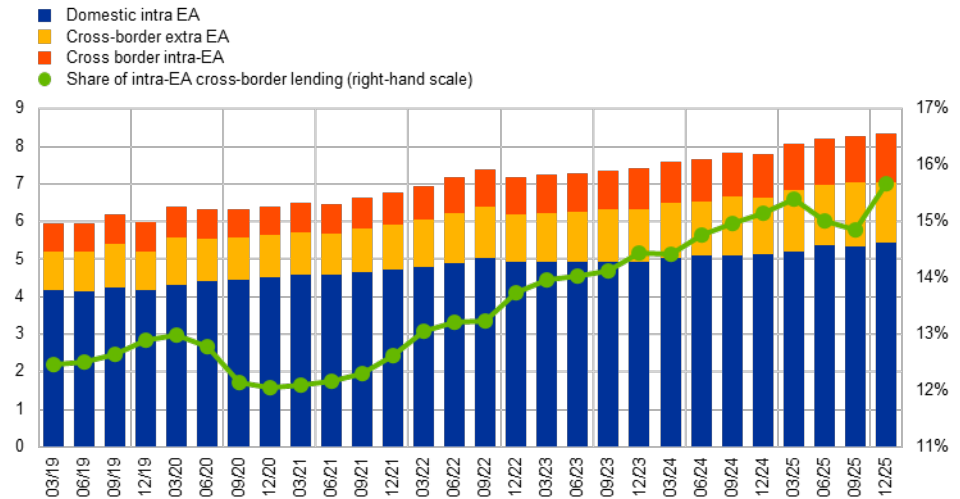
Financial fragmentation has persisted over the last decade, with cross-border banking in the euro area remaining mostly flat, while cross-border lending to the corporate sector slightly increased.²⁴ On aggregate, euro area cross-border lending to the banking sector and all other economic sectors represented 22% and 8% of total lending respectively, as of mid-2025.²⁵ For the corporate sector specifically, granular analysis shows that as of the third quarter of 2025 cross-border lending within the euro area represented ca. 16% of total corporate lending, while lending to borrowers outside the euro area accounts for 19%. While the share has increased by 3 percentage points since 2023, intra euro area cross-border lending remains subdued. The evidence reflects how reliant the euro area's micro-firms and SMEs are on a bank-based system rooted in relationship lending, which keeps bank credit largely within national borders. Cross-border lending to corporates also varies significantly, with exposures concentrated in countries hosting large firms, particularly in the services sector (see [Chart 2.3](#)).²⁶ On the other hand, cross-border wholesale banking activity in the euro area has grown more recently, driven by more active money markets, and remains dominated by systemically important and investment banks.

Chart 2.3

Cross-border bank lending is increasing slightly in the euro area with some types of exposure concentrated in specific borrower countries

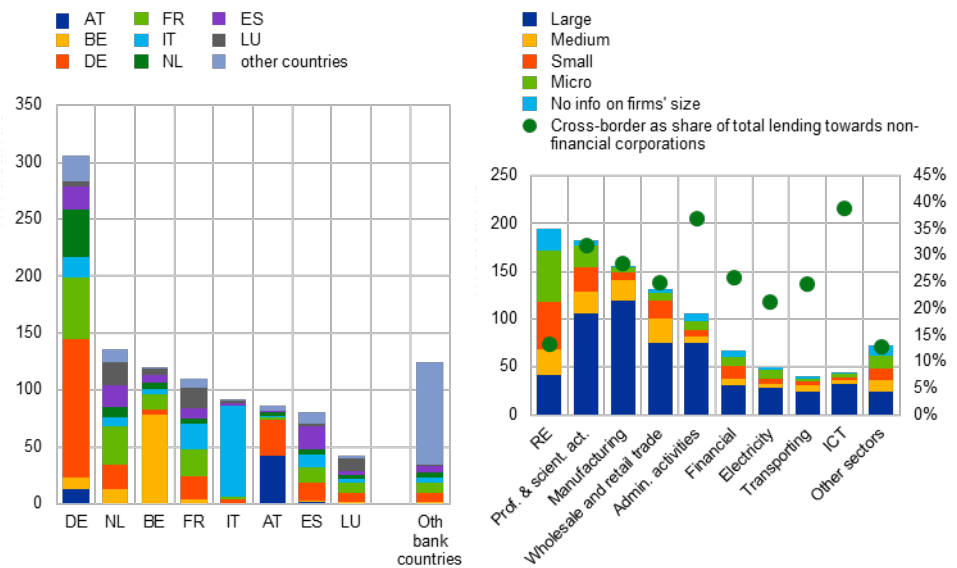
a) Bank lending by euro area-domiciled credit institutions to corporates

(Q1 2019 – Q4 2025, outstanding nominal exposures in EUR trillions (left-hand scale); percentage of total lending by euro area banks to non-banks (right-hand scale))



b) Cross-border intra- euro area exposures by borrower sector and borrower domicile

(Dec. 2025, outstanding nominal exposures in EUR billions, percentages)



Sources: ECB (AnaCredit) and ECB calculations.

Notes: The reported figures represent a lender-borrower relationship at the entity level and disregard the residence of the respective parent entities. They include credit exposures of euro area domiciled banks (ESA sector "S.122") to euro area and globally-domiciled non-financial corporations ("S.11"), other financial intermediaries ("S.125"), financial auxiliaries ("S.126") and captive financial institutions ("S.127"). The credit exposures include overdrafts, trade receivables, revolving credit, credit lines, reverse repos and term loans. Overdrafts are debit balances on current accounts, i.e. current accounts with agreed overdraft limits. Revolving credit is not necessarily linked to a current account, and the debtor may withdraw funds up to a pre-approved credit limit without giving prior notice to the creditor; in this way, the amount of available credit can increase and decrease as funds are borrowed and repaid, and the credit may be used repeatedly. Credit lines allow the debtor to withdraw funds up to a pre-approved credit limit without giving prior notice to the creditor; in this case, the credit may be used in tranches, but it is not revolving. With credit lines, the amount of available credit can only decrease as funds are drawn, and repaying funds does not increase the available amounts. Panel b): The reported bank lending figures include direct and indirect cross-border lending. Countries on the x-axis represent the domicile of euro area banking group parents. Around 70% of direct and indirect intra-euro area cross-border lending via reverse repos refers to lending by a central clearing counterparty that has a banking licence.

Lack of scale affects euro area banks' ability to compete in specialised market segments such as investment banking, repos and foreign exchange markets.

The dominance of US banks in investment banking is a long-term phenomenon already in place before the post-GFC reforms were implemented. The global reach they have achieved allows them to offer a “one-stop shop” solution for clients across different risk areas. Even within euro area investment banking, the market share of non-EU banks is significant. The greater scale of US banks, partly driven by higher concentration and stronger pricing power in the domestic market, allows them to generate higher profits and invest these to expand their footprint abroad. In the euro area, non-financial M&A business remains dominated by US players; the market shares of euro area banks have been showing a downward trend since the GFC. US investment banks, and their local euro area subsidiaries, are increasingly serving as intermediaries in euro area repo markets and foreign exchange derivatives. They act as important providers of funding to euro area NBFIs. Euro area banks have diverse size, characteristics and business models, and serve the financing needs of different economic operators. While the optimal features and size of each bank can vary depending on its business model and specific characteristics, greater scale can help banks compete more effectively in investment banking and global market-based activities. The consequences for systemic relevance must also be adequately taken into account.

Financial fragmentation is shaped by both supply- and demand-side factors and may weaken euro area banks' ability to compete in global markets and in certain financial segments. On the supply side, universal and diversified lenders dominate the euro area landscape, followed by systemic banks, and retail banks and small lenders. Asset managers, custodians and investment banks, are concentrated in a small number of countries, and often represent euro area subsidiaries of non-euro area parent banks. On the demand side, the market for these services is also less developed as European firms rely more heavily on bank lending and make comparatively less use of capital markets and investment banking services (e.g. equity and debt capital markets services).

Competing effectively in these segments requires significant scale. Investment banking and global markets activities are inherently cyclical and require diversified business lines to absorb revenue volatility across market conditions. Scale also matters because many market activities benefit from economies of scope, for instance in derivatives and repo intermediation. Derivatives markets rely on integrated trading, clearing and collateral management functions. Banks' holdings of government bonds partly reflect their role as primary dealers in sovereign debt markets. These securities play a critical role in market functioning, as they are widely used as collateral in repo transactions and as initial margin for derivatives trading.

Limited cross-border integration and consolidation – hindered by regulatory, governance, and shareholder challenges as well as domestic and political interests – are preventing banks from fully reaping the benefits of the Single Market. Over the past decade, while the euro area banking sector has become more concentrated, this has been mostly driven by domestic mergers and acquisitions (M&A), and the overall banking sector concentration at the EU level remains lower

than in the United States. The top eight US banks account for 55.2% of total banking assets, compared to 41.3% for the top eight euro area banks.²⁷ While the number of M&A transactions has increased in recent years, it remains significantly below the pre-GFC average. M&A activity in Europe often aligns with existing cross-border financial linkages and tends to cluster among neighbouring countries or remain confined within national borders.²⁸ Fragmentation and limited consolidation reduce the potential for private risk-sharing within the European banking market and hinder banks' ability to optimise liquidity management at group level, ultimately increasing risks to financial stability when shocks hit specific markets. Further efforts at EU and national level to remove remaining regulatory and governance obstacles remain crucial.

While emphasising the priority of reducing fragmentation to support European banks' international competitiveness in certain market segments, the Eurosystem also recognises the value of diversity in the European banking sector, which is a source of systemic resilience. Euro area banks have diverse sizes, characteristics and business models, and serve the financing needs of different economic operators. The Eurosystem also recalls that proportionality is an indispensable principle of banking regulation and supervision in the Union (see also Section 4.7). Indeed, proportionality is integral to the ECB's supervisory approach in which the intensity of supervisory interventions and the scale of resources are sized to be commensurate to different sizes and business models of individual banks, and differences in their underlying risks.

3 The Single Market and the banking union

The EU would benefit immensely from completing the banking union, however it remains incomplete - most notably because deposit insurance continues to operate at national level. This chapter outlines the consequences of the incomplete framework and the benefits Europe would achieve by completing it. The chapter first discusses the current state of the banking union, then examines the remaining impediments to cross-border banking integration, sets out proposals to address them, and concludes with the broader regulatory reforms needed to reduce fragmentation.

Progress in completing the banking union remains stalled in a sub-optimal equilibrium, in which the absence of fully European solutions undermines national authorities' confidence in permitting deeper cross-border integration.

In turn, the continued fragmentation of EU banking markets acts as a brake on private sector risk-sharing, while also limiting opportunities for European banks to scale up, realise economies of scale and compete with international peers. To reach a more optimal equilibrium, synchronised progress on key banking union components, taking concrete steps towards the finalisation of a European Deposit Insurance Scheme (EDIS), with a clear timetable for implementation, and fostering deeper capital markets by progressing on the savings and investment union is needed. Work to strengthen the crisis management and deposit insurance framework should proceed in coordination and synchronisation with efforts to deepen banking integration via more harmonised rules and the removal of barriers to the free flow of capital and liquidity in cross-border groups. This should be accompanied by adequate safeguards promoting resilience holistically for credit institutions and their subsidiaries, branches and consolidated groups, including through fair and timely transfers of resources within groups, particularly in times of stress.²⁹ These necessary initiatives should have full regard to the diversity of banks in the European banking industry, which the Eurosystem recognises as a source of systemic resilience. The competitiveness report represents an important opportunity to approach these interconnected issues holistically, designing comprehensive and balanced solutions to deliver meaningful progress on the basis of the components described below. This opportunity should not be missed.

Financial integration through deeper cross-border integration in the banking sector is essential for growth and greater EU strategic autonomy. An integrated banking system can support more efficient allocation of savings to productive investments, while enhancing private risk-sharing and reducing fragmentation. Deeper cross-border banking integration makes it easier for European banks to scale up, realise economies of scale and engage in welfare-enhancing competition, including with international banks from third countries. Broader funding sources and more effective risk-sharing within cross-border groups can also help strengthen banks' resilience. As outlined in Draghi (2024), the incomplete single market also

puts euro area banks at a competitive disadvantage with international peers, which benefit from larger home markets, higher economies of scale and deeper capital markets.

3.1 The banking union

The banking union rests on three pillars: the SSM, the Single Resolution Mechanism (SRM), and the European deposit insurance scheme or EDIS (which is yet to be introduced). The first pillar, the SSM, centralises the prudential supervision of significant banks within the euro area, promoting consistent supervisory standards across Member States. The second pillar, the SRM, establishes a common framework for orderly resolution of failing banks, aiming to minimise the impact of bank failures on the economy and on the stability of the financial system. These two pillars have made it possible to internalise divergences between home and host authorities' perspective, by establishing common supervisory and resolution regimes. The third pillar, the proposed EDIS, would deliver a more uniform degree of insurance cover to depositors in the euro area regardless of their geographical location, increasing confidence and strengthening financial stability. These three pillars are designed to operate in a complementary manner: the SSM enhances supervisory consistency and promotes stronger resilience and better risk management in banks; the SRM provides a framework to tackle bank distress when it occurs, and deposit insurance protects depositors and supports confidence.

However, the third pillar of the banking union, EDIS, is still lacking; as a well-designed EDIS would enhance financial stability, the Eurosystem calls for concrete steps towards the finalisation of EDIS, with a clear implementation timetable. A fully-fledged EDIS with risk-sharing at European level (including potential models under which direct coverage does not apply to all European banks³⁰) is needed to protect all deposits equally and enhance the resilience of national banking systems and Member States. Progress with a clear implementation timetable on EDIS would also support the removal of undue fragmentation in the Single Market by creating the conditions for seamless cross-border transactions and would ensure a level playing field for deposit insurance, which would in turn help further support resilient and competitive EU banks.

A strong EU framework for liquidity in resolution is pivotal to successful bank crisis management. Such a framework should be set up in accordance with the Guiding Principles of the Financial Stability Board and international best practices. Liquidity support is crucial to restore market confidence in a bank after resolution, as it may face challenges in accessing private funding and could experience further outflows immediately after resolution. Bridging this gap through liquidity in resolution plays a critical role in ensuring the success of resolution strategies. Currently, national central banks can offer liquidity through Emergency Liquidity Assistance (ELA). No such functionality exists at euro area level, implying a de facto fallback onto national solutions. All costs and risks associated with ELA are borne by the national central bank in question with the national government as the ultimate fiscal

backstop. These risks are not shared across the Eurosystem. The national solutions do not reflect the reality that large euro area banks are now supervised at European level. When assessing potential solutions involving the Eurosystem, it is important to note that the Eurosystem can only provide liquidity against adequate collateral. The introduction of a public sector guarantee at the European level,³¹ or other guarantees meeting the Eurosystem collateral requirements could enable the Eurosystem to provide central bank liquidity at the European level beyond the level of the common backstop to the Single Resolution Fund (SRF)³².

3.2 Impediments to cross-border banking integration

Banks can expand across Member States either by providing services under passporting rules or by establishing local subsidiaries; each variant offers different advantages and constraints. First, under passporting arrangements, banks that are authorised in one Member State may establish branches in another Member State without seeking prior authorisation from the host Member State, or they may provide services on a direct cross-border basis. Second, banks may establish or acquire locally incorporated banks in host Member States as their subsidiaries. Acquiring an existing bank in a host market typically offers a faster route for banking groups to enter new markets, since an already-established local bank possesses knowledge and expertise of the local market and may have existing brand recognition and business relationships.

Banks' choice on how to expand within the Single Market should not depend on whether the expansion is within or across Member States. In the current setup, however, there are several regulatory, prudential and non-prudential factors that significantly influence banks' decisions on how to expand across Member States, rather than within Member States. These can shape the strategic decisions taken by banking groups, sometimes leading to prioritisation of regulatory efficiency over business-driven considerations when entering new Member States, resulting in an overall suboptimal outcome.³³

The efficiency of cross-border subsidiaries would be brought to the same level as that of domestic structures without prudential requirements restricting free movement of capital and liquidity within groups. A key difference as regards prudential treatments is that subsidiaries must meet capital and liquidity requirements locally on a standalone (or sub-consolidated basis). The current legislative framework provides the possibility to waive liquidity requirements for cross-border subsidiaries on an individual basis as long as relevant entities in the group meet liquidity requirements collectively. Such waivers are subject to conditions on the transferability of resources within a group. Cross-border liquidity waivers remain largely underutilised, even though conditions are currently met in some cases. Other requirements, such as risk-based capital requirements, the leverage ratio and large exposures limits can be waived only for domestic subsidiaries, not cross-border ones.³⁴ Similarly, individual banks within a group must treat their exposures to affiliates in other Member States as if they were exposures to third-parties, triggering full capital, liquidity, and leverage requirements. By contrast, group

entities within a single Member State may be permitted to establish a free flow of resources among the group entities.

These constraints result in subsidiaries maintaining high standalone capital and liquidity, limiting the flexibility of group-wide resource allocation. This can increase the overall fragility of banking groups by preventing loss-absorbing capacity or liquid assets from being deployed flexibly where losses or liquidity needs actually arise. Calculations by ECB Banking Supervision show that the absence of cross-border liquidity waivers constrains the transferability within the banking union of around €230 billion of high-quality liquid assets due to the need to comply with the general minimum level of the liquidity coverage ratio (LCR) at individual subsidiary level.³⁵ Furthermore, those subsidiaries hold an additional €150 billion of excess high-quality liquid assets; some of this liquidity may also not be transferable due to other requirements constraining or limiting the free intra-group transfer of liquidity, e.g., due to national large exposure limits, the application of capital requirements at individual level, or internal operational constraints.

The ECB has taken concrete steps to support cross-border banking integration within the existing framework. For example, European banking supervision issued a guide affirming that cross-border mergers within the euro area will be treated in the same way as domestic mergers, clarifying that it will not hinder banks wishing to convert subsidiaries into branches, and making it clear that banks operating across borders through subsidiaries can apply for liquidity waivers to pool liquidity across legal entities with still significant safeguards in place. However, despite these efforts, European banking markets continue to be nationally fragmented (Chapter 1).

3.3 Proposals to support deeper banking sector integration

The EU would benefit from deeper financial integration of which progressing on the banking union is a crucial part of. Progress on pan-European projects like the banking union would require all Member States and authorities involved to take transnational perspectives.

The banking union should be regarded for the purpose of financial regulation as a single European jurisdiction by all relevant competent and designated authorities. This approach is crucial to fostering a cohesive regulatory framework that transcends national boundaries, ensuring a harmonised and integrated financial system across Europe. Such an approach can better align authorities' actions with the overarching goals of the banking union, such as promoting financial stability, enhancing cross-border collaboration, and reducing fragmentation within the European financial market. This European perspective should not merely complement the national viewpoint but serve as a guiding principle to ensure consistency, fairness and efficiency in the supervision and regulation of financial institutions operating within the banking union. Ultimately, this unified approach will contribute to building a more resilient and transparent banking sector that meets the

needs of all member states while fostering trust and cooperation across the European Union.

A crucial consequence of regarding the banking union for the purpose of financial regulation as a single jurisdiction would be an increase of European financial integration and enabling of more efficient cross-border banking.

- Capital and liquidity, regardless of where it is being placed within a banking group within the banking union, should be allowed to flow freely within the banking union. This would ensure the prompt transfers of capital or repayment of liabilities allowing for a more efficient allocation of resources.
- To support more efficient group-wide management of capital and liquidity, in line with the EU single market, competent authorities, including the ECB for significant institutions under its direct supervision, should be able to grant credit institutions permission to apply the same regulatory treatment for cross-border intra-group exposures as for domestic intra-group exposures.³⁶ Such intragroup permissions can facilitate management of capital and liquidity in the banking union, while retaining locally prepositioned resources to meet liabilities and absorb losses.
- With progress on EDIS, considerations on the transfer of deposit-guarantee contributions between Member States following the conversion of subsidiaries into branches will become less relevant. However, in the transition to EDIS, enabling the actual transfer of contributions across borders when activities are shifted from a subsidiary to a parent branch may foster a more extensive use of branches and direct cross-border services, rather than subsidiaries. The Eurosystem supports mandating the European Banking Authority (EBA) with developing a methodology for calculating the amount of DGS contributions to be transferred to ensure alignment with the risks transferred while taking into account financial stability considerations in all Member States affected.
- To increase European financial integration and enable more efficient cross-border banking, adequate safeguards should be established, promoting resilience holistically for credit institutions and their subsidiaries, branches and consolidated groups, including through fair and timely transfers of resources within groups, particularly in times of stress.³⁷

3.4 Reducing regulatory fragmentation

As recommended by the HLTF, tackling the complexity of the Single Rulebook requires refocusing EU prudential law from directives to regulations, increasing harmonisation and regulatory transparency, and streamlining level 2 and 3 acts. The Single Rulebook is particularly complex for micro-prudential rules, which reflect national specificities and cover a broad set of topics, some of which require detailed technical implementation rules. To foster harmonisation and consistency, regulators have issued a large number of Level 2 and Level 3 acts. In addition, to assist banks in applying the applicable prudential law supervisors have

also issued non-legally binding supervisory expectations to enhance transparency and foster a level playing field for banks.

Merging the CRD into the CRR would significantly reduce the scope for supervisory and regulatory divergences due to the transposition of prudential rules into national legal frameworks. This could provide notable benefits in areas such as licencing, internal governance and suitability assessments (fit and proper), where current CRD provisions remain largely principle-based, and allow for different transpositions and a lack of harmonisation. Enhanced consistency would particularly benefit banks operating in multiple EU countries. This should also include the full harmonisation of all core elements of the definition of a credit institution, as well as the activities subject to mutual recognition.³⁸ Fragmentation also risks slowing down innovation. By way of example, the absence of an EU level definition of tokenised deposits means banks must approach national authorities one by one even to explore cross-border pilot applications, resulting in delays and divergent expectations. Such a heterogeneous regulatory landscape also complicates the discharge of the ECB's supervisory tasks and the exercise of its powers within the banking union.

In addition, as discussed in Section 4 , establishing the macroprudential toolkit within the CRR rather than in the CRD as at present, would support greater harmonisation of the use of macroprudential measures by relevant authorities.

The prudential framework also needs to be adjusted to close regulatory gaps between banks and non-banks, while supporting innovation. The risks arising from white-labelling and multi-partner distribution models cannot be fully addressed within the CRR/CRD framework alone and require a more holistic approach. The emergence of large non-bank groups³⁹ engaging in technology-enabled financial intermediation challenges the effectiveness of the current regulatory and supervisory frameworks. These entities' aggregate risk profile may be difficult to assess in the absence of prudential consolidation or conglomerate-level supervision.⁴⁰ In addition, non-banks may re-bundle bank activities while remaining subject to lighter regulatory regimes and solo entity supervision, creating risk of regulatory arbitrage and unfair competition. Some of these entities have already reached a substantial footprint, serving both end-users and financial institutions, and play a critical role in the financial infrastructure.

Given concerns on the level playing field, the Eurosystem supports, comprehensive oversight of the full range of financial and ancillary services provided by these entities. This would entail a consolidated perspective on the activities of these players, together with capital and liquidity requirements reflecting both solo and group risks, to ensure these entities continue to operate while not posing undue risks to the financial system's resilience. The regime could feature enhanced prudential requirements, recovery and resolution planning, dedicated supervisory colleges and ESA-led supervision for non-bank significant players.⁴¹ Moreover, improving cross-sector and cross-authority cooperation, data consolidation and information-sharing remains essential.

Broader financial integration depends on reducing legal divergences – particularly in insolvency, credit enforcement, company and labour law and taxation – that hinder cross-border activity and raise funding costs. Differences in insolvency law and credit enforcement generate uncertainty about recovery rates and creditor hierarchies, discouraging cross-border lending and securitisation, raising funding costs and constraining private risk-sharing. Such legal divergence also impedes the efficient management of liquidity and collateral within cross-border banking groups and can amplify financial stability risks when shocks are concentrated in specific jurisdictions. Greater harmonisation of company law, tax rules and product and consumer protection law, would reduce the fixed costs of establishing and operating cross-border business models. Initiatives in the area of the trading and post-trading consolidation can be expected to reduce financial fragmentation, allowing more banks to operate on a cross-border basis without the need for locally established subsidiaries.

Accelerated progress on the savings and investments union is urgently needed to strengthen Europe’s competitiveness, strategic autonomy and financial stability, while supporting the efficient financing of the real economy. Financing in the euro area remains predominantly bank-based; equity markets are still fragmented and less developed than in other major economies. This hampers the efficient allocation of savings and increases funding costs across the corporate sector, particularly for innovative and high-productivity firms. Persistent legal and supervisory fragmentation continues to limit market depth, while long-term demographic trends, notably population ageing, underline the need to strengthen private retirement provision and savings vehicles to complement public pensions and ensure adequate retirement income.

4 The complexity and effectiveness of the regulatory framework

4.1 Recommendations and concrete actions undertaken

The Eurosystem has already outlined a set of ambitious recommendations to address undue complexities in the prudential framework and reform prudential supervision. In December 2025 the ECB's Governing Council endorsed the [seventeen recommendations](#) for simplifying the European prudential regulatory, reporting and supervisory frameworks prepared by its High-Level Task Force (HLTF). These recommendations are to be considered an integral part of the Eurosystem's response to the European Commission's targeted consultation on the competitiveness of the banking sector. The proposals in this section provide further details to implement these recommendations.

In addition, since 2023, ECB banking supervision has embarked on a major reform agenda and taken concrete actions to make European banking supervision more efficient, effective and risk-based. The report titled "[Streamlining Supervision, Safeguarding Resilience](#)" summarises the main initiatives, including (i) the reform of the Supervisory Review and Evaluation Process (SREP); (ii) the "Next-level supervision" project; (iii) the "SSM supervisory culture" initiative; and (iv) assessing supervisory effectiveness.

Addressing undue complexities within the European regulatory, supervisory and reporting frameworks should by no means undermine banks' resilience and should be grounded in the four principles outlined by the HLTF. First, resilience should be maintained: any proposal to change the EU prudential framework should preserve current levels of banks' resilience. Second, effectiveness in meeting prudential objectives needs to be maintained: microprudential, macroprudential and resolution authorities should be able to meet their respective objectives in an effective manner and capture all relevant dimensions of risks. This should be achieved while avoiding excessive granularity, for example in the implementation of macroprudential instruments, or overly complex measures with limited capital impact. Third, European harmonisation and financial integration should be fostered: proposals must take a European perspective and aim to foster more harmonisation across Member States. This report provides further details on how to establish harmonised approaches for the setting of instruments while maintaining national competences. Fourth, international cooperation should be upheld: international standards and multilateral cooperation are crucial, and all jurisdictions should ensure full, timely and faithful implementation of Basel III. By addressing the undue complexity of the current framework and focusing on these four principles, the European regulatory system can be simplified without undermining its core objectives.

Close multilateral cooperation remains pivotal for effectively regulating financial markets and safeguarding global financial stability. Through global bodies like the Financial Stability Board, the Eurosystem also closely monitors initiatives undertaken by other jurisdictions around the world and engages in close international cooperation to strengthen the coherence of global policy frameworks and enhance policy consistency. Within the EU, the operationalisation, impact analyses, evaluations, and effective implementation of simplification proposals should take place in close cooperation with the relevant EU authorities, duly considering the impact they may have on Member States not participating in the Single Supervisory Mechanism.

4.2 General assessment

The current EU regulatory framework for banking established in the aftermath of the GFC has ensured the safety and soundness of individual institutions and helped maintain financial stability without impeding growth. The European banking sector remained resilient and continued to provide financial services to the real economy through a series of shocks in recent years, including the COVID-19 pandemic, the March 2023 banking turmoil and, more recently, the announcements of new tariffs by the United States. Complemented by decisive fiscal and monetary policy actions, stronger regulation, effective supervision and adequate capitalisation have strengthened banks' resilience and enabled them to take risks and manage them properly. (Section 1). ECB analyses and other research show that adequate capitalisation of the banking sector has a positive impact by decreasing the likelihood and severity of financial crises, and does not come at the expense of growth.⁴²

The EU regulatory framework has several layers, reflecting the underlying complexity and diversity of the European banking landscape itself. The framework has evolved organically over time to address multiple objectives – microprudential resilience, macroprudential stability and orderly resolution – while also catering for banks with different sizes, business models and risk profiles. This has resulted in a complex risk-based capital stack, comprising up to eight layers.⁴³ The EU regulatory framework is multi-layered: while the core requirements enshrined in EU legislation implement international standards agreed in Basel, they interact with a heterogeneous set of national banking systems, governed by rules tailored to domestic market structures and policy preferences.

Some of the more complicated features of the Single Rulebook reflect EU legislative negotiations and political compromises, where legislators have agreed carve-outs or exemptions. This has resulted in additional layers of conditionality, exemptions and transitional measures. Notable examples are the CRR provisions establishing exemption from credit valuation adjustments for non-financial counterparties, the prudential treatment of insurance holdings, the “supporting factors” for exposures to small and medium-sized enterprises and infrastructure projects, the special treatment of sovereign exposures for banks using internal models, and specific approaches to the risk weights applied to residential real estate loans. Legislators have also allowed specific options and discretions which were

exercised differently in different Member States. For example, Article 493(3) of the CRR allows Member States to establish differentiated rules on exemptions from large exposures limits, leading to significant complexity and heterogeneity in the EU framework in this area. In some cases, the existing additional layers of conditionality, exemptions and transitional measures in the framework reflect national specificities.

4.3 The prudential framework

4.3.1 Balancing risk-sensitivity and prudential backstops

The output floor and leverage-based requirements complement risk-based requirements and are essential elements of the prudential regulatory framework for banks. The Eurosystem reiterates the importance of robust standards for calculating risk-based capital requirements, both as regards the definition of regulatory capital and the calculation of risk-weighted exposure amounts, and in view of the importance of risk-based requirements in shaping incentives, governance and strategy. While risk-based requirements ensure that banks' loss-absorbing capacity is commensurate with the risks they have incurred and the potential losses they may suffer, the leverage ratio (LR) and output floor provide distinct, complementary safeguards against underestimating risks due to their role as backstops for risk-based capital requirements.

The LR is a non-risk-based backstop to risk-based capital requirements, which also aims to mitigate the risks of system-wide deleveraging following a financial crisis. As noted by the HLTF, the leverage ratio in the EU contains additional layers not explicitly foreseen in the Basel standards, adding to its complexity. An option could be to have two elements: one LR minimum requirement and one LR buffer. For G-SIIs, the LR buffer could be floored at the Basel G-SIB LR buffer rate, while for other banks the LR buffer could in principle be set to zero. Mechanically linking the leverage ratio framework with the risk-based buffer framework could also be explored further; however, this would pose challenges in terms of capital neutrality and overall calibration.

The output floor ensures that risk-weighted assets calculated using internal models do not fall too far below those calculated using standardised approaches. By requiring that total risk-weighted assets calculated using internal models cannot be less than 72.5% of the total risk-weighted assets calculated through standardised approaches, the output floor reduces undue variability in IRB risk-weights.⁴⁴ The CRR currently includes significant transitional arrangements, resulting in temporarily reduced risk weights for the application of the output floor compared to those envisaged in the Basel standards, namely concerning (i) residential real estate exposures with low historical losses, (ii) exposures to unrated corporates, and (iii) the calibration of counterparty credit risk related to derivative exposures. The Eurosystem reiterates that such deviations are not justified from a prudential or financial stability perspective, as they leave pockets of risks insufficiently addressed, and should therefore remain temporary in nature.⁴⁵

The Eurosystem fully supports the Basel output floor as a backstop to ensure banks do not underestimate risks. The Eurosystem considers that for most banks using internal models, risk-weighted assets determined using internal models should normally be higher than the output floor, which is consistent with the output floor serving as a backstop. At the same time, it is acknowledged that for some banks, IRB risk weights may be significantly lower than those calculated under the standardised approaches for the same exposures, especially for some portfolios and exposure classes. For these, the output floor is likely to be binding in line with its objective to limit the capital benefit a bank can obtain from its use of internal models and address potential model risk, relative to the standardised approach.

For the output floor to serve its purpose as an effective backstop to risk-weights calculated using internal models, transitional arrangements affecting its calculation should not be prolonged. In parallel, it is necessary to ensure sufficient conservatism in setting IRB risk weights. Banks should simplify their use of models by limiting their use on their most material exposure categories, rather than for small portfolios or where relevant data is limited.

4.3.2 The NPE backstop

The Eurosystem considers the framework aimed at reducing NPLs as effective and underscores the importance of maintaining a prudent approach to managing and provisioning such exposures. NPLs absorb bank capital, increase the cost of funding and weaken profitability; large shares of NPLs hinder banks' ability to provide lending to the economy and support economic growth, undermine resilience to shocks and increases sensitivity to systemic risks. Reducing the stock of NPLs was a key milestone to restore confidence in the EU banking system after the GFC and required more than a decade, significant amounts of capital, and several regulatory and supervisory initiatives.⁴⁶ The current framework has proven effective in reducing NPLs and preventing further increases in them. The framework includes both regulatory provisions on the coverage of non-performing exposures (the NPE backstop) as well as supervisory guidance and expectations on coverage and on loan origination. By establishing a set of rules and expectations, it reduces moral hazard and contributes to safeguarding asset quality. It also enhances clarity and transparency for investors, despite the heterogeneity in EU national insolvency and debt recovery regimes. Notwithstanding the significant reduction in the volume of banks' non-performing exposures and the soundness of EU banks' balance sheets, risks related to specific pockets of vulnerabilities⁴⁷ and the geopolitical scenario persist, warranting a prudent, forward-looking approach.

4.3.3 Supervisory capital measures

Pillar 2 requirements (P2R) and Pillar 2 guidance (P2G) are essential supervisory tools, tailored to individual banks, ensuring they use sufficient capital funding to cover specific risks and withstand potential stress scenarios. These measures are fully aligned with the Basel standards on the

“Supervisory Review Process” which adopts a principles-based approach and grant flexibility to BCBS member jurisdictions in determining the implementation of measures to address additional risks not covered by the framework. P2R is a binding capital requirement tailored to the specific risk profile of each bank. It addresses risks not covered (or not fully covered) by minimum capital requirements set under the CRR (i.e. Pillar 1), such as the potential impact of unexpected interest rate changes, shortcomings in risk controls or weak business models. P2G is a bank-specific guidance reflecting the level of capital that supervisory authorities deem necessary for the bank to maintain in addition to their binding capital requirements to ensure they can withstand potential stress scenarios.⁴⁸

P2R has been affected by past regulatory changes: in 2016, its level was lowered when P2R and P2G were first differentiated. In 2020, a regulatory change permitted banks to fulfil almost half (43.75%) of their P2Rs with Additional Tier 1 and Tier 2 capital. Preserving the P2G as an instrument is central to continue ensuring the proper functioning of supervision, consistent with the guiding principles in the HLTF report endorsed by the Governing Council.

The Eurosystem considers it critical to preserve supervisors’ ability to cover bank-specific risks with P2R. The Eurosystem is strongly committed to avoiding overlaps in risk coverage between Pillar 2 measures and other requirements or buffers, which is a legal requirement under the European prudential framework. In November 2025, ECB Banking Supervision updated its methodology for calculating the P2R and made it simpler and more robust, taking into account the [recommendations given in 2023 by an independent expert group](#). The revised Pillar 2 methodology enhances the case-by-case identification and removal of potential overlaps with Pillar 1. Benchmarking across the system will support consistent implementation of the new methodology and prevent changes in Pillar 1 due to the most recent “CRR III” regulatory reforms creating overlaps with P2R.

The Eurosystem also considers it critical to preserve supervisors’ ability to provide forward-looking guidance on individual banks’ capital needs via P2G. The guidance is designed to cover potential stress scenarios and emerging risks that may not yet be fully quantifiable or apparent and are not yet covered by buffers or requirements. It provides supervisors with a transparent, flexible and bank-specific tool complementing the capital requirements. First, unlike P2R and buffers, a decline in a bank’s own funds below P2G does not trigger any automatic restriction on its ability to make distributions (maximum distributable amount or MDA restrictions)⁴⁹. Its flexible nature means that where banks fail to meet it, supervisory actions can be tailored commensurately to the specific circumstances. Second, the P2G is bank-specific. It is calibrated individually for each bank by supervisors as part of the SREP, reflecting specific risk profiles and vulnerabilities and taking into account the outcome of the harmonised EU-wide stress test. Third, the P2G serves as an important anchor point in the dialogue between supervisors and banks in relation to capital planning. It allows supervisors to regularly review the level of capital that banks themselves deem necessary to cover the risks they are or might be exposed to, and ensures that the resulting levels of capitalisation are adequate and sufficient for the institution to be able to withstand potential stress scenarios. Finally, the ECB

remains committed to ensuring a clear delineation between P2G and macroprudential buffers (see also Section 3.4).

4.3.4 Business model and internal governance

Competitiveness is rooted in the strength of banks' business models, i.e. their productivity, efficiency, profitability and ability to innovate and provide better services at lower costs.⁵⁰ To perform well across these dimensions, banks need to build and maintain sustainable business models, not least to tackle the challenges stemming from digitalisation, rapid technological progress, the climate and nature-related crises, as well as competition from non-bank financial institutions. In fact, higher profitability is typically associated with higher efficiency and stronger resilience (lower levels of NPLs and more robust capitalisation).⁵¹ Reviewing the viability and sustainability of banks' business models' is a key pillar of ECB Banking Supervision's SREP methodology. The supervisory assessment covers not only profitability, but also strategic positioning, business model diversification, ability to execute the business strategy, resilience to external shocks and adaptability to structural changes, including those related to digitalisation and climate and nature-related risks. Preserving the supervisory tools needed to tackle weaknesses in the business models including qualitative measures and P2R, is key to safeguard banks' resilience and competitiveness.⁵²

Internal governance and remuneration requirements are core pillars of the prudential framework. One lesson from the GFC and recent episodes of stress is that excessive risk-taking by management and weak governance and risk management arrangements are typically the root cause or accelerator of individual banks failing. The current framework rightly emphasises accountability, robust risk management and alignment of incentives with prudent risk-taking. In the current uncertain macroeconomic and geo-political environment, strong governance remains essential to ensure that banks can effectively identify and manage emerging risks. The relevance of internal governance in the supervision of banks' risks is acknowledged at international level⁵³ and it continues to be a key supervisory priority for ECB Banking Supervision.^{54, 55} Preserving the supervisory tools needed to tackle weaknesses in banks' internal governance and risk management practices, including Pillar 2 requirements, is also key to safeguard banks' resilience and competitiveness.

Further harmonisation of internal governance and remuneration requirements, would materially simplify the framework, enhancing the effectiveness of supervision and creating a level playing field. Simplification efforts should not dilute the importance of sound governance and remuneration practices as key elements of the prudential framework, nor undermine the alignment of incentives with prudent risk-taking or further lower the current level of harmonisation. The Eurosystem support efforts to introduce more proportionality considerations, in particular in remuneration requirements.

4.4 Capital instruments

The Eurosystem suggests that the going-concern loss-absorbing capacity of the capital stack could be improved by adjusting the design or the role of AT1 (and Tier 2) instruments (See Rec #2 of the HLTF). Two alternatives can be considered. First, the features of AT1 instruments could be enhanced to further ensure their loss-absorption capacity in going concern and provide additional clarity to banks and investors on the going-concern loss-absorption properties of AT1 instruments. This option would be Basel-compliant. It would not modify the role of AT1 (and Tier 2) instruments, and would therefore not reduce the overlap with going-concern requirements. Alternatively, non-CET1 instruments could be completely removed from the going-concern capital stack. This could be achieved either by fully or partially replacing them with CET1 instruments or by eliminating them without any replacement in the going-concern framework. This alternative would (i) decrease the complexity in the going-concern framework, as only one type of instrument would have to be considered in going concern; and (ii) reduce the interplay between the different requirements. However, unless non-CET1 instruments were fully replaced with CET1 (implying a tightening of CET1 requirements), this alternative would raise difficult questions with regard to maintaining resilience and Basel compliance, potentially conflicting with the principles guiding the formulation of the high-level recommendations. In addition, irrespective of the calibration, it would lead to changes in the regulatory CET1 demand, raising questions of capital-neutrality.

4.5 The macroprudential framework

4.5.1 Complexities in the macroprudential framework

The main sources of complexity in the EU macroprudential framework relate to the higher number of elements in the EU's risk-weighted capital stack compared to the Basel standards, heterogeneous implementation of instruments across countries and the current reciprocity arrangements for different instruments. First, the variety of capital elements in place in the EU⁵⁶ may decrease transparency and increase uncertainty as market participants face more challenges in assessing the capital framework, the overall level of requirements and the available capital headroom. Second, the EU prudential capital framework, while comprehensive and flexible, may in principle give rise to inconsistencies in the application of measures. Third, while national specificities and different positions in the financial and economic cycle may justify differences in the setting of capital buffer requirements across countries, unwarranted heterogeneity in the application of macroprudential instruments across countries adds to the transparency and predictability challenges mentioned above and poses challenges in terms of coordination and consistency.⁵⁷ The sources of such heterogeneity are:

- The different transpositions of the relevant CRD provisions in national legal frameworks, which implies that a given set of instruments can be applied in

heterogeneous ways across jurisdictions (see [Section 2](#)).⁵⁸ The resulting heterogeneous regulatory landscape also complicates the exercise of the ECB's powers within the banking union.⁵⁹

- The conceptual overlap in the objectives of some measures. While prudential tools generally address different risks, and calibration practices and coordination between authorities have limited the risk of practical overlaps in the past, prudential measures share the common objective of ensuring sufficient bank resilience. This may have given rise to inconsistencies in the sense that different authorities may have used different measures to achieve similar objectives.
- The fact that approaches to calibrating macroprudential instruments vary across countries, resulting in different approaches to the setting of the same tool⁶⁰, due to a lack of more common methodologies. In addition, the risk of overlaps may materialise when similar or correlated metrics inform the calibration of different measures in a non-coordinated manner.
- The reconciliation approaches to account for interactions between micro and macroprudential measures. These are heterogeneous across countries, reflecting the limited regulatory guidance available and the lack of a holistic assessment based on common coordination approaches.⁶¹ The absence of harmonised principles may result in inconsistent sequencing of decisions and in time dependency in the composition and binding nature of the capital stack.

The procedures for voluntary reciprocation are lengthy and the recognition of heterogeneous (and potentially very granular) measures is complex.

In line with the HLTF recommendations, these complexities can be addressed by:

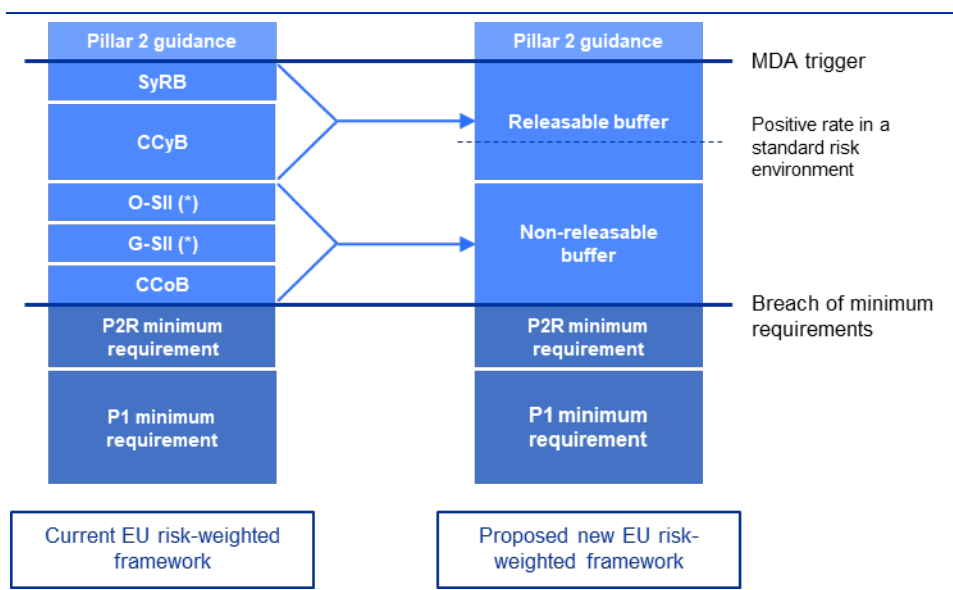
- **Reducing the number of macroprudential elements;**
- **Establishing a harmonised macroprudential toolkit, by refocusing from Directives to Regulations;**
- **Establishing clear common principles and methodologies, including a single exercise, to calibrate all elements and avoid unwarranted overlaps or inconsistencies, whilst preserving national competencies.**

4.5.2 Simplification of the risk-weighted capital stack

The existing five macroprudential buffers can be merged into two buffers, namely a non-releasable buffer and a releasable buffer.

Chart 4.1

Current and proposed new macroprudential capital buffer framework



Notes: (*) The higher of the O-SII and G-SII buffer applies. This is a stylised representation of the capital stack, not representing any particular calibration.

The Non-Releasable Buffer (NRB) would merge the current Capital Conservation Buffer (CCoB) and the buffers for Global and Other Systemically Important Institutions (G-SII and O-SII buffers). The NRB would retain the current objectives of these instruments⁶² and would not be releasable in times of stress. To maintain compliance with the Basel standard, the NRB would be calibrated as the sum of a 2.5% floor (the current CCoB) and the maximum of the applicable G-SII and O-SII buffers.

The Releasable Buffer (RB) would merge the current Countercyclical Capital Buffer (CCyB) and Systemic Risk Buffer (SyRB). It would have the objective of increasing resilience against cyclical and structural systemic risk and ensuring the banking sector’s ability to continue to provide credit to the real economy during times of stress. The RB⁶³ would foresee a positive rate (whether at a predefined rate or not) already in the early phases of the financial cycle when risks are neither subdued nor elevated, i.e. in a standard risk environment.⁶⁴ Consistent with existing implementation experience⁶⁵, early activation of the buffer in a standard risk environment would address uncertainty surrounding the identification of systemic risks and ensure a timely activation of the buffer and the availability of releasable capital buffers also in the early stages of the financial cycle – thus following up on one of the key lessons learnt for macroprudential policy in recent years.⁶⁶ The RB would replicate the current design of the CCyB and foresee the calculation of an institution-specific rate.⁶⁷ Lastly, in line with recommendation #4 of the HLTF, automatic reciprocation up to a threshold that is equal to 2.5% (or higher due to the broader scope of the buffer), combined with, and conditional on a harmonised application of the buffer, would foster a level playing field. The need for a sectoral application of the releasable buffer would need to be assessed.

4.5.3 Harmonised approaches to setting macroprudential buffers based on common principles and methodologies

To harmonise the macroprudential toolkit in the EU, the provisions on macroprudential capital buffers would benefit from a refocus of directives to regulations. The current framework, this refers to Chapter 4 of Title VII of the CRD, which comprises Articles 128 to 142. This refocus of directives to regulation would also need to be applied to any future amendment to the macroprudential regulatory framework. This refocus would significantly improve the effectiveness of the EU macroprudential framework by creating a harmonised toolkit, provided the legislative text is geared towards harmonisation in the description of buffers, their objectives and the approaches to calibrating them. However, it must not alter the allocation of powers. EU legislation should also spell out more clearly how different macro- and microprudential instruments should complement each other in promoting the ultimate objective of prudential policy to ensure sufficient resilience and account for interactions.

The calibration of all elements through clear common principles and methodologies, including a single exercise, would serve to avoid unwarranted overlaps or inconsistencies. This single exercise could be based among others on a modified EU-level stress test, reflecting European and national financial cycles and risks, as a starting point for the releasable buffer and the P2G. By informing the different measures simultaneously, this approach would mitigate the risk of overlaps and gaps and further improve the coordination between micro- and macroprudential measures. It would have to be set up in such a way as to capture the different risk dimensions that various measures are intended to cover. Other calibration methods and expert knowledge should remain important elements of the calibration process, so as to ensure elements that are too complex to embed in a single framework are also considered and to increase robustness.

A common EU-wide approach to setting macroprudential buffers while retaining national competencies and preserving room for expert judgment is crucial to reduce complexities in the macroprudential framework. To ensure that national macroprudential authorities rely on harmonised approaches as a starting point for calibrating buffers, common methodologies should be developed in close cooperation with national macroprudential authorities to ensure that national specificities are taken into account, as well as with the ESRB and the ECB. This does not mean that buffers would be set uniformly across banks and Member States, as the ultimate calibration would continue to depend on the respective risk levels. Common methodologies should enable macroprudential authorities to address European and country-specific systemic risks in line with European and national economic and financial cycles. Such common methodologies would not prevent national authorities from using complementary methods, tailored to country-specific needs, and exercising expert judgement, nor would it alter their decision-making competencies on the setting of buffers. For the NRB, the common methodology should include the identification of O-SIIs and the setting of a corresponding capital buffer to address unwarranted heterogeneity.⁶⁸ For the RB, the common methodology could establish both a common risk assessment and a common

calibration framework. The former would specify a set of (aggregate, country level) indicators covering all the relevant dimensions of risks and a scoring methodology to aggregate them into a single risk score. The latter would include, among others the single exercise referenced above, and leave sufficient flexibility to account for national specificities. While the NRB and RB would be set annually, adjustments may be made more frequently to reflect changes in systemic risks and ensure a timely release of the buffer in times of stress.

Concerted communication by national authorities, the ECB and the ESRB on the setting of buffers would further enhance transparency and predictability.

Inspiration could be taken from the way the results of the SREP are publicised: release of aggregated results,⁶⁹ a press conference and SREP decisions addressed to all supervised entities by the ECB, making the communication predictable and transparent. Such concerted communication arrangements should ensure proper interaction with procedures foreseen by national regulation.

Finally, it is proposed 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, while fully adhering to the principle of separation.

While macroprudential policy decisions should remain at national level, with possible top-up measures by the ECB, and the ECB's supervisory powers should remain unchanged, there is a need for increased coordination and a process whereby the overall level of capital demand and cross-country heterogeneities can be discussed from a qualitative angle. This could be done by augmenting the role of the Macroprudential Forum, which already brings together the Governing Council and the Supervisory Board to discuss matters of joint relevance. Leveraging on the Macroprudential Forum would also avoid the multiplication of bureaucratic layers, while keeping the separation principle intact. After hearing the views of the SRB and the ESRB, the Macroprudential Forum would perform a qualitative assessment of the adequacy and appropriateness of the overall level of capital requirements and buffers imposed on the SSM banking sector, abstracting from individual bank-level decisions. The assessment should rely on common methodologies and guidelines, including stress testing, to assess the level of heterogeneity in capital decisions and to foster greater coordination and consistency in setting micro- and macroprudential instruments across jurisdictions. Better coordination and more consistency would themselves constitute a considerable simplification.

4.6 Resolution framework

The gone-concern framework defines a wide variety of parallel requirements that also interact with the going-concern framework.

In particular, G-SIBs face several resolution requirements, as they comply with total loss-absorbing capacity (TLAC) requirements, minimum requirements for own funds and eligible liabilities (MREL) and subordinated MREL, which are simultaneously expressed in risk weighted and unweighted terms. In addition, as CET1, AT1 and Tier 2 capital can be used in parallel in the going and gone-concern stack, the frameworks interact. This leads to complex issues resulting in constrained buffer usability, which can also arise

owing to interactions between the risk-weighted and leverage ratio prudential requirements independently of MREL/TLAC. It can also lead to difficulties in assessing the interrelations between the different MDA triggers and minimum requirements.

The Eurosystem proposes to align the MREL and TLAC frameworks more closely – without reducing gone-concern resources – while reviewing their interactions with the going-concern frameworks. An option for aligning the MREL and TLAC frameworks would be to reduce the number of elements and stacks in the MREL framework, while remaining compliant with the international standards set by the Basel Committee on Banking Supervision and the Financial Stability Board, maintaining the current level of gone-concern resources. Access to additional funds also needs to be ensured. MREL could consist of a uniform floor – calibrated at the level of the TLAC requirement – and a bank-specific component determined by the resolution authority on top. A lower number of stacks would reduce the complexity related to the multiple distribution restrictions in the MREL framework. It would also limit undue interactions between the going and gone-concern frameworks.

4.7 Proportionality

The Basel standards are designed for internationally active banks; the EU decided to apply them to all banks in an effort to achieve a unified regulatory framework. While the EU regime includes various ad hoc proportionality provisions, including for small and non-complex institutions (SNCl)s⁷⁰, the application of Basel standards to all banks might have given rise to undue complexity. Applicable rules for smaller banks may benefit from an approach which strikes a better balance between complexity and regulatory burden. In the EU, the package of revised rules on capital requirements for banks (the Capital Requirements Regulation II and the Capital Requirements Directive V) introduced the concept of SNCl)s for institutions with less than €5 billion in total assets. Compared with other key jurisdictions (such as the United States, the United Kingdom and Switzerland), the level of proportionality provided to SNCl)s is relatively limited.⁷¹ It focuses on reporting and does not disapply Basel risk-based capital requirements or triggers for distribution restrictions (maximum distributable amount (MDA)) in favour of simpler metrics. This may result in a mismatch between systemic relevance and regulatory costs in the EU.

The Eurosystem proposes expanding the degree of proportionality in the EU under the existing SNCl) regime in a prudent manner. This could be done, inter alia, by increasing the scope of eligible small banks through an increase of the €5 billion threshold of the SNCl) regime⁷², as well as extending the scope of the simplified rules. Institutions that would qualify as SNCl)s, but that are deemed by the relevant competent authorities (CAs) inappropriate to be considered thus, owing for example to their systemic relevance in a particular Member State or their risk profile, should continue to fall under the current regime. In addition, institutions should have the possibility to “opt out” of the SNCl) regime if they prefer to be covered by the regular regime. The proposal does not concern a tailored regime for mid-sized

banks. The new simpler regime would be harmonised and calibrated in a more conservative manner, to maintain resilience and ensure sufficient risk coverage, minimise potential contagion and avoid competitive distortions and potential regulatory arbitrage by banks.

In addition, the ECB proposes regulatory changes to facilitate and further increase consistency in the application of the proportionality principle in supervision. Supervisory requirements for smaller institutions that currently apply differently across Member States could be harmonised. For instance, in the area of governance, harmonised, simpler requirements could be established in areas such as internal reporting, remuneration, outsourcing, risk committees, internal stress testing, recovery plans, management bodies and risk functions. Harmonising EU legislation to allow for lower frequencies and lower granularity for the SREP (and commensurately for banks' internal capital and liquidity adequacy assessment processes) for SNCIs and less significant institutions⁷³, while continuing to allow the diversity of those institutions to be duly considered, would also contribute to the consistent application of proportionality by NCAs. The supervisory processes for determining which banks qualify as SNCIs, in view of the given regulatory criteria as recommended above, should also be harmonised. Any potential changes to support further proportionality in supervision should not be to the detriment of the key supervisory goals of ensuring the resilience and stability of individual institutions, nor of the financial system.

Complementing these changes, any simpler regime for smaller banks needs to be accompanied by a credible, flexible and efficient crisis management framework for these institutions. The political agreement reached at EU level on the Crisis Management and Deposit Insurance framework is a valuable step forward in this respect.

4.8 Reporting

Achieving a more integrated and streamlined reporting framework is key to enhance efficiency, both for banks and supervisory authorities. To this end, the HLTF issued six recommendations outlining relevant areas of simplification by identifying undue complexities within the European reporting framework which may unnecessarily hamper the competitiveness of euro area banks and could place an excessive burden on them. The first two recommendations (#12 and #13) propose encouraging European authorities to foster cooperation (for instance data sharing) and to formulate a long-term vision of the reporting landscape (for instance via the establishment of a fully integrated reporting system at European level) by strengthening the role of the Joint Bank Reporting Committee as the key forum to discuss these matters among authorities. Recommendation #14 proposes defining a supervisory tolerance margin for minor errors to be disregarded based on a materiality threshold. As a consequence, this may reduce the number of data resubmissions required from banks to lower their administrative costs and burden. Recommendation #15 propose publishing an inventory of non-market sensitive reporting requirements imposed on banks. This recommendation, currently under discussion with the EBA aims, by

avoiding duplicative reporting and supporting work on integrated reporting frameworks, to reduce the reporting burden on banks. Recommendation #16 proposes establishing explicit obligations to conduct periodic assessments to validate the relevance and up-to-dateness of reporting requirements, based on objective criteria, whereas recommendation #17 proposes fundamentally reforming the EU public disclosure process by terminating the parallel transmission of supervisory and disclosure data. This recommendation aims at lowering the reporting burden on banks by reducing double reporting.

The regulatory framework remains crucial to ensure that banks adequately manage climate- and nature-related (C&N) risks. Over 90% of banks supervised by the ECB have identified these factors as material sources of financial risk. While the revisions as part of the Omnibus I initiative reduce sustainability disclosures, the related risks to banks did not decrease. On the contrary, given the increasing materiality of the climate and nature crises and their implications for financial stability, it remains crucial that banks continue their good progress in managing these risks. If they remain unaddressed, banks would be exposed to unknown risks or may decide to constrain funding to counterparties exposed to C&N risks. The ECB welcomes the fact that the current regulatory framework sets explicit requirements with respect to ESG risks for credit institutions and the respective mandate for competent authorities, which will help minimise the threats that these risks pose to individual institutions and financial stability in an effective and proportionate manner. This includes the requirement for banks to gather the counterparty information necessary to assess and manage risks arising from the clients' exposure to physical and transition risk factors, regardless of whether public disclosure requirements are in place or not. Where individual counterparty information is not readily available, the current rules already provide sufficient flexibility, e.g. using estimates or proxies. Likewise, the ECB is approaching the newly introduced requirements related to transition planning in a gradual and targeted way, starting with informal dialogues with banks to identify challenges and areas for improvement. A more detailed assessment will follow, as part of the 2027 thematic review of banks' transition plans.

Annex 1 – HLTF report on simplification of the European prudential regulatory, supervisory and reporting framework

Introduction

In March 2025 the ECB's Governing Council created the High-Level Task Force on Simplification (HLTF) to develop recommendations for simplifying the European prudential regulatory, supervisory and reporting framework for banks. The HLTF's objective has been to identify undue complexities within the European regulatory, supervisory and reporting framework which may unnecessarily hamper the competitiveness of euro area banks and could place an excessive burden on them, potentially impeding their ability to provide services to the real economy. To address these complexities and the undue resulting burden on banks, the HLTF has formulated high-level policy recommendations, which are outlined in this report. The numbering of the recommendations does not indicate any specific order of priority.

The ECB's Governing Council endorsed the HLTF recommendations in December 2025.

Provided that the recommendations find support, operationalisation, impact analyses and effective implementation should take place in close cooperation with the relevant authorities in the European Union (EU), while also duly considering the impact this may have on Member States not participating in the Single Supervisory Mechanism. Under the steer of the European Commission, recommendations to simplify the regulatory and supervisory framework could be further developed by the European System of Central Banks, the Single Resolution Board (SRB), the European Systemic Risk Board (ESRB) and the European Banking Authority (EBA), with the ECB providing continued support. The operationalisation of recommendations to simplify the reporting framework that affect the European supervisory authorities (ESAs), the SRB, national competent authorities (NCAs), national central banks (NCBs) and the ECB should be developed in close cooperation with these authorities, also leveraging on the relevant initiatives and projects ongoing at the EBA, the ECB and the Joint Bank Reporting Committee (JBRC).

The high-level policy recommendations for simplification were formulated based on the following principles:

- **Resilience should be maintained** – any proposal to change the EU prudential framework should sustain current levels of resilience.
- **Effectiveness in meeting prudential objectives needs to be maintained** – microprudential, macroprudential and resolution authorities should be able to

meet their respective objectives in an effective manner and capture all relevant dimensions of risk.

- **European harmonisation and financial integration should be fostered** – proposals shall take a European perspective and aim to foster more harmonisation across Member States in areas where a lack of harmonisation is a source of complexity or inconsistency.
- **International cooperation should be upheld** – international standards and multilateral cooperation are crucial, and all jurisdictions should ensure full, timely and faithful implementation of Basel III.

In parallel with this report, the Governing Council welcomes the Supervisory Board's four-pronged reform agenda to further increase the efficiency, effectiveness and risk-based focus of prudential supervision. First, a reform of the Supervisory Review and Evaluation Process (SREP) is well advanced. Second, the objectives of the SREP reform are now being extended via the “Next-level supervision” project to areas such as decision making, internal models, capital related decisions, stress testing, reporting and on-site inspections. Third, a dedicated initiative is under way to further promote a unified supervisory culture within the SSM in line with the objectives of the supervisory reforms. Lastly, the ECB is improving its analytical tools to better assess the impact and effectiveness of its supervision. These reforms are intended to facilitate more in-depth scrutiny of the most material risks, while also allowing supervisors to take on new tasks and address emerging risks. The Governing Council welcomes the ECB Banking Supervision report entitled “[Streamlining supervision, safeguarding resilience](#)”, which outlines its initiatives to increase the efficiency, effectiveness and risk focus of supervision, as well as the [ESRB's publication on the simplification of its tasks through legislative amendments](#).

The Governing Council strongly encourages the completion of banking union and the savings and investment union to reduce national fragmentation and allow for more efficient capital markets.

1 Proposals to simplify the regulatory framework

This section describes complexities in the existing regulatory framework and provides high-level recommendations to address them.

Reduce the number of elements in the risk-weighted and leverage ratio framework

The number of elements in the EU's risk-weighted (RW) and leverage ratio (LR) capital stack exceeds those foreseen by the Basel standards, potentially causing overlaps and inconsistencies. EU-specific elements are the Pillar 2 Requirements (P2R) and Pillar 2 Guidance (P2G) – which implement the Basel standard on supervisory review process¹ – the systemic risk buffer, macroprudential risk weight measures and the Pillar 2 leverage ratio add-ons (P2R-LR and P2G-LR). The variety of capital elements in place in the EU may decrease transparency and increase uncertainty as market participants face more challenges in assessing the capital framework, the overall level of requirements and the available capital headroom. Other jurisdictions such as the United Kingdom and the United States have fewer elements compared with the EU. Uncertainty and a lack of transparency also arise from differences in the way the tools are applied across countries.

Recommendation #1 proposes reducing the number of capital stack elements in the prudential framework. This could be achieved by merging the different capital buffers into two: a non-releasable buffer (merging the capital conservation buffer and the higher of the other systemically important institutions (O-SII) and global systemically important institutions (G-SII) buffers) and a releasable buffer (merging the countercyclical capital buffer and the systemic risk buffer). P2G would be kept separate, on top of the releasable buffer. Any reduction in the number of buffers must maintain the current allocation of macroprudential and microprudential powers and preserve the competencies of national and supranational authorities within the banking union. The calibration of all elements through clear common principles and methodologies, including a single exercise, would serve to avoid unwarranted overlaps or inconsistencies. This single exercise could be based among others on a modified EU-level stress test, reflecting European and national financial cycles and risks, as a starting point for the releasable buffer and the P2G. It should also avoid creating undue additional expectations.

In a similar vein, the leverage ratio framework in the EU consists of four elements, while the Basel III framework only has two. Merging or adjusting the EU-specific elements (P2G and P2R LR add-ons) would be one way to simplify this while maintaining Basel compliance. An option could be to have two

¹ See Basel Committee on Banking Supervision – [Supervisory review process](#).

elements: one LR minimum requirement and one LR buffer. For G-SIBs, the LR buffer would be floored at the Basel G-SIB LR buffer rate, while for other banks the LR buffer could in principle be set to zero. Mechanically linking the leverage ratio framework with the risk-based buffer framework could also be explored further; however, this would pose challenges in terms of capital neutrality and overall calibration.

This recommendation aims to reduce the complexity of the capital stacks, in particular the RW and LR stacks, which exceeds the complexity foreseen by the Basel framework. It would increase transparency and facilitate capital planning for banks and investors, particularly for banks operating across multiple jurisdictions.

Minimum requirements composed of the highest possible quality of capital, ensuring sufficient loss-absorbing capacity

The value added by including Additional Tier 1 (AT1) (and Tier 2) instruments in the going-concern capital stack has been questioned. The degree of going-concern loss-absorbing capacity² of AT1 instruments is unclear.

Recommendation #2 suggests that the going-concern loss-absorbing capacity of the capital stack could be improved by adjusting the design or the role of AT1 (and Tier 2) instruments. Two alternatives can be considered. First, the features of AT1 instruments could be enhanced to further ensure their loss-absorption capacity in going concern and provide additional clarity to banks and investors on the going-concern loss-absorption properties of AT1 instruments. This option would be Basel-compliant. It would not modify the role of AT1 (and Tier 2) instruments, and would therefore not reduce the overlap with gone-concern requirements. Alternatively, non-CET1 instruments could be completely removed from the going-concern capital stack. This could be achieved either by fully or partially replacing them with CET1 instruments or by eliminating them without any replacement in the going-concern framework. This alternative would (i) decrease the complexity in the going-concern framework, as only one type of instrument would have to be considered in going concern; and (ii) reduce the interplay between the different requirements. However, unless non-CET1 instruments were fully replaced with CET1 (implying a tightening of CET1 requirements), this alternative would raise difficult questions with regard to maintaining resilience and Basel compliance, potentially conflicting with the principles guiding the formulation of the high-level recommendations. In addition, irrespective of the calibration, it would lead to changes in the regulatory CET1 demand, raising questions of capital neutrality.

This recommendation aims to strengthen the quality of capital required under the EU regulatory framework, align the functioning of the going-concern capital stack with its intended purpose and thereby increase transparency for banks' creditors.

² The capacity to absorb losses before a bank is failing or likely to fail.

A dedicated, prudent and materially simpler prudential regime for smaller banks, building on the existing EU regime and introducing significantly more proportionality

The Basel standards are designed for internationally active banks; the EU decided to apply them to all banks in an effort to achieve a unified regulatory framework. While the EU regime includes various ad hoc proportionality provisions, including for small and non-complex institutions (SNCl)s³, the application of Basel standards to all banks might have given rise to undue complexity. Applicable rules for smaller banks may benefit from an approach which strikes a better balance between complexity and regulatory burden. In the EU, the package of revised rules on capital requirements for banks (the Capital Requirements Regulation II and the Capital Requirements Directive V) introduced the concept of SNCl)s for institutions with less than €5 billion in total assets. Compared with other key jurisdictions (such as the United States, the United Kingdom and Switzerland), the level of proportionality provided to SNCl)s is relatively limited. It focuses on reporting and does not disapply Basel risk-based capital requirements or triggers for distribution restrictions (maximum distributable amount (MDA)) in favour of simpler metrics. This may result in a mismatch between systemic relevance and regulatory costs in the EU.

Recommendation #3 proposes expanding the degree of proportionality in the EU under the existing SNCl) regime in a prudent manner. This could be done, inter alia, by increasing the scope of eligible small banks through an increase of the €5 billion threshold of the SNCl) regime, as well as extending the scope of the simplified rules. Institutions that would qualify as SNCl)s, but that are deemed by the relevant competent authorities (CAs) inappropriate to be considered thus, owing for example to their systemic relevance in a particular Member State or their risk profile, should continue to fall under the current regime. In addition, institutions should have the possibility to “opt out” of the SNCl) regime if they prefer to be covered by the regular regime. The recommendation does not propose a tailored regime for mid-sized banks. Inspiration may be taken from the Small and Domestic Deposit Takers regime in the United Kingdom, the Swiss small banks regime and the Community Bank Leverage Ratio regime in the United States, whereby only one prudential capital stack (LR or RW) is applied, Basel MDA triggers are not applicable and risk modules are simplified or removed. The new simpler regime would be harmonised and calibrated in a more conservative manner, to maintain resilience and ensure sufficient risk coverage, minimise potential contagion and avoid competitive distortions and potential regulatory arbitrage by banks.

In addition, recommendation #3 proposes regulatory changes to facilitate and further increase consistency in the application of the proportionality principle in supervision. Supervisory requirements for smaller institutions that currently apply differently across Member States could be harmonised. For instance, in the area of governance, harmonised, simpler requirements could be established in areas such

³ SNCl)s are credit institutions that meet the criteria laid down in Article 4(1)(145) of the Capital Requirements Regulation.

as internal reporting, remuneration, outsourcing, risk committees, internal stress testing, recovery plans, management bodies and risk functions. Harmonising EU legislation to allow for lower frequencies and lower granularity for the SREP (and commensurately for banks' internal capital and liquidity adequacy assessment processes) for SNCIs and less significant institutions⁴, while continuing to allow the diversity of those institutions to be duly considered, would also contribute to the consistent application of proportionality by NCAs. The supervisory processes for determining which banks qualify as SNCIs, in view of the given regulatory criteria as recommended above, should also be harmonised. Any potential changes to support further proportionality in supervision should not be to the detriment of the key supervisory goals of ensuring the resilience and stability of individual institutions, nor of the financial system.

Complementing these changes, any simpler regime for smaller banks needs to be accompanied by a credible, flexible and efficient crisis management framework for these institutions. The political agreement reached at EU level on the Crisis Management and Deposit Insurance framework is a valuable step forward in this respect.

This recommendation aims to reduce the regulatory burden and compliance costs faced by smaller institutions.

Reciprocate macroprudential measures automatically, up to a threshold

The process of reciprocation of macroprudential measures by macroprudential authorities across different Member States is seen as complex by both authorities and banks.⁵ Authorities find the procedures for voluntary reciprocity lengthy and the recognition of heterogeneous measures by Member States complex. Banks struggle to assess which measures to apply to their capital requirements, as reciprocated measures are often communicated through different outlets. Reciprocated measures can come as a surprise to banks, adding to the perception that they are piling up in a piecemeal manner.

Recommendation #4 proposes reciprocating measures automatically up to a certain threshold, combined with, and conditional on, a more standardised application of macroprudential tools. It should also be ensured that bank exposures subject to the measures are identified based on harmonised common reporting templates (COREP and FINREP), so that both banks and reciprocating macroprudential authorities can easily access and apply them. Without prejudice to the spirit of this recommendation, its implementation should not result in an undue burden on banks when a reciprocated macroprudential measure would only apply to very small exposures. In addition, it is proposed that the ESRB communicate semi-annually about the existing and new reciprocated measures that banks need to apply

⁴ "Less significant institutions" are credit institutions of Member States participating in the SSM that meet the criteria laid down in Article 6(4) of the SSM Regulation.

⁵ See the [Reciprocation of measures](#) section of the ESRB's website for further information.

to their capital requirements. Importantly, the proposal hinges on a more consistent and harmonised application of prudential tools within the EU. Otherwise, automatic reciprocity of heterogeneously applied tools may lead to inconsistency and double counting of risks.

This recommendation would alleviate the burden on banks, as communication on reciprocation would be clearer. For authorities, this would result in simplification, as lengthy reciprocation processes would be removed.

Align the MREL and TLAC frameworks more closely – without reducing gone-concern resources – and review their interactions with the going-concern framework

The gone-concern framework defines a wide variety of parallel requirements that also interact with the going-concern framework. In particular, G-SIBs face several resolution requirements, as they comply with total loss-absorbing capacity (TLAC) requirements, minimum requirements for own funds and eligible liabilities (MREL) and subordinated MREL, which are simultaneously expressed in risk-weighted and unweighted terms. In addition, as CET1, AT1 and Tier 2 capital can be used in parallel in the going and gone-concern stack, the frameworks interact. This leads to complex issues resulting in constrained buffer usability, which can also arise owing to interactions between the risk-weighted and leverage ratio prudential requirements independently of MREL/TLAC. It can also lead to difficulties in assessing the interrelations between the different MDA triggers and minimum requirements.

Recommendation #5 proposes aligning the MREL and TLAC frameworks more closely – without reducing gone-concern resources – while reviewing their interactions with the going-concern framework. An option for aligning the MREL and TLAC frameworks would be to reduce the number of elements and stacks in the MREL framework, while remaining compliant with the international standards set by the Basel Committee on Banking Supervision and the Financial Stability Board, maintaining the current level of gone-concern resources. Access to additional funds also needs to be ensured. MREL could consist of a uniform floor – calibrated at the level of the TLAC requirement – and a bank-specific component determined by the resolution authority on top. A lower number of stacks would reduce the complexity related to the multiple distribution restrictions in the MREL framework. It would also limit undue interactions between the going and gone-concern frameworks.

The recommendations aim to increase the transparency and predictability of the requirements, reducing monitoring costs for banks and investors and mitigating unwarranted interactions.

Refocus from directives to regulations and review the number of level 2 and 3 mandates

Continued reliance on directives creates heterogeneity in the applicable law and disparities in how institutions are supervised across the EU. Alongside regulations, the Single Rulebook for banking also relies on directives, such as the Capital Requirements Directive and the Bank Recovery and Resolution Directive. In contrast to regulations, directives need to be transposed into national law, which can lead to significant heterogeneity in the applicable law and can thereby also complicate cross-border banking. In addition, the Single Rulebook also consists of numerous level 2 (delegated and implementing) and level 3 (soft law) acts which further detail the requirements set in level 1 texts (directives and regulations). Although these level 2 and 3 acts fulfil an important role in terms of harmonising supervisory practices across the EU, they also add complexity and have grown in number and level of detail.⁶

Recommendation #6 proposes refocusing EU prudential law from directives to regulations, increasing harmonisation and regulatory transparency, and streamlining level 2 and 3 acts. More use of regulations would prevent a heterogeneous transposition into national law. It would facilitate uniform supervision and cross-border banking, benefiting in particular banks that operate across various jurisdictions and their investors. Applying regulations would also help harmonise the legal basis for using supervisory guidance and expectations within the EU. A thorough review of level 2 and 3 acts and their implementation would reduce the level of prescriptiveness of some acts; this may thus increase the level of supervisory discretion.

This recommendation would make the legal framework more comprehensible, lowering barriers to entry as well as reducing the regulatory burden on banks. On the other hand, transitioning from directives to regulations would limit national discretion and flexibility. The recommendation suggests moving in this direction, while being conscious of the trade-offs involved.

Simplify the EU-wide stress test methodology and increase the usefulness of results, from both a system-wide and bank-specific perspective

In the EU, the EBA-led bank solvency stress test has become a complex and resource-intensive exercise. The EU-wide stress test is a constrained two-yearly bottom-up stress test. It is backed by (i) a complex and binding methodology updated under the aegis of the EBA and (ii) an adverse scenario designed by the ESRB. The exercise relies on granular data collections, with banks submitting two profit and loss projections which are quality assured by ECB and NCA staff. The

⁶ For example, with the last banking package the EBA is expected to deliver around 140 mandates covering a broad range of technical areas. See EBA (2023), "[The EBA publishes roadmap on the implementation of the EU Banking Package](#)", Press Release, 14 December.

resource footprint for the exercise has grown over time both for authorities and banks.

Recommendation #7 calls for the simplification of the EU-wide stress test, streamlining the methodology and increasing the usefulness of results from both a system-wide and bank-specific perspective. A simplification of the stress test should result in a more efficient process for both banks and authorities. The adequacy of the EU-wide stress test should be reassessed against recommendations #1 and #8, which call for common tools informing micro- and macroprudential requirements. Any reform should be based on a clear and agreed direction of travel, for instance in terms of goals, overall approach (in particular bottom-up versus top-down) and use of results. Changes would need to consider various issues: (i) the risks captured by the stress test, (ii) the scenario, (iii) the methodology, including for example how to develop an increasingly top-down approach, (iv) the granularity of the data and their alignment with existing reporting, (v) the frequency of the exercise, (vi) simplifications in the quality assurance process, and (vii) the role of banks, including the required degree of transparency.

The recommendation aims to reduce the compliance costs of the current EU-wide stress test for both banks and authorities, while increasing the usefulness of the results from both a system-wide and bank-specific perspective.

A European governance mechanism whereby the Governing Council of the ECB takes a holistic view on the overall level of capital demand within and across banking union

The EU has a complex governance structure for banks, with no authority mandated to provide a holistic assessment of overall capital requirements.

Within the SSM, the ECB supervises significant institutions, while national supervisory authorities execute supervisory decisions and supervise less significant institutions. Macroprudential supervision is a shared responsibility between national authorities and the ECB, with the ECB being able to “top up” any macroprudential measures applied by the national authorities. Authorities apply different approaches and calibration methods when setting requirements and buffers. As prudential policy mandates for banks are spread across numerous authorities in the EU, a holistic assessment of micro- and macroprudential requirements, with a view to identifying unwarranted overlaps and/or unaddressed risks, is lacking. Moreover, if the number of buffers is reduced as proposed under recommendation #1, clear common principles and criteria for setting different buffers would be essential to avoid fragmentation.

Recommendation #8 proposes making the ECB Governing Council responsible for taking a holistic view of the overall level of capital demand within and across the banking union, while fully adhering to the principle of separation. While macroprudential policy decisions should remain at national level,

with possible top-up measures by the ECB, and the ECB's supervisory powers should remain unchanged, there is a need for increased coordination and a process whereby the overall level of capital demand and cross-country heterogeneities can be discussed from a qualitative angle. This could be done by augmenting the role of the Macroprudential Forum, which already brings together the Governing Council and the Supervisory Board to discuss matters of joint relevance. Leveraging on the Macroprudential Forum would also avoid the multiplication of bureaucratic layers, while keeping the separation principle intact. After hearing the views of the SRB and the ESRB, the Macroprudential Forum would perform a qualitative assessment of the adequacy and appropriateness of the overall level of capital requirements and buffers imposed on the SSM banking sector, abstracting from individual bank-level decisions. The assessment should rely on common methodologies and guidelines, including stress testing, to assess the level of heterogeneity in capital decisions and to foster greater coordination and consistency in setting micro- and macroprudential instruments across jurisdictions. Better coordination and more consistency would themselves constitute a considerable simplification.

In a similar vein to recommendation #1, this recommendation would increase transparency and facilitate capital planning for banks and investors, although it would also increase the number of interactions across authorities. Open issues regarding this recommendation include whether – and how – to address interactions with countries that do not participate in the SSM, as well as what mechanism the Governing Council's findings would be implemented through.

Finalise the savings and investment union – including completion of the banking union – to foster cross-border integration and allow for more efficient capital markets

Relative to other large markets, EU banks face a competitive disadvantage owing to the lack of scale that results from an incomplete Single Market.

Banking union has not been finalised, as a European deposit insurance scheme (EDIS) is lacking, and insolvency law is fragmented, which complicates cross-border banking. As the European single market for banks has not been finalised, banks face obstacles with regard to market integration and cross-border consolidation, and the share of European banks that are active on a European scale remains low. In particular, the incomplete single market for banks hampers EU competitiveness in a digitalised world, as it results in unexploited potential in terms of economies of scale and cross-border business. Furthermore, the EU lacks deep capital markets, hindering the ability of EU companies to finance innovation.

Recommendation #9 encourages the finalisation of the savings and investment union, including completion of banking union, to reduce national fragmentation and allow for more efficient capital markets. This includes taking concrete steps towards the finalisation of EDIS, with a clear timetable for implementation, and fostering deeper capital markets by progressing on the savings and investment union. To lay the foundations for increasing cross-border banking,

the completion of banking union should facilitate other measures that support integrated and efficient risk management at consolidated level. This will enable capital and liquidity to flow within banking groups in the banking union.

This recommendation aims at breaking down national fragmentation by progressing on these EU priorities with a view to making conducting business within the EU simpler. This would allow firms to concentrate on welfare-improving business and ensure more efficiency, benefiting banks, investors and the European economy.

2 Proposals to simplify the supervisory framework

This section makes recommendations for legislative changes that would further increase the efficiency, effectiveness and risk-based focus of European supervision.

Strengthen and complete the EU Single Rulebook to simplify supervision and help deepen the internal market in banking

Divergent national laws, regulations and administrative codes add to the complexity of European supervisory processes. When carrying out its tasks and exercising its powers, the ECB applies relevant Union law, which consists of directly applicable regulations, for example the Capital Requirements Regulation (CRR), but also national laws that transpose directives, for example, national law provisions transposing the Capital Requirements Directive (CRD). This includes the exercise of specific supervisory powers, granted under national law to national competent and designated authorities, which fall within the scope of the ECB's tasks and underpin a supervisory function under Union law.⁷

Despite some progress, national powers are not yet fully harmonised at European level. In addition, European prudential legislation contains certain options and discretions that permit Member States to apply diverging national prudential requirements, including for those institutions directly supervised by the ECB. In some cases, these options and discretions may not be warranted or may have undesirable consequences (for example, impeding integrated risk management at a consolidated level in the EU). More generally, disparate national standards not only add to the complexity of supervision but also raise costs for banks operating on a cross-border basis. They can also impede integrated risk management at a consolidated European level.

Recommendation #10 proposes strengthening and completing the Single Rulebook to simplify and harmonise supervisory practices and help deepen the internal market in banking.⁸ This should involve reducing the complexity arising from diverging national powers, taking into account the recommendations made by the International Monetary Fund (IMF) in the recent euro area Financial Sector Assessment Program review. In particular, implementing the IMF's recommendations to further harmonise rules concerning licensing, qualifying

⁷ See the section of the ECB's banking supervision website on [national powers exercised by the ECB](#). The ECB exercises certain supervisory powers under national law, even if not explicitly mentioned in EU law, provided that they (i) fall within the scope of the ECB's tasks under Articles 4 and 5 of the SSM Regulation and (ii) underpin a supervisory function under Union law.

⁸ This recommendation is consistent with the recommendations contained in the reports by Enrico Letta and Mario Draghi on strengthening the competitiveness of the EU economy.

holdings, governance, fit and proper assessments of bank managers and transactions with related parties could alleviate some of the complexity of the applicable law for supervising euro area banks.⁹ It should also involve a structured review of options and discretions assigned to Member States in the CRR, CRD, BRRD and associated level 2 or 3 legislation, with a view to enabling further legislative harmonisation while also respecting the need to cater for national specificities. In addition, the review could also consider whether certain provisions currently set in directives, such as those pertaining to the provision of financial services by third-country providers or related to qualified holding procedures, could be established in directly applicable regulation. Strengthening and completing the Single Rulebook should be achieved at all levels, including level 2 and 3 legislation.

Building on recommendation #9, which calls for the completion of banking union and significant progress on the savings and investment union, further regulatory steps towards harmonisation would significantly simplify the supervisory framework and support effective risk management of cross-border groups.

Increase the risk focus of supervision by changing the level of prescriptiveness of regulation governing supervisory processes

While the current regulatory framework in the EU provides a sound basis for prudential supervision, in some instances regulation is very prescriptive regarding supervisory processes and the frequencies with which certain activities must be performed. While this approach provides a high level of legal certainty for all stakeholders, fixed frequencies and prescriptive requirements can result in supervisory processes not always being well aligned with underlying risks.

Recommendation #11 proposes reconsidering the level of prescriptiveness of legislation governing supervisory processes to identify areas where more risk-based approaches can be implemented. Such reconsideration should not create gaps in terms of risk management and coverage, nor reduce the resilience of individual banks or the banking system. Examples include reviewing mandatory activities and frequencies related to internal models, including the compulsory review of internal models every three years pursuant to Article 101(1) of the CRD. Similar provisions can be found in the relation to the supervision of market risk (Article 325c of the CRR). Greater flexibility to determine minimum frequencies for stress testing, in line with banks' risk profiles or other relevant considerations, could also support a more efficient allocation of bank (and supervisory) resources. The obligation to undergo binding supervisory approval processes in specific areas could also be reviewed. This could include removing requirements for banks to obtain certain prior

⁹ See IMF (2025), [Euro Area: Detailed Assessment of Observance-Basel Core Principles for Effective Banking Supervision](#), June. See in particular p. 76 for recommendations on licensing, p. 83 for recommendations on qualified holding procedures, p.162 for recommendations in the area of governance and p.212 for transactions with related parties.

supervisory permission for changes to their own funds.¹⁰ Furthermore, the requirement established under Article 11 of the European Market Infrastructure Regulation for CAs to provide entity-specific approval for the use of industry-wide initial margin models for over-the-counter derivatives transactions, after these models have already been validated by the EBA, could be replaced by a simpler non-objection requirement.¹¹ Regardless of any changes affecting the frequency of supervisory processes or requirements for supervisory approval, the ECB reiterates that banks will remain responsible and accountable for ensuring their own resilience and effective governance and risk management.

The work of the EBA in reviewing existing and upcoming level 2 and 3 instruments is closely related to this recommendation and is fully endorsed.

More specifically, this includes reviewing the Regulatory Technical Standard on Assessment Methodology to allow CAs more flexibility in selecting appropriate methods when reviewing internal models. In addition, the review of the Regulatory Technical Standard on model changes, which governs what material changes require prior permission from CAs, could also allow for more risk-based supervision of internal models.

This recommendation aims to increase the risk-focus of supervision, thereby reducing administrative costs for banks on lower-risk issues.

¹⁰ For example, the requirements for prior permission for inclusion of interim profits in CET1 and the replacement of capital instruments with capital of equivalent or better quality, which have net zero or positive impact on the capital position, could be reviewed subject to maintaining compliance with Basel standards.

¹¹ Further areas for potential review include requirements for mandatory notifications to the ESAs and requirements for CAs to evaluate the equivalence of third-country requirements in certain areas (where centralised determination by the Commission could be more straightforward).

3 Proposals to simplify the reporting framework

This section describes complexities in the existing reporting framework and provides high-level recommendations to address them.

Request once: step up coordination and data sharing among key stakeholders to avoid redundancy in data requests

Effective coordination among key stakeholders, including the ESAs, SRB, NCAs, NCBs and the ECB (both in its supervisory and central banking function) is key to streamlining data requests and reducing reporting costs for financial institutions. Improved data sharing between authorities could help minimise overlapping data requests, addressing a long-standing concern raised by the banking industry – one that the ECB and the EBA have addressed by establishing the Joint Bank Reporting Committee (JBRC). The ECB has also implemented the “horizontal reporting requests process” to ensure that data collection requests are necessary, proportionate and well drafted. This process minimises reporting costs for banks while making sure data quality remains high. Moving forward, the ECB will strengthen internal coordination and collaboration with NCAs. Additionally, the ECB will improve its change management process, with a particular focus on early planning and consultation with other authorities and the industry through the JBRC. These efforts will avoid duplication, ensure effective coordination and create a more efficient and harmonised reporting framework.

Recommendation #12 proposes encouraging European authorities to foster mutual data sharing, for example by operationalising the Better Data Sharing Regulation. Additionally, it advocates promoting, through an EBA-led change management process, a regular coordination of EU-level data collections¹² (including, as appropriate, via the JBRC under common rules of procedure). The recommendation suggests that the European Commission propose targeted level 1 amendments¹³ fostering the sharing of supervisory data among CAs, leading to a reduction in the need to make overlapping data requests to the financial industry, including the banking sector. The overarching coordination mechanism for data collection across the ECB, ESAs, SRB, NCAs and NCBs should promote early-stage alignment and harmonised data definitions (including, where appropriate, via the JBRC) while also strengthening the mechanisms for sharing data among authorities, including the ESRB.

¹² Including SSM-level data collections.

¹³ Such as Regulations (EU) No 1092/2010, (EU) No 1093/2010, (EU) No 1094/2010, (EU) No 1095/2010 and (EU) 2021/523 as regards certain reporting requirements in the fields of financial services and investment support.

National data collections affecting LSIs would remain under the national remit and be managed by NCAs. These collections would follow a sound local process, implemented in accordance with harmonised high-level principles, in line with those applied by ECB Banking Supervision.

The objective would be to ensure that data collections are of material value for the supervisory mandate and are based on a need-to-have (rather than a nice-to-have) principle. They should be proportionate for banks, avoiding excessive burden and undue compliance costs, and should be designed with a long-term, transparent strategy to minimise frequent adjustments and implementation costs. The relevance of ad hoc requests should also be assessed based on the same principles. These efforts are essential to avoiding redundancy, increasing efficiency and ensuring the consistent use of reported information, all without compromising the flexibility needed to address urgent, crisis-driven data needs or specific data needs that may arise for CAs at a European and national level where data are not available within the harmonised reporting framework.

Report once: establish an integrated reporting system applicable across domains to eliminate redundancy and facilitate the multi-purpose use of data

The initiatives recently launched in the bank reporting domain constitute a paradigm shift in the way quantitative data will be collected from financial agents.¹⁴ An integrated reporting system, whereby the same single dataset is utilised for both statistical and prudential purposes, could be considered a first use case at European level.

Recommendation #13 proposes formulating a long-term vision within the JBRC, which would include monitoring the progress of initiatives to establish a fully integrated reporting system at European level for statistical, prudential and resolution purposes. This recommendation suggests that the European Commission support the JBRC in its role as facilitator of the integration process by making sufficient resources available. The JBRC should help develop a consensual way forward to a fully integrated reporting system, leveraging on ongoing initiatives¹⁵. It should also be tasked with monitoring the progress accomplished.

This recommendation would effectively increase standardisation in bank reporting and guarantee a redundancy-free collection of data from the onset. Given its greater similarities with banks' internal information systems, such a granular reporting

¹⁴ See [the ECB's website](#) for an overview of the tasks conferred on the Joint Bank Reporting Committee (JBRC), which include pursuing semantic integration across domains and developing integrated reporting requirements.

¹⁵ A future integrated European reporting framework would be based on a different legal basis for the prudential and resolution domain on the one hand, and the statistical domain on the other. Both would be anchored in the Treaty on European Union. Integrated reporting would then be legislated by the authorities in their area of responsibility, referring to a common data model and dictionary that could be managed by the JBRC.

framework could contain compliance costs and bolster acceptance among reporting agents.

Resubmit less: reduce the number of data resubmissions required from banks to lower their administrative costs

Resubmissions represent a significant challenge for banks today, particularly the requirement to resubmit reports for even minor amounts. Current legal frameworks lack clear provisions for immaterial deviations or acceptable tolerances, leading to an unnecessary administrative burden. Introducing exemptions for immaterial revisions is key to reducing reporting costs and allowing banks to direct their resources more effectively towards core reporting tasks. This would increase operational efficiency and provide greater flexibility in how banks fulfil their reporting obligations. In parallel, the ECB has long considered risk data aggregation and reporting to be a supervisory priority, focusing on improving banks' ability to effectively manage and report their risks and on remediating shortcomings in their internal information.

In collaboration with the EBA and NCAs, the ECB is developing a proposal to introduce materiality thresholds for supervisory reporting. Under this recommendation, banks will not be required to resubmit reports when the difference between the initially reported data and the revised values fall below predefined materiality thresholds. These thresholds are expected to increase reporting efficiency for banks, avoid unnecessary monitoring costs – especially for smaller institutions – and maintain the expected data quality standards. In addition, the increased coverage and use of the voluntary Banking Integrated Reporting Dictionary (BIRD) has the potential to improve the quality of the data reported, thereby reducing errors and, consequently, resubmissions.

Recommendation #14 proposes defining a supervisory tolerance margin for minor errors to be disregarded. This recommendation suggests that, through level 1 regulation, the European Commission and the legislators give the EBA the mandate to define materiality thresholds or supervisory tolerance margins for minor reporting errors, taking into account the industry's experience. This would exempt immaterial corrections from resubmission requirements, allowing financial institutions to allocate their resources more effectively to core reporting tasks. This definition and its implementation could leverage on existing initiatives, such as the materiality framework for supervisory data currently being discussed at the ECB, and should be developed by both the ECB and the EBA. The process should adhere to the principles of relevance, simplicity and proportionality. In addition, the effort required to determine whether the thresholds have been met should not outweigh the benefit they are intended to deliver.

This recommendation is intended to support the development of a more efficient and proportionate reporting system by reducing compliance costs and contributing to a more effective allocation of supervisory resources, ultimately strengthening efficiency in the European banking sector.

More transparency: regular and structured publication of reporting initiatives to increase transparency and reduce redundant data requests

Publishing a list of data collections would provide full transparency on existing reporting requirements to all stakeholders, including the banking industry. Transparency is key in reducing overall administrative costs and enhancing operational efficiency. It fosters closer cooperation among authorities – such as the ECB, ESAs, SRB, NCAs and NCBs – as stipulated in the Better Data Sharing Regulation. It also strengthens accountability and discipline among data collection requesters by introducing stronger governance and the potential for public scrutiny.

In cooperation with the NCAs, the ECB has developed an SSM repository of data collections (referred to as the “SSM-wide data collection database”). This database is currently mainly focused on supervisory data requested from significant institutions. It facilitates the monitoring of data collections by (i) avoiding duplicative reporting and (ii) supporting work to integrate reporting frameworks. In the future, in alignment with the Better Data Sharing Regulation, the repository can be extended to include countries outside European banking supervision, additional (non-banking) data collections and other authorities. The publication of any list of data collections would require the development of definitions and principles that are fully harmonised and consistent across Member States.

Recommendation #15 proposes publishing an inventory of non-market sensitive reporting requirements imposed on banks. Without introducing additional complexity to data collection processes themselves, the European Commission should, either directly or by mandating the relevant authorities through level 1 regulation, ensure the publication of an inventory of all reporting requirements imposed on banks, including ad hoc requests outside of the established reporting frameworks. Such an inventory should only include data collections which are not market sensitive. The ECB’s publication of the SSM-wide data collection database can be considered as one additional step towards the establishment of the Integrated Reporting System (a “single contact point” for entities to indicate instances of duplicative, redundant or obsolete reporting or disclosure requirements) as stipulated in the Better Data Sharing Regulation. European authorities could leverage on existing tools, such as the ECB’s SSM-wide database, as a first step towards a more integrated solution. This solution could be expanded to include (i) countries not participating in the SSM and (ii) resolution data collections and authorities (such as the SRB) and non-banking supervisory data collections and authorities (such as the European Insurance and Occupational Pensions Authority, the European Securities and Markets Authority and the Authority for Anti-Money Laundering and Countering the Financing of Terrorism).

By avoiding duplicative reporting and supporting work on integrated reporting frameworks, this recommendation aims to reduce the reporting burden on banks.

Review regularly: a coordinated, periodic review of reporting requirements to ensure they remain relevant and adequate

The continuous increase in reporting requirements is partly driven by the fact that existing data collections at both national and European level are rarely terminated. While authorities often have arrangements in place that clarify the process for initiating data requests (see also recommendation #12), obligations and procedures to periodically and independently validate the necessity of existing reporting requirements are often underdeveloped or missing from the change management process. Furthermore, existing frameworks lack the objective criteria necessary to support such “need to keep” assessments. Over time, the accumulation of requirements not only increases institutions’ compliance costs but also creates a perception of reluctance on the part of the authorities to streamline or retire irrelevant or outdated data collections, potentially leading to reputational risks for the issuing authorities.

Recommendation #16 proposes establishing explicit obligations to conduct periodic assessments to validate the relevance and up-to-dateness of reporting requirements, based on objective criteria. Through amendments to existing legal acts, the European Commission and co-legislators should require supervisory authorities issuing permanent reporting requirements to adapt their existing processes to include regular “need to keep” reviews. For example, the Implementing Technical Standard on supervisory reporting, which is amended following a predefined release calendar, could incorporate such periodic reviews. To maintain the necessary level of stability in reporting requirements, such assessments could be conducted every three to five years. A coordinated approach towards the decommissioning of outdated requirements could be achieved via the JBRC, ensuring broad representation and alignment among the European authorities responsible for issuing reporting requirements.

The aim of this recommendation is to reduce the reporting burden on banks by terminating redundant or no longer relevant reporting requirements.

Reform public disclosure: increase consistency between European reporting and disclosure requirements and extend the Pillar 3 Data Hub to bring bank disclosure into the digital age

The content of data reported to the authorities and disclosed to the public is often identical. However, the current EU prudential reporting and disclosure frameworks co-exist in isolation in terms of data transmission processes. Currently, in addition to transmitting supervisory reporting data, each bank is required to publish its own Pillar 3 disclosure report. Supervisory authorities then reconcile these reports with the supervisory reporting data, a process that also requires manual data

handling. This parallel transmission system results in double reporting, thereby violating the “report once” principle. The forthcoming Pillar 3 Data Hub (P3DH) will simplify such transmission mechanisms by centrally storing and disseminating banks’ Pillar 3 data. For SNCIs, the EBA will directly derive disclosure data from banks’ supervisory reporting submissions. However, for non-SNCIs, the parallel transmission process for supervisory and disclosure data will remain in place, retaining the risk of inconsistencies and falling short of harnessing the full potential offered by digitalisation.

Recommendation #17 proposes fundamentally reforming the EU public disclosure process by terminating the parallel transmission of supervisory and disclosure data. Through amendments to existing level 1 regulation, the European Commission and co-legislators can bring forward the legislative proposal provided for by Article 434c of CRR3 by extending the EBA’s mandate to derive P3 data from supervisory reporting for all banks and increase the coherence of supervisory reporting and disclosure frameworks more broadly. The principle that public disclosure data should strictly form a subset of supervisory reporting data should be enshrined in level 1 regulation. In the same vein, the usefulness of certain very detailed level 1 disclosure (and thus reporting) requirements (for example, in the area of internal model credit risk exposures) for smaller banks should be reevaluated and eventually cut, while retaining compliance with the Basel principles (see also recommendation #5). This recommendation is in line with international best practices, such as the United States’ entity-level regulatory disclosure framework.

This recommendation aims at lowering the reporting burden on banks by reducing double reporting.

Annex 2 – Notes and comments

- ¹ Opinion of the European Central Bank of 5 July 2023 on amendments to the Union crisis management and deposit insurance framework (CON/2023/19)
- ² Potential tools that could be explored to achieve this objective are outlined in Enria (2020), “[Fostering the cross-border integration of banking groups in the banking union](#)”, The Supervision Blog, ECB, 9 October
- ³ In terms of total assets of euro area corporates.
- ⁴ These figures are based on Andreeva D. et al. (2024) “[Low firm productivity: the role of finance and the implications for financial stability](#)” ECB Financial Stability Review, November. For the aggregate analysis on the importance of bank lending in the euro area see [Indicators of financial integration and structure in the euro area](#), Statistical Annex.
- ⁵ Roughly 22% of euro area firms with more than 20 employees tap the bond market, besides obtaining bank loans. But, in contrast to the United States, however, it is rare for euro area firms to fund themselves exclusively via financial markets.
- ⁶ Banks typically lend more to firms with high collateral and tangible assets. Equity markets, in particular venture capital, are better suited to financing innovative, high-risk projects. Unlike creditors, for whom returns are limited to the principal plus interest, equity holders benefit fully from productivity gains, incentivizing them to screen for particularly innovative and productive firms. Equity investors also operate with longer time horizons, while banks often focus on standard loan maturities.
- ⁷ See Carpenter, R. and Petersen, B. (2002), “[Is the Growth of Small Firms Constrained by Internal Finance?](#)”, *The Review of Economics and Statistics*, Vol. 84, No 2, pp. 298-309.
- ⁸ For instance, green investment projects are more likely to be supported by the equity market. See Andersson, M. et al. (2024), “[Massive investment needs to meet EU green and digital targets](#)”, *Financial Integration and Structure in the Euro Area*, ECB, June, and De Haas, R. and Popov, A. (2019), “[Finance and carbon emissions](#)”, *Working Paper Series*, No 2318, ECB, September.
- ⁹ Prudential authorities released around €140 billion of capital requirements, of which €20 billion stemming from releases of macroprudential buffers and €120 billion from the temporary release of P2G and adjustments to P2R (See ECB [Financial Stability Review](#), May 2020).
- ¹⁰ In 2020, the ECB implemented of a regulatory change affecting the required composition of Pillar 2 Requirements (P2R), which are bank-specific requirements imposed by microprudential supervisors. This permanently reduced the amount of CET1 that banks are required to maintain above their Pillar 1 minimum requirement.

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- ¹¹ These ratios include cash balances at central banks and other demand deposits.
- ¹² Source: BankFocus and ECB calculations. Pricing power is captured by the Lerner index, defined as the mark-up of price over marginal cost, calculated as $(P-MC)/P$, where P denotes the output prices (interest and non-interest income over total assets) and MC represents marginal cost estimated from a translog cost function. The index ranges from 0 to 1, with higher values indicating greater pricing power and, therefore, lower competition. See also Buch, C., (2026) “Banks and competitiveness: promoting competition, protecting resilience”, contribution prepared for the Forum on Financial Supervision (LSE), February.
- ¹³ Profit efficiency – defined as a bank’s ability to generate the maximum output feasible given its input – has also strengthened in recent years. Following a prolonged period of compressed margins during the low-for-long interest rate environment, the rise in policy rates significantly boosted net interest income, increasing revenues without a commensurate rise in operating costs. For a deeper analysis on the level of competition in the banking sector see Section 1.2.
- ¹⁴ See Lenoci, F. and Molitor, P.(2024), “[Intra euro area cross-border lending](#)”, *Financial Integration and Structure in the Euro Area*, ECB, June.
- ¹⁵ See Di Vito, L. et al. (2023), “[Understanding the profitability gap between euro area and US global systemically important banks](#)”, *Occasional Paper Series*, No 327, ECB, August, for an in-depth analysis of the drivers of bank profitability and the factors behind the profitability gap between euro area and US banks.
- ¹⁶ Please note that the analyses in this paragraph and the following one do not incorporate the latest Basel III implementation proposals by the US authorities.
- ¹⁷ Resti, A. (2025), “[How have European banks developed along different dimensions of international competitiveness?](#)”, In-Depth Analysis, European Parliament, Brussels, April; Mejino-López, J. and Véron, N. (2025), “[EU Banking Sector & Competitiveness](#)” Study, European Parliament, Brussels, May; Bank of England (2025), “[Financial Stability in Focus: The FPC’s assessment of bank capital requirements](#)”, London, December.
- ¹⁸ Restoy, F. (2025), “[Financial regulation and growth: what should be the European policy priorities?](#)”, speech at the FinSAC Conference “Financial sector stability in times of geopolitical turbulence”, Vienna, 27 May. When evaluating whether European banks are more regulated than their competitors, Berg, J, Boivin, N. and Geeroms, H, (2025) “[The quickly fading memory of why and when bank capital is important](#)”, *Working Paper 04/2025*, Bruegel, Brussels, April, conclude that while EU banks’ compliance costs are high, their regulation is less stringent than in the United States, in particular, as the US imposes certain stricter capital requirements than Basel III on its G-SIBs.
- ¹⁹ Resti (2025).
- ²⁰ Mejino-López and Véron (2025).

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- ²¹ See Behn, M. and Reghezza, A. (2025), "[Capital requirements: a pillar or a burden for bank competitiveness?](#)", Occasional Paper Series, No 376, ECB, October. In the paper, profit efficiency is defined as a bank's ability to convert inputs (such as funding and staff costs) into outputs (income).
- ²² For the credit-to-GDP gap methodology see Di Casola et al. (2026), "[Mind the gap: credit dynamics in the euro area](#)", the ECB Blog, 26 January; for evidence on a negative gap see Lane, P. (2025), "[The transmission of monetary policy: financial conditions and credit dynamics](#)", speech given in Frankfurt, 21 October.
- ²³ See Bernasconi, R. et al. (2025) "[What is the untapped potential of the EU Single Market?](#)" ECB Economic Bulletin, Issue 8.
- ²⁴ The integration in the market for retail banking, which has traditionally been slower than the wholesale banking, may increase in the future also as a result of new trends, such as the provision of deposits and other retail banking products by new digital banks.
- ²⁵ See [Indicators of financial integration and structure in the euro area, Statistical Annex](#), Chart 17 for MFI loans to non-MFIs and Chart 18 for MFI loans to MFIs. "Other sectors" include households, corporates, NBFIs, and governments.
- ²⁶ See Lenoci, F. and Molitor, P.(2024), "[Intra euro area cross-border lending](#)", *Financial Integration and Structure in the Euro Area*, ECB, June.
- ²⁷ See Di Vito et al (2023).
- ²⁸ See Lebastard, L. (2022), "[Financial exposure and bank mergers: micro and macro evidence from the EU](#)", *Working Paper Series*, No 2724, ECB, September.
- ²⁹ Potential tools that could be explored to achieve this objective may include, among the others, the preliminary ideas outlined in the blogpost [Fostering the cross-border integration of banking groups in the banking union](#) by A. Enria (2020)
- ³⁰ See Draghi, M. (2024), "[The future of European competitiveness – A competitiveness strategy for Europe](#)", European Commission, Luxembourg; also Angeloni, I. (2024), "[The Next Goal: euro area banking integration](#)", Study, European Parliament, Brussels, February.
- ³¹ Any EU-level guarantee should meet the requirements of the Eurosystem collateral framework and comply with overall Treaty provisions. In addition it should be designed in such a way that it is in line with the FSB's guiding principles: see FSB (2016), "Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank", Basel, August.
- ³² The common backstop to the SRF, with a maximum capacity of €68 billion, would almost double the resources available for financing resolution, including liquidity provision. Ratification of the revised ESM Treaty to allow the ESM to act as common backstop to the SRF would be a major step to enhance the banking union resolution framework.

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- ³³ For instance, “branchification” has been hindered by prudential and non-prudential barriers to entry. Branchification allows banks to operate cross-border in a flexible manner, being the process of transferring certain activities or services from a subsidiary to the parent and continuing those activities via a branch, leveraging “passporting” arrangements. This strategy can allow groups to manage their capital and liquidity in an integrated and more efficient manner. However, it is also subject to specific obstacles stemming from the lack of integration in national corporate, tax, regulatory and insolvency frameworks and some undue restrictions to the provision of certain banking services, e.g. “IBAN discrimination” due to the country code. In addition, the Deposit Guarantee Scheme Directive (DGSD) provides that only contributions made in the preceding 12 months can be transferred to a new Deposit Guarantee Scheme (DGS) when a bank switches its DGS affiliation. This may mean that in the absence of EDIS, earlier contributions of the local subsidiary must be accepted as a sunk cost, while the parent bank may need to make additional contributions to its home DGS following the branchification transaction. It should be analysed whether and to what extent this impacts branchification decisions. Additional costs may derive from the application of overlapping national framework, e.g. regarding the tax treatment of the transaction. Finally, undue restrictions may constrain customers’ access to certain banking services. The Eurosystem supports decisive efforts to level the playing field. In the prudential domain, this could include recurring to regulations rather than directives (HLTF recommendation #6), including in areas such as governance where currently EU law is principles based and national divergences are pronounced (see also Chapter 3).
- ³⁴ Since the start of the SSM, the ECB issued a cross-border liquidity waiver pursuant to Article 8 of CRR to one group.
- ³⁵ This figure is the amount of high-quality liquid assets (HQLA) that is required for SSM cross-border subsidiaries of Significant Institutions to comply with the general LCR minimum level of 100% at individual level as at end-December 2025, i.e. the amount of net liquidity outflows (defined as the total expected liquidity outflows minus total expected liquidity inflows in the specified LCR stress scenario for the subsequent 30 calendar days, after application of the cap on inflows). Source: COREP reporting.
- ³⁶ These permissions may encompass the prudential treatment of intragroup exposures for the purposes of capital, large exposures and leverage requirements.
- ³⁷ See Enria (2020).
- ³⁸ For example, even core elements of the definition of a credit institution — such as the concepts of “deposits”, “other repayable funds”, “from the public”, and the notion of “granting credit for its own account” — remain subject to different national interpretations. The definition of deposit-taking even differs from one piece of EU legislation to another. This poses an obstacle to banks operating across borders, who effectively have to face 27 different national legal systems even on areas which are supposed to be harmonised.
- ³⁹ These entities do not typically include a bank, investment firm or insurance undertaking, but encompass large fintechs, platform based financial ecosystems, and mixed activity groups active in both financial and non-financial activities.

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- ⁴⁰ This observation was made in the context of a stocktaking of Big Tech direct financial services provision in the EU. Payments and e-commerce have become frequent entry points for such firms, which often expand, over time, into retail credit (mortgage lending and consumer loans) or crypto services but may also provide the full spectrum of banking services using brokerage arrangements, agent networks, or white label partnerships. These complex arrangements may magnify the licensed entities' exposure to common risks, including liquidity, operational and legal and conduct and reputational risks. They may also give rise to resolvability risks, agency problems, adverse selection and step-in risks.
- ⁴¹ Establishing a non-bank financial holding company regime would help preserve level playing field and reduce disintermediation risks stemming from non bank groups (neo conglomerates). See Opinion of the European Central Bank of 30 April 2024 on a proposed regulation and directive on payment and electronic money services (CON/2024/13).
- ⁴² Behn, M., Forletta, A. and Reghezza, A. (2024), "[Buying insurance at low economic cost – the effects of bank capital buffer increases since the pandemic](#)", *Working Paper Series*, No 2951, ECB, July, show that the tightening of macroprudential capital buffers in the euro area since 2021 had overall a minimal impact overall on banks' credit supply, with only a small set of the most capital-constrained banks reducing credit supply – indicating that the short-term impacts of increased resilience from macroprudential policy have been minimal. The medium to long term benefits of a resilient banking system are significant. Financial crises disrupt productivity growth via a number of channels, including persistently higher financing costs, long-term wage and labour productivity scarring, and disruption to cumulative innovation processes. Their effects are not small: Oulton, N. and Sebastián-Barriel, M. (2015), "[Effects of Financial Crises on Productivity, Capital and Employment](#)", *Review of Income and Wealth*, Vol. 63, pp. 90-112, estimate an average short-term -0.55 percentage point (pp) drop in the growth rate and long-term -1.1% drop in the level of output per worker for each year that a banking crisis lasts.
- ⁴³ These include minimum requirements, Pillar 1 requirements, Pillar 2 requirements, the Capital Conservation Buffer, the Countercyclical Capital Buffer, the Systemic Risk Buffer, buffers for Global and Other Systemically Important Institutions and Pillar 2 guidance.
- ⁴⁴ The output floor replaced the earlier "Basel I floor", which also aimed to prevent excessive capital reductions from additional risk-sensitivity introduced in the transition from Basel I to Basel II.
- ⁴⁵ Opinion of the European Central Bank of 24 March 2022 on a proposal for amendments to Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor ([CON/2022/11](#)).
- ⁴⁶ See the [press release](#) of the Council of the European Union of 11 July 2017.
- ⁴⁷ Commercial real estate loans and for loans to small and medium-sized enterprises (SMEs)

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- ⁴⁸ According to Article 104(b) CRD, P2G is meant to reflect guidance by competent authorities on the adequate level of own funds that is sufficient to cover all the risks that an institution is exposed to and to ensure that the institution's own funds can absorb potential losses resulting from stress scenarios, including those identified under the supervisory stress test referred to in Article 100.
- ⁴⁹ The MDA is an automatic restriction on banks' distributions, limiting the amount of profits that can be paid to investors of CET1 and AT1 instruments, as well as variable remuneration to employees.
- ⁵⁰ Buch, C. (2026).
- ⁵¹ Molyneux, P., Reghezza, A. and Xie, R. (2019), "Bank margins and profits in a world of negative rates", *Journal of Banking and Finance*, Vol. 107, No 105613
- ⁵² The SSM's P2R methodology requires Joint Supervisory Teams to consider all available information including outstanding qualitative measures, a bank's track record and the time required to remediate past weaknesses, when setting up capital add-ons related to business model risk.
- ⁵³ Adrian, T. et al. (2023), "[Good Supervision: Lessons from the Field](#)", IMF Working Paper WP/23/181, Washington, DC, September.
- ⁵⁴ [Supervisory Priorities 2026-2028](#)
- ⁵⁵ Buch, C. (2025) [Incentives matter: what is different in banking and what role does supervision play?](#), speech given in Frankfurt, 22 October.
- ⁵⁶ EU-specific elements are the Systemic Risk Buffer, macroprudential risk-weight measures and the Pillar 2 (leverage ratio) add-ons.
- ⁵⁷ Such heterogeneity affects several macroprudential instruments, such as the CCyB, SyRB, and O-SII buffers in the EU, see ECB/ESRB (2025), "[Using the countercyclical buffer to build resilience early in the cycle](#)", Frankfurt, January; also Greco, M. Grodzicki, M. and Vogel, U. (2025), "[Heterogeneity in buffers set for systemically important banks in the European banking union](#)", *Macroprudential Bulletin*, ECB, August.
- ⁵⁸ See for example the ECB/ESRB (2024) "[Using the CCyB to build resilience early in the cycle](#)" for a discussion of the role of different applicable legislation on the possibility to implement a positive CCyB rate in a standard risk environment.
- ⁵⁹ To exercise its powers, the ECB has to apply not only the directly applicable EU regulations, but also the national laws that transpose directives, such as the CRD, into domestic legal frameworks.
- ⁶⁰ See Behn, M. et al. (2024), "[The sectoral systemic risk buffer: general issues and application to residential real estate-related risks](#)", *Occasional Paper Series*, No 352, ECB, June, for a discussion of the approaches to calibrate the SyRB; Appendix B of ECB/ESRB (2025) for an overview of the methods used to calibrate the target positive CCyB rate in a standard risk environment; EBA (2020), "[EBA report on the appropriate methodology to calibrate O-SII buffer rates](#)", Paris, December.

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- ⁶¹ With respect to the interactions between micro and macroprudential instruments, the EBA SREP Guidelines are the only regulatory document providing explicit guidance for microprudential authorities on how to account for macroprudential buffers, when imposing additional own-funds requirements or other capital measures on individual banks, such as P2G.
- ⁶² The CCoB is intended to improve banks' general loss absorbing capacity, thereby avoiding breaches of minimum capital requirements during periods of stress when losses are incurred; G SII/O-SII buffers address the risk that the failure of systemically important institutions may pose to the economy and the financial system as a whole.
- ⁶³ For international comparison reasons, the releasable buffer could continue to be called the Countercyclical Capital buffer (CCyB).
- ⁶⁴ See Chart 3 in Detken, C. et al. (2025), "[Macroprudential and monetary policy interaction: the role of early activation of the countercyclical capital buffer](#)", Macroprudential Bulletin, ECB, Frankfurt, August, for a description of the intended use of the releasable buffer through the cycle, mirroring the current approaches for the early activation of the CCyB.
- ⁶⁵ See ECB/ESRB (2025) and Basel Committee on Banking Supervision (2024) "[Range of practices in implementing a positive neutral countercyclical capital buffer](#)", Basel, November.
- ⁶⁶ The benefits of releasable capital buffers are documented by a number of academic papers, including: Lang, J.H. and Menno, D. (2025), "[A structural model of capital buffer usability](#)", Working Papers Series No. 3188, ECB, February; Couaillier, C. et al. (2024), "[Caution: do not cross! Distance to regulatory capital buffers and corporate lending in a downturn](#)", *Journal of Money, Credit and Banking*, Vol. 57, No. 4, pp. 833-862, Couaillier, C. et al. (2025), "[How to release capital requirements in an economic downturn? Evidence from euro area credit registers](#)", *Journal of Financial Intermediation*, Vol.63, July 2025.
- ⁶⁷ The institution-specific RB rate would be calculated as the weighted average of the RB rates in effect across the jurisdictions in which the institution has credit exposures. The institution-specific RB rate would then be applied to the institution's total risk weighted assets.
- ⁶⁸ See Greco, Grodzicki and Vogel (2025); also Grodzicki, M. et al (2025), '[Enhancing the ECB's O-SII framework](#)'. Please also see the [Governing Council statement on macroprudential policies \(2022\)](#) and the [Governing Council statement on macroprudential policies \(2024\)](#).
- ⁶⁹ See for example the [Aggregated results of the 2025 SREP](#).
- ⁷⁰ SNCIs are credit institutions that meet the criteria laid down in Article 4(1)(145) of the Capital Requirements Regulation.

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- ⁷¹ SNCIs cover around 74% of all less significant institutions (LSIs) in the SSM. The LSI sector in turn represents a roughly stable share of 16% of the euro area banking market (excluding financial market infrastructures. Relevant adjustments applicable to SNCIs relate to: i) Reporting: SNCIs are either exempt or subject to significantly lighter reporting obligations. According to the [EBA](#) “*Small and Non-Complex Institutions (SNCIs) are reporting only up to 30% of the data reported by large institutions.*”; ii) Public disclosure: requirements applicable to SNCIs are less comprehensive, and existing plans already foresee future centralisation by the EBA to simplify further; iii) Governance: SNCIs are either exempt (e.g. the establishment of board committees) or subject to simplified obligations (e.g. recovery plans and remuneration requirements). It is also worth noting that the majority of SNCIs are members of institutional protection schemes (IPS). This membership is linked to a set of additional regulatory benefits, most notably in the calculation of capital requirements.
- ⁷² There are currently 1,439 SNCIs. Increasing the size threshold from the current EUR 5 billion to EUR 10 billion would lead to almost 160 additional entities eligible to be classified as SNCIs, bringing the overall number to 1,597, an increase of approximately 11%.
- ⁷³ “Less significant institutions” are credit institutions of Member States participating in the SSM that meet the criteria laid down in Article 6(4) of the SSM Regulation.

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