European Banking Authority

EBA REPORT ON SIMPLIFYING THE STACKING ORDERS OF THE EU PRUDENTIAL AND RESOLUTION FRAMEWORK

EBA/REP/2026/12 16 JUNE 2026

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Abbreviations

AT1	Additional Tier 1
BRRD	Bank Recovery and Resolution Directive
CBR	Combined Buffer Requirement
CCoB	Capital Conservation Buffer
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EL	Eligible Liabilities
EU	European Union
G-SII	Global Systemically Important Institution
LAA	Loss Absorption Amount
L-MDA	Leverage ratio Maximum Distributable Amount
LR	Leverage Ratio
MCC	Market Confidence Charge
MDA	Maximum Distributable Amount
M-MDA	MREL Maximum Distributable Amount
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
Non-SII	Non-Systemically Important Institution
OCR	Overall Capital Requirement
OLRR	Overall Leverage Ratio Requirement
O-SII	Other Systemically Important Institution
ORC	Overall Recovery Capacity
PRA	Prudential Regulation Authority (Bank of England)
P1	Pillar 1
P2G	Pillar 2 Guidance
P2G LR	Pillar 2 Guidance for the Leverage Ratio
P2R	Pillar 2 Requirement
P2R LR	Pillar 2 Requirement for the Leverage Ratio
RAS	Risk Appetite Statement
RCA	Recapitalisation Amount
RWA	Risk-Weighted Assets
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
SyRB	Systemic Risk Buffer
T1	Tier 1
T2	Tier 2
TC	Total Capital
TEM	Total Exposure Measure
TLAC	Total Loss-Absorbing Capital
TLOF	Total Liabilities and Own Funds
TREA	Total Risk Exposure Amount
TSCR	Total SREP Capital Requirement
TTF	Top Tier or Fished

1. Executive Summary

1. The capital framework is a central component of the banking system's prudential and resolution frameworks. It ensures that banks have own funds and eligible liabilities proportionate to the risks they take. This means that the banking sector and individual banks have enough own funds to absorb losses, and in case of resolution enough resources to recapitalise, with no costs to taxpayers, all while preserving financial stability and supporting the economy through stress.
2. At international level, the standards of the Basel Committee on Banking Supervision (BCBS) and Financial Stability Board (FSB) establish the key capital elements and their interaction within the 'capital stacks'. In the EU these standards are implemented through regulations (CRR, SRMR) and directives (CRD, BRRD). The latest reforms, known as the 'Final Basel 3' package, have been implemented in the EU through CRR3 and CRDVI, with the aim of strengthening risk measurement.
3. As the post-Great Financial Crisis (GFC) reform process neared completion, and the capital framework has supported resilience, attention has turned to the complexity of the implementation in the EU (see recommendation 9 by EBA's Task Force on Efficiency)[1].
4. This report reflects on how to streamline the EU capital framework for institutions without reducing resilience nor weakening supervisory action. It discusses options to reduce unnecessary complexity, improve consistency and predictability, and support effective supervisory and resolution tools. To do this it follows four guiding principles: i. the preservation of resilience and maintenance of capital neutrality, ii. adherence to international standards, in particular the BCBS and FSB standards, iii. proportionality considering that both large and small institutions are subject to the framework, and iv. enhancing the efficiency and depth of the single market to the benefit of our economy and financial stability.
5. The report does not advocate a fundamental redesign of the framework but rather targeted, balanced changes. It focusses on potential adjustments to the design of the framework, not on its calibration. Nor does it address the separate – albeit important – issue of the coordination amongst the relevant authorities with different mandates and responsibilities.
6. Regarding the microprudential part of the framework, the report recommends preserving the existing toolkit and reaffirms the goal of effectiveness. It recommends that only micro risks are covered by Pillar 1 requirement (P1R), that the role of Pillar 2 requirements (P2R) is kept as intended in the CRD and the SREP guidelines to cover risks which are not or not sufficiently covered by P1R. Similarly, the report reaffirms the role of a Pillar 2 guidance (P2G) as intended in the CRD and SREP guidelines. The report does not recommend to merge P2R, CCoB or P2G. The report recommends streamlining the leverage ratio stack by converting its Pillar 2

[1] TFE report EBA/REP/2025/26 (link). Also see EBA's 2024 report on the stacking order (link)

requirement into a buffer, and removing its Pillar 2 Guidance. The report does not propose a change in the composition of capital.

7. As for the macroprudential part of the framework, the report considers that efficiency could be improved by creating a single releasable macroprudential buffer that consolidates the current countercyclical capital buffer (CCyB) and systemic risk buffer (SyRB). This should be supported by a high-level common methodology which would support convergence while preserving sufficient flexibility to recognise differences in local markets and macro-financial cycles, and thus to maintain financial stability. In addition, the report recommends updating the common methodology for O-SII scoring and considering further guidance on O-SII buffer calibration.

8. Finally, in the resolution part of the framework, the report recognises that MREL complexity partly mirrors the complexity of the going-concern framework on which it is built, while it identifies a few targeted changes concerning metrics and adjustments. Other approaches— such as linking MREL to a single fully subordinated metric, introducing a 'Resolution Pillar 1' and 'Resolution Pillar 2', or amalgamating requirements into a single stack — are presented with elements for possible further future consideration.

1. EU/EEA institutions a decade later: stronger, safer and more resilient

9. Following the Great Financial crisis (GFC), the EU prudential framework has undergone significant reforms, progressively strengthening capital and liquidity requirements. The GFC revealed several shortcomings in the pre-crisis regulatory and supervision framework. As a response, the Basel Committee on Banking Supervision (BCBS) introduced the Basel III framework which significantly strengthened the regulatory framework and provided a foundation for a resilient banking system[2]. The Capital Requirement Regulation and Directive (CRR/CRD IV) and its subsequent amendments implemented the Basel III reforms in the EU, increasing the quality and level of capital, introducing key liquidity and leverage requirements, enhancing the macroprudential buffers, revising the risk measurement approaches for credit and operational risk and introducing the output floor. These regulatory reforms laid the foundation for a significant improvement in EU/EEA institutions' capital positions and shaped the structural evolution of the sector over the past decade.

10. In parallel, the EU introduced for the first time a common crisis management framework. This also came as a response to the GFC, during which several failing institutions were considered "too big to fail" and were bailed out with public funds. The level of state support was unprecedented, exposing major weaknesses in the existing national insolvency frameworks, especially in managing systemic and cross-border bank failures[3]. To address this problem, the Banking Recovery and Resolution Directive (BRRD) established a common resolution framework in the EU to facilitate the orderly resolution of an institution. It also introduced the Minimum requirement for own funds and eligible liabilities (MREL), requiring institutions to have sufficient loss-absorbing and recapitalisation capacity for an orderly resolution[4]. The EU MREL framework was later amended to better align it with the Financial Stability Board (FSB) standard on total loss absorbing capacity (TLAC) for G-SIBs[5]. The framework established the basis for ensuring the continuity of critical functions, protecting depositors, preserving financial stability and minimising costs for taxpayers when an institution fails.

11. The EU/EEA institutions' capital positions have strengthened significantly over the last decade, supported by strong profitability. The total capital ratio rose from 15.9% at the end of 2014 to 20.4% of TREA in December 2025 (Figure 1). A similar trend was observed for the CET1 ratio, which increased from 12.7% to 15.8% of TREA over the same period, reflecting a broader shift toward higher-quality capital in line with the aim of the post-crisis regulatory reforms. The increase in CET1 capital was driven mainly by rising retained earnings and other reserves, as strong profitability boosted organic capital generation.

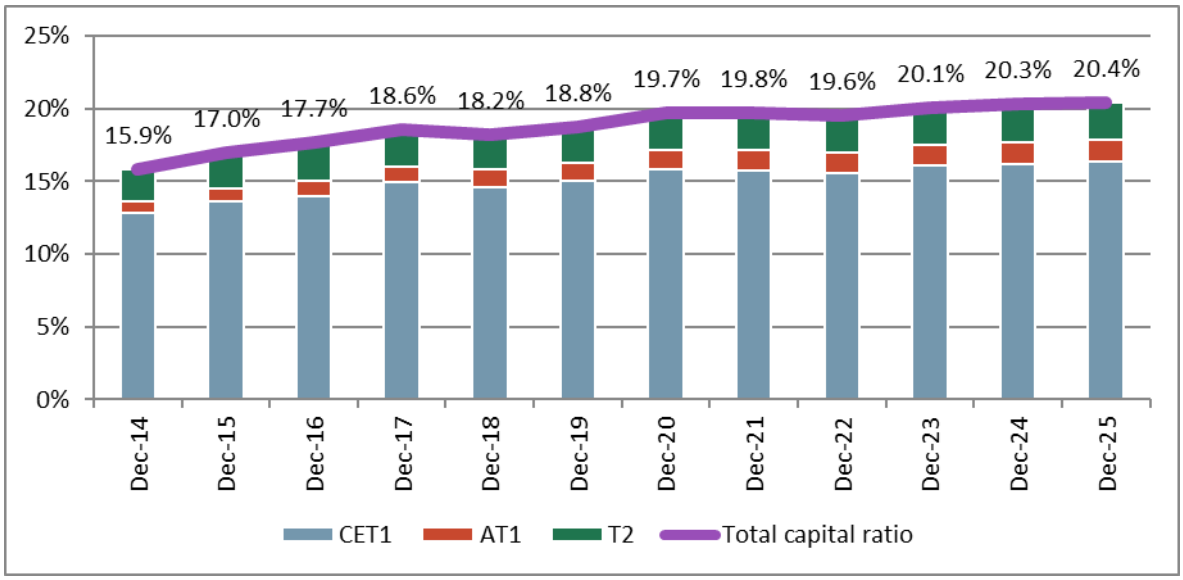
[2] Basel III framework

[3] Between 2008 and 2017, the Commission approved aid to the financial sector for an overall amount of EUR 1.4 trillion (capital-like aid) and EUR 3.7 trillion (liquidity aid). See Control of State aid

[4] This is in line with the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions

[5] Total Loss-absorbing Capacity (TLAC) Term Sheet

Figure 1. Total capital ratio for EU/EEA institutions (percentages of TREA)



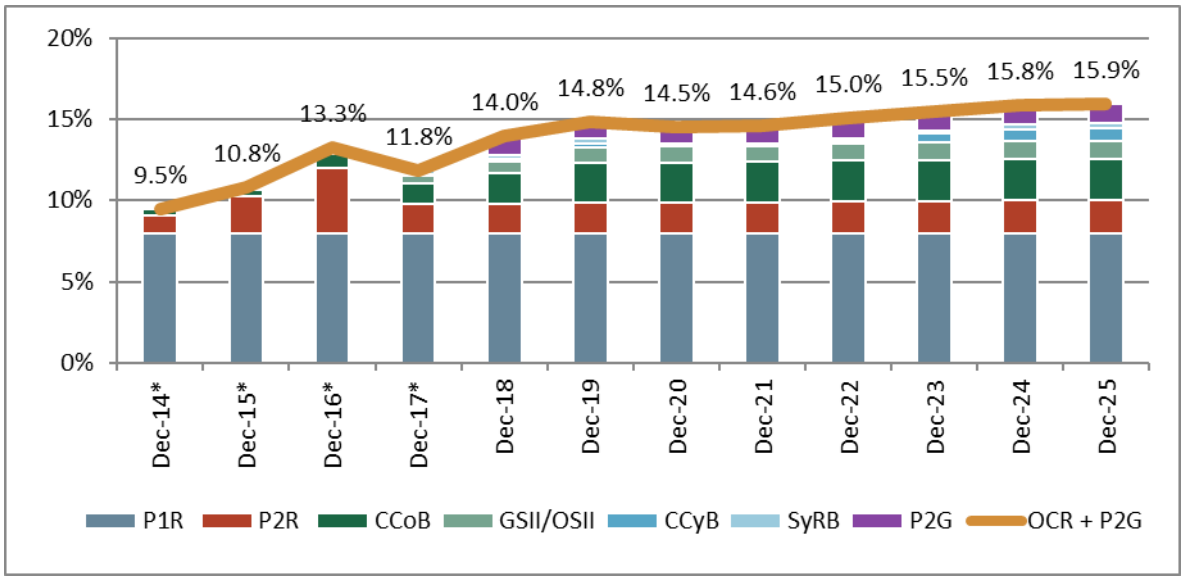
Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample selection follows the EBA's Risk Dashboard sample (EBA's Largest reporting institutions at the highest level of consolidation in EU/EEA) excluding UK institutions. The sample of banks varies slightly each year. The figure shows weighted average ratios.

12. The implementation of the EU regulatory framework has played an important role in strengthening institutions' capital positions. Overall capital requirements and Pillar 2 guidance have progressively increased from 2014, reaching 15.9% of TREA as of December 2025, incentivising institutions to increase capital levels (Figure 2). EU/EEA institutions operate today with comfortable capital buffers above regulatory minima. The increase in the overall capital requirements was driven primarily by the gradual phase-in of macroprudential buffers between 2014 and 2019, while microprudential minimum requirements remained broadly unchanged. During the Covid-19 pandemic, authorities released part of the CCyB and SyRB to support the supply of credit to the economy, in line with their intended design[6]. At the same time, competent authorities communicated that institutions could temporarily operate below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCoB) and the liquidity coverage ratio (LCR) providing additional support[7]. Subsequently, macroprudential authorities started to reinstate or increase macroprudential buffers between 2022 to 2025 in response to a normalisation of macro-financial conditions and a reassessment of cyclical risks.

[6] Research suggests that the regulatory capital relief measures adopted during the pandemic, which added to banks' existing capital space, were associated with higher credit supply. See Bank capital buffers and lending in the euro area during the pandemic (ECB, 2021)

[7] ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus (2020)

Figure 2. Overall total capital requirements and Pillar 2 guidance, weighted average of TREA, EU/EEA institutions



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
*Notes: The sample selection follows the EBA's Risk Dashboard sample (EBA's Largest reporting institutions at the highest level of consolidation in EU/EEA) excluding UK institutions. The sample of banks varies slightly each year. The figure shows weighted average ratios. P2G was formally introduced in 2018 by splitting Pillar 2 into a requirement (P2R) and a guidance (P2G) component. Prior to 2018, the values (noted with *) do not separately include P2G as there was no separate reporting for P2R and P2G components. In addition, prior to 2018, there were some inconsistencies on the Pillar 2 data and proper reporting of Pillar 2 was clarified through a series of Q&As in 2016 and 2017 (2016_2699, 2017_3273).*

13. The improvement of capital ratios has also been driven by developments in risk-weighted exposure amounts (TREA) and balance-sheet composition[8]. Over the last decade, EU/EEA institutions have undergone a sustained process of deleveraging and de-risking their balance sheets. Institutions have reduced non-core and higher-risk activities, shifting towards safer and more liquid assets, such as sovereign exposures and mortgages. At the same time, non-performing loans (NPLs) have declined materially from 6.5% in 2014 to 1.8%[9]. The main asset composition has also changed significantly, with a reduction in derivatives and an increase in loans and advances and holdings of central bank reserves, the latter especially after the COVID-19 pandemic[10]. In parallel and partly as a result of that, average risk weights fell from 36.5% in December 2014 to 33.6% in December 2020 and have remained relatively stable since then (Figure 3)[11].

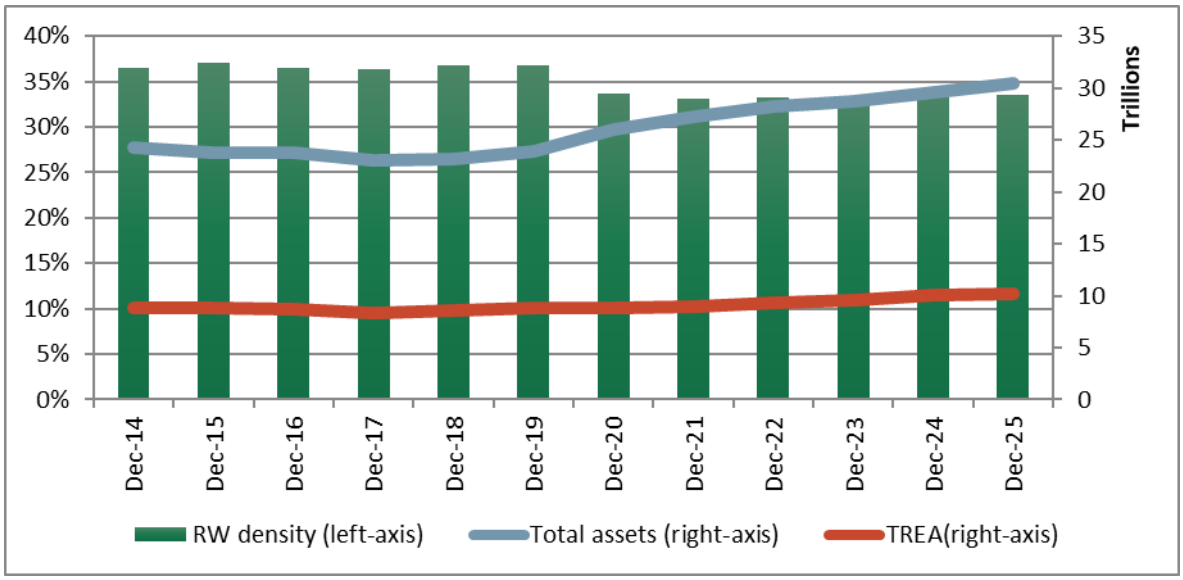
[8] See previous EBA Risk Assessment Reports (RAR) for more information.

[9] The non-performing exposure (NPE) backstop has played an important role in reducing NPLs.

[10] See EBA Risk Dashboard (2025 Q4)

[11] During the COVID-19 pandemic, several fiscal support measures, including private and public moratoria on loan repayments, may have contributed to this reduction by absorbing part of the credit risk that would otherwise have remained on banks' balance sheets.

Figure 3. Risk weight density (left-axis) and total assets



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample selection follows the EBA's Risk Dashboard sample (EBA's Largest reporting institutions at the highest level of consolidation in EU/EEA) excluding UK institutions. The sample of banks varies slightly each year. The figure shows weighted average ratios.

14. At the time of its actual implementation, the final Basel III reforms via the new CRR3/CRDVI had a limited impact on EU/EEA institutions' TREA and capital ratios. Institutions' total TREA increased by 0.4% between December 2024 under CCR2 and June 2025 under CRR3, even though total assets increased by 3.2% over the same period. The impact of the output floor was very limited due to transitional arrangements[12]. Nevertheless, the impact was very heterogeneous across institutions: nearly half of the institutions experienced an increase in total TREA while the other half a decrease (see Figure 29 in the Annex). At the fully loaded implementation of CRR3 (2033), total TREA is estimated to increase by 6.4%, of which 2.6 p.p. are due to the output floor calibration and 3.8 p.p. due to other transitional arrangements that apply to the calculation of non-modellable TREA (S-TREA) for the output floor[13,14].

15. In parallel, EU/EEA institutions became less leveraged as capital generation outpaced asset growth. The leverage ratio has increased (i.e. leverage diminished) between 2014 to 2025 from 4.7% to 5.8%, acting as a credible backstop to the risk-based requirements. As a result, institutions maintained a comfortable buffer above the minimum requirement of 3%, confirming the overall strength of the institutions' capital position.

[12] As of December 2025, the output floor was based on transitional arrangements with a calibration factor of 50% and had no impact on TREA.

[13] These include the transitional preferential treatment for unrated corporates under Article 465(3) of CRR III, the transitional calibration for SA-CCR (alpha=1) under Article 465(4) of CRR III, the transitional preferential treatment to exposures secured by real estate under Article 465(5b) of CRR III and the transitional calibration for the p-factors that apply to securitisations exposures under Article 465(7) of CRR III.

[14] See EBA CRR3/CRD6 implementation dashboard

16. Given that capital instruments are MREL eligible, higher capital generation has also helped EU/EEA institutions to steadily increase their MREL-eligible resources as the full phase-in of BRRD was progressing implemented. MREL resources, expressed as percentage of TREA, increased from 32.5% to 34.5% between December 2022 and December 2025 to meet binding targets. Next to higher CET1 capital, senior non-preferred debt has also increased (Figure 4). The MREL phasing-in process reached its final phase with the 2024 deadline for compliance with final MREL requirements, when institutions had to fully meet their fully phased-in targets (Figure 5).

Figure 4. Evolution of MREL eligible resources for EU/EEA institutions (percentages of TREA)

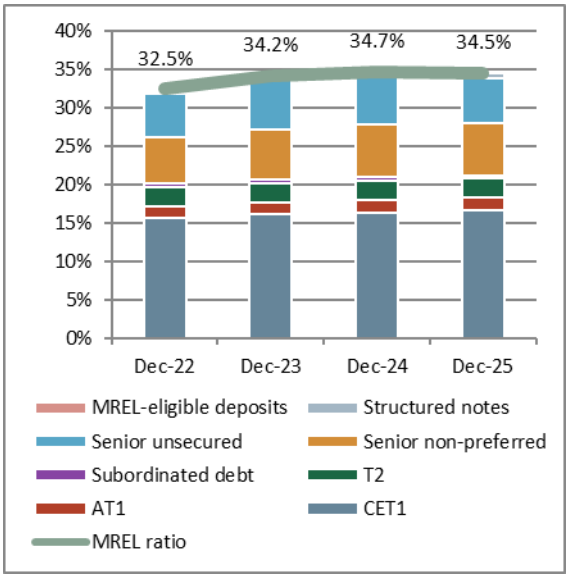
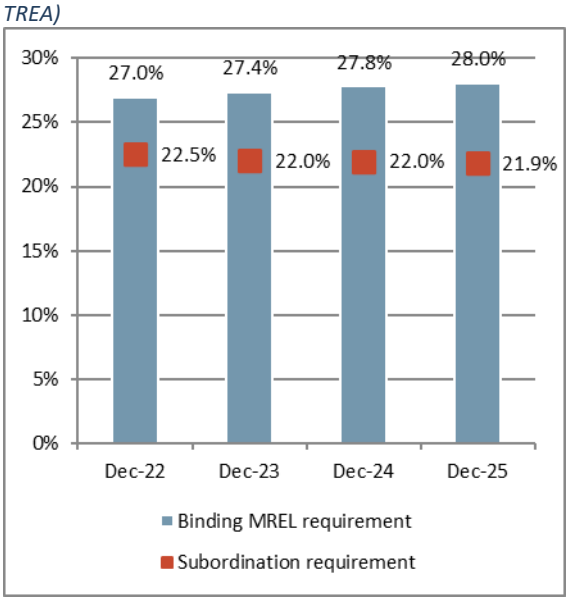


Figure 5. Evolution of external binding MREL requirements for EU/EEA institutions (percentages of TREA)



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample selection follows the EBA's MREL Dashboard sample. The sample of banks varies slightly each year. The figure shows weighted average ratios. Binding MREL requirement is calculated as the higher of the MREL requirements, calibrated using (i) Total Risk exposure amount (TREA) requirement + Combined buffer requirement (CBR) and (ii) Total Exposure Measure (TEM) requirement. Subordination requirements imposed upon other institutions to address no creditor worse off (NCWO) risks are not considered.

17. Alongside stronger capital positions, the EU/EEA institutions have maintained strong liquidity and funding positions. The Liquidity Coverage Ratio (LCR) has increased from 139.3% in December 2016 to 163.0% in December 2025, driven by higher holdings of high-quality liquid assets (HQLAs), particularly during the COVID-19 pandemic (Figure 6). Moreover, the Net Stable Funding Ratio (NSFR) has remained relatively stable standing at 126.9% as of December 2025 (Figure 7).

Figure 6. Evolution of liquidity coverage ratio (LCR) for EU/EEA institutions

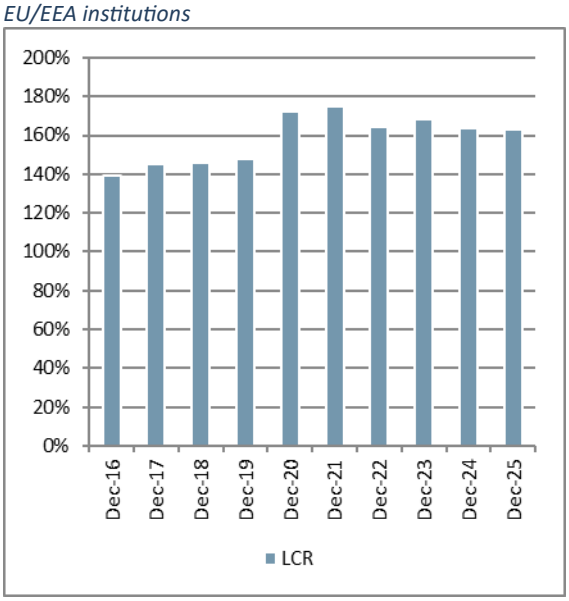
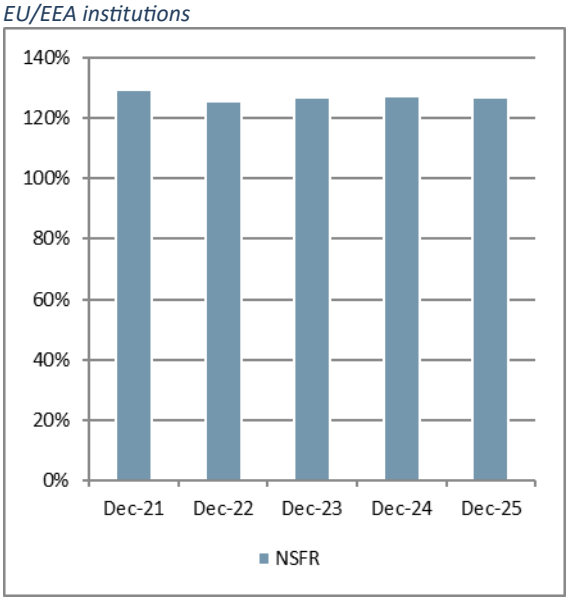


Figure 7. Evolution of net stable funding ratio (NSFR) for EU/EEA institutions



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample selection follows the EBA's Risk Dashboard sample (EBA's Largest reporting institutions at the highest level of consolidation in EU/EEA) excluding UK institutions. The sample of banks varies slightly each year. The figure shows weighted average ratios.

18. Overall, EU/EEA institutions emerged significantly stronger, safer and more resilient following the post-GCF regulatory reforms. Today, EU/EEA institutions are better capitalised, are less leveraged and hold stronger liquidity buffers because of the comprehensive regulatory package implemented over the past decade. Recent financial and geopolitical challenges, such as the COVID-19 pandemic and the energy crisis, serve as a clear testament to the increased resilience of the EU/EEA banking sector. Despite these periods of heightened risks and uncertainty, EU/EEA institutions were able to maintain lending and support the EU economy due to their robust capital and liquidity buffers. The improved resilience of the EU/EEA banking sector is also confirmed by the recent EBA stress test results, which show that the largest EU/EEA institutions can withstand a severe hypothetical stress scenario[15]. At the same time, EU/EEA institutions should continue to show vigilance in their risk management framework towards emerging risks amid the current volatile environment.

19. In addition, EU/EEA institutions are now easier and less costly to resolve compared to a decade ago. The few resolution cases to date provide clear evidence of the effectiveness of the EU resolution framework in managing bank failures in an orderly manner[16]. In all cases, authorities have been able to intervene sufficiently early and quickly, ensuring continuity of critical functions, protecting depositors, preserving financial stability and avoiding the use of taxpayer's money. This was made possible due to the powers and tools given to resolution authorities under the BRRD.

[15] 2025 EU-WIDE STRESS TEST Results

[16] See for example Banco Popular Español S.A (2017) and Sberbank Europe AG (2022)

20. While the post-crisis regulatory reforms were necessary and proved successful to improve the resilience and resolvability of EU/EEA institutions, they contributed to the complexity of the EU prudential framework. Complexity also comes from the remaining financial and regulatory fragmentation of the Single Market, including an incomplete Banking Union. This is particularly the case in areas where insufficient harmonisation results in divergent practices across the EU beyond what is necessary to accommodate national specificities. In addition, an incomplete Single Market constrains EU/EEA institutions from fully exploiting economies of scales and cross-border business opportunities, resulting in undue compliance costs[17]. This can ultimately hamper EU competitiveness and the financing of the EU economy[18]. The Draghi report therefore calls to assess whether the current prudential regulation is adequate to have a strong and international competitive banking system in the EU.[19]

[17] European Commission, Study on the costs of compliance for the financial sector – Final report, 2020

[18] Overall, as noted in Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector (2026), evidence shows that capital requirements have not adversely affected competitiveness. In addition, EU/EEA banks have significantly narrowed the gap of profitability and valuations compared to their US peers in the recent years. See Box 8 in 2024 EBA Risk Assessment Report for EU vs US banks' differences in profitability and potential links to their valuation.

[19] The Draghi report on EU competitiveness (2025)

2. EU regulatory framework: Robust but complex

21. The 2024 EBA report on stacking orders and capital buffers illustrates the complexity, granularity and multi-layered nature of the EU banking regulatory framework. It highlights the large number of interacting prudential and resolution requirements that institutions must manage simultaneously. A central issue is the existence of numerous regulatory "stacks": depending on their profile, institutions may be subject to as many as 10 distinct stacks, including risk-based capital requirements, the leverage ratio requirement, TLAC, MREL and subordinated MREL requirements.

22. The report also shows that each stack is itself composed of several layers. For example, the risk-based capital stack combines Pillar 1 requirements, P2R, the combined buffer requirement (CBR) and P2G. The CBR itself may comprise up to four separate buffers. This creates a highly granular prudential regime in which institutions must continuously monitor compliance across multiple potentially partially overlapping requirements.

23. The EBA further highlights the complexity arising from the interaction between the solvency and resolution frameworks. In particular, the EU resolution regime related to both TLAC and MREL interact strongly with the going concern solvency framework. On top of this, both regimes have different MDA triggers that can trigger automatic or partly discretionary actions. The report therefore stresses that understanding the interactions between the various regulatory stacks is essential to assessing how the framework operates in practice.

24. A further source of complexity lies in the degree of institution-specific and country-specific calibration embedded in the EU framework. Pillar 2 decisions and MREL requirements are tailored to individual institutions, depending on factors such as business models, stress test outcomes and resolution strategies. In addition, macroprudential requirements such as the CCyB are time-varying and depend on assessments by designated authorities, with differing scopes of application and reciprocity arrangements. While country- and institution-specific calibration reflects differences in local risks and vulnerabilities across different institutions and countries, this comes at a cost of increased complexity, that might not always be justified.

25. The EU framework also contrasts with simpler approaches in other countries. For example, the US, Swiss and Japanese capital frameworks contain fewer components and do not, or do not to the same extent include several EU-specific elements, such as P2R, P2G, the SyRB and MREL. In addition, the implementation of the final Basel 3 framework has prompted thinking in various countries[20] on how to address potential overlaps or undue complexities. In this context, the EU framework appears more detailed and layered, reflecting a regulatory model built around multiple safeguards, supervisory instruments and institution-specific calibrations.

[20] For example, Bank of England Policy statement 9/24 (link).

26. At a time when the EU banking sector has reached a high level of resilience, with capital ratios on average well above regulatory requirements, the key question is whether the same overall resilience could be achieved with a framework that is less granular and less complex. Drawing on experience with the current regime, as well as the findings of the 2024 stacking order report, the EBA's simplification work can be summarised in the following problem statement, which is presented separately for going-concern and gone-concern elements.

2.1. Detailed problem statement – Going Concern

27. In the going-concern framework, the following issues contribute to complexity:

a) **Number of capital layers**: The own funds requirements consist of several layers addressing different risks, set by different authorities (competent or macroprudential authorities), and met by different types of resources (CET1 or other types of own funds). For example, the CET1 capital ratio requirement is broken down into the Pillar 1 minimum, the institution specific Pillar 2 requirement (P2R), the Capital Conservation Buffer (CCoB), the G-SII/O-SII buffer, the Systemic Risk Buffer (SyRB) and the Countercyclical Buffer (CCyB). Besides, the Pillar 2 guidance (P2G) is expected to be also covered in CET1 capital.

b) **Heterogeneity and overlaps**: Several capital measures with different calibrations currently apply across the EU. This naturally raises questions about potential overlaps (or underlaps) not only across macroprudential and microprudential measures but also between them. If authorities set the height of each layer independently, it could be the case they could fail to achieve a holistic assessment of risks and related capital requirements which could lead to overlaps (or underlaps), and differences across countries may impact the level playing field. Additionally, some elements are institution-specific (e.g., O-SII, P2R, P2G), while the CCyB applies on exposures within a country and the SyRB can apply in multiple ways. As part of the implementation of the CRR3/CRDVI, the legislator has foreseen the need for authorities to re-consider the calibration of certain elements including in conjunction with the output floor (e.g. P2R, P2G, SyRB, O-SII). Further heterogeneity also comes from the identification of O-SIIs and the dispersion of O-SII buffer rates across countries.

c) **Different consequences of breach**: Each regulatory layer –and expectations on top of them (e.g. recovery triggers, management buffers) – has different consequences or considerations upon breach. While the graduated set of responses in the framework is intended, it can add complexity to institutions' capital management and to the monitoring by competent authorities, investors and rating agencies, and can prevent use of excess capital / buffers. The lack of transparency can impair the ability of market participants (investors) to accurately price the value of the institution.

2.2. Detailed problem statement – Gone concern

28. In the gone-concern framework, the following issues contribute to complexity:

a) Multiple requirements based on different metrics: the MREL framework is based on multiple parallel requirements expressed under different metrics (TREA and TEM). As such, institutions need to comply with overall MREL requirements in risk weighted and non-risk weighted terms and for those subject to it, subordination MREL requirements, for which TLOF serves as an input parameter. In addition, G-SIIs need to comply with TLAC

requirements (risk weighted and non-risk weighted) whose eligible resources do not fully coincide with MREL. The coexistence and interactions among those different metrics amplify the complexity of the framework.

b) **Interaction between going and gone concern:** While the current link between the going and gone concern frameworks in the setting of the MREL requirement is designed to ensure sufficient loss-absorbing and recapitalisation capacity to implement an orderly resolution – and should be maintained – the interaction between those two frameworks can be a source of complexities.

c) **Non-standardised MREL calibration/multiple adjustments for MREL calibration:** Currently the calculation of MREL requirements (loss absorption amount (LAA) and recapitalisation amount (RCA)) is based on a formula referring to going concern requirements (e.g. P1, P2R, CBR). While the BRRD does not prescribe adjustments, discretion is left to resolution authorities in calibrating certain components (e.g. RCA, LAA, market confidence charge (MCC)) resulting in several adjustments being in practice applied by authorities in the implementation of the framework (e.g. discount in market confidence charge, balance sheet depletion, transfer strategy adjustment). These adjustments – mostly pertaining to the recapitalisation component of MREL – are subject to different approaches and are often difficult to quantify due to the inherent complexity in determining the capital needs post resolution. Non-standardised adjustments increase complexity of the MREL requirement reducing predictability.

d) **Shared resources between going and gone concern frameworks:** Institutions can meet the MREL requirements by using own funds, including CET1, in addition to MREL eligible liabilities. When institutions use CET1 to meet both their going and gone concern requirements, CET1 excesses over the going concern requirements might delay the assessment of 'failing or likely to fail' (FOLTF). On the other hand, as the CBR ranks on the top of the MREL stack, a breach of the CBR (and consequently the trigger of the MREL maximum distributable amount (M-MDA)) can also occur in situations in which MREL resources are insufficient while the going concern is complied with.

e) **Time lag or scope of relevant decisions:** Other issues relate to the non-synchronised timing of setting those requirements, as the SREP and MREL decisions are not taken at same time, resulting in temporarily mis-aligned information. In addition, the consolidation perimeter for prudential and resolution purposes could differ, resulting in additional complexity.

2.3. Objectives of the framework and principles towards a simplification review

29. The complexity of the EU banking framework is closely linked to the coexistence of multiple prudential objectives. The framework simultaneously pursues microprudential, macroprudential and resolution-related goals, each of which introduces distinct instruments, supervisory mechanisms and compliance requirements. Therefore, separating the framework according to these three underlying policy objectives is necessary to make the analysis understandable. Specifically, the three objectives can be summarised as follows:

a) **The microprudential objective**, which is to ensure the safety and soundness of individual institutions by requiring them to hold sufficient resources against the risks to which they are exposed,

b) **The macroprudential objective**, which is to safeguard the stability of the financial system by addressing systemic risks, including the build-up of vulnerabilities over the financial cycle and the amplification of shock

c) **The resolution objective**, which is to ensure that institutions can be resolved in an orderly manner, maintaining the continuity of critical functions while limiting the impact on financial stability and public finances.

30. The layered nature of the EU banking framework reflects the coexistence of multiple prudential objectives, the final goal being to enhance the stability of the banking sector. Consequently, the appropriateness of proposed revisions cannot be assessed solely by reference to simplification. Rather, reforms must be evaluated against the underlying objectives that the framework seeks to achieve, including financial resilience, systemic stability, resolvability and proportionality. On that basis, the EBA considers four guiding principles when striving for simplification:

i. **Overall resilience:** Preserving the overall resilience and capital neutrality of the EU financial system, whereby the amount of required capital and MREL in the EU banking system, should remain unchanged to ensure financial stability and resolvability (capital and MREL neutrality of institutions).

ii. **International compliance**: Adherence to international standards, in particular the BCBS and FSB standards for going- and gone concern (Basel and TLAC compliance)

iii. **Proportionality**: The scope of the EU framework (extended to all institutions) warrants consideration for both large and small institutions. Any initiative to reduce complexity which, as a side-effect, would reduce proportionality or risk sensitivity should be compensated with appropriate reviews on the calibration of requirements to preserve resilience; and should preserve the unity of the rulebook.

iv. **Efficiency and level playing field**: Enhancing the efficiency and depth of the single market, for all supervised entities to reap its benefits. This entails enhancing the clarity of the stacks and their components, simplifying them as far as possible focusing on their primary functions (microprudential, macroprudential and resolution) and the level playing field objective.

3. Simplification of the microprudential toolkit

31. To simplify the regulatory framework and drawing on the experience gained under the existing regime, the analysis considered the following areas: microprudential metrics and requirements, micro- vs. macroprudential risks in the microprudential stack, how P2G is activated, the respective roles of micro layers, complexity in the leverage ratio stack, and the composition of going-concern capital.

32. The objective was to explore approaches which could simplify the microprudential framework while preserving supervisors' tools and ensuring the resilience of individual institutions. In this context, beyond the Pillar 1 requirements set out in the CRD/CRR and emanating from the Basel global standards to which the EU fully adheres, it remains important that supervisory judgement can be used to fully address microprudential risks that are not or are insufficiently foreseen by the legislations or regulations. It is also important that supervisory judgment can actually be applied to impose capital requirements where needed to address the many idiosyncratic situations that arise in practice.

3.1. Preserved, focussed microprudential metrics and requirements

33. Since 2014, EBA has been providing and revising Supervisory Review and Evaluation Process (SREP) guidelines to accompany EU supervisors in forming their institution-specific supervisory judgment under a common methodology ensuring consistency and encompassing risks beyond P1 requirements where needed. Supporting competent authorities' daily practice in supervising all EU credit institutions the EBA has promoted supervisory convergence, seeking to make the application of the Supervisory Review and Evaluation Process (SREP) and the setting of P2R consistent, transparent, with a proportionate risk-based, and comparable approach across the EU. Equally, the EBA supports convergence with regards to the implementation of local measures which are deemed necessary at the national level. As there remains variability in the use and calibration of such discretionary metrics adjustments which results in requirements being currently calibrated differently across authorities, this report reviews whether a simpler framework may further level the playing field. The analysis prioritises two key areas: (i) macroprudential provisions influencing the calculation of Total Risk Exposure Amount (TREA), and (ii) the determination of Pillar 2 Requirements (P2R).

3.1.1. Aligning P1 risk exposure amounts calculation with microprudential objectives

34. The core microprudential objective is to safeguard individual institutions against losses arising from their specific risk profiles. This should be anchored in Pillar 1 – a Basel-aligned, rule-based, and risk-sensitive foundation. However, the current EU framework introduces an additional interaction between microprudential and macroprudential elements by allowing to incorporate macroprudential measures that adjust TREA within Pillar 1. These include Article 458(2)(d)(iv) of the CRR measures, LGD floors under Article 164 CRR, and real estate risk-weight adjustments under Article 124(9) CRR.

35. The application of these provisions remains limited, and its use varies across European countries. As of December 2025, only six countries employ Articles 124(9) and/or 164, while three utilise Article 458 (2)(d)(iv). On average in the EU, the impact on TREA is close to zero. However, in the countries where they are applied the contribution of the macro tools can go from zero to approximately 20% of TREA.

36. This raises a critical question: Do the observed differences in the usage of macroprudential tools that affect the Pillar 1 minimum requirements increase complexity and variability? If the observed macroprudential risks in countries using these metrics are significant enough, could it not be more effective to address them using other macroprudential tools already contained in the framework without affecting the original microprudential metrics? Furthermore, the CRR3/CRDVI reforms – particularly the introduction of the output floor, when fully implemented, may reduce the need for existing macroprudential measures impacting the risk weights. Broader efforts to simplify the framework also advise a reassessment of the macroprudential buffer framework (see Section 4.1), including whether alternative mechanisms could better address the relevant concerns.

    All in all, the EBA observes that removing Article 458 (2)(d)(iv) of the CRR measures, LGD floors under Article 164 of the CRR, and certain real estate risk-weight adjustments under Article 124(9) of the CRR will simplify by creating a clearer and harmonised microprudentially-based TREA metric. This removal would ensure that TREA calculations remain comparable across institutions and countries. The high-level impact on EBA's four simplification principles is:

i. **Resilience**: remains unchanged overall for the EU and locally if dealt with other tools (see section 4.1).

ii. **Basel compliance** is unchanged.

iii. **Proportionality** is improved with less details to report and less granularity.

iv. **Efficiency** is improved with an enhanced level playing field and better transparency / predictability, building on a full CRR3 implementation. To be seen in conjunction with changes in macroprudential buffers (see section 4.1)

3.1.2. Preserving the role of P2R

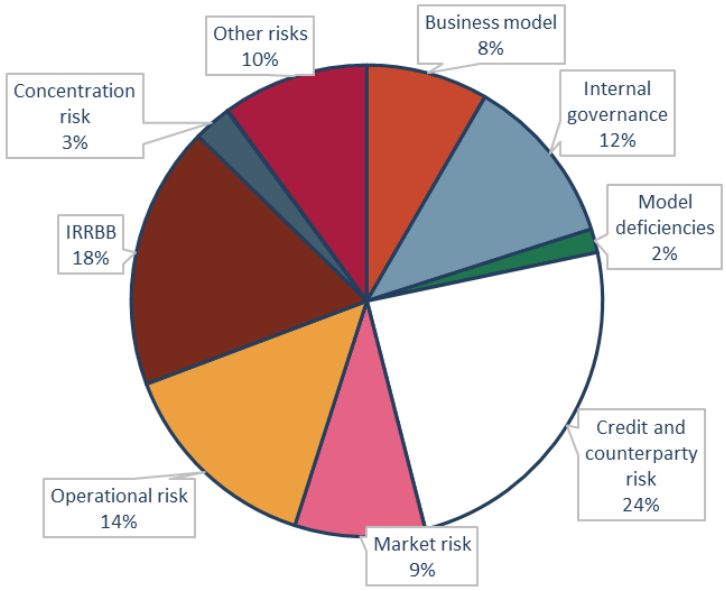
37. P2R plays a key role in the EU prudential framework as an institution-specific capital layer designed to capture risks that are not, or are not sufficiently, covered by Pillar 1 and to address idiosyncratic vulnerabilities. Over the past decade, this tool has proved instrumental in addressing institution-specific vulnerabilities and fostering the overall resilience of the financial system. With the evolving regulatory landscape under the CRR3/CRDVI and against the context of the upcoming revised EBA SREP Guidelines, the P2R framework can be analysed by looking at its rationale and legal basis; its current composition and possible interactions with other

layers of the capital stack; the implementation of recent regulatory reforms and any remaining or new gaps that may warrant further attention.

38. Under Article 104a of the CRD, P2R shall be primarily applied where competent authorities conclude, based on the SREP and the supervisory assessment of internal approaches, that: i) risks are not covered, or are not sufficiently covered, by Pillar 1; ii) qualitative deficiencies, such as weaknesses in governance or controls, are unlikely to be remedied in a timely manner through other supervisory measures; or iii) an institution no longer meets the conditions for the use of previously approved internal approaches.

39. The 2025 analysis[21] on supervisory convergence in the context of Pillar 2 offers insight into how P2R is applied in practice. Figure 8 indicates that, on average across the EU, approximately 47% of P2R addresses risks categories that are also covered by Pillar 1 – notably credit, market and operational risk – but that would not be fully covered by it. Around 20% of P2R targets governance and business model risk, with other risks, including IRRBB and concentration risk, accounting for the remaining 30%.

Figure 8. Percentage contribution to P2R by risk (Overall P2R = 100%)



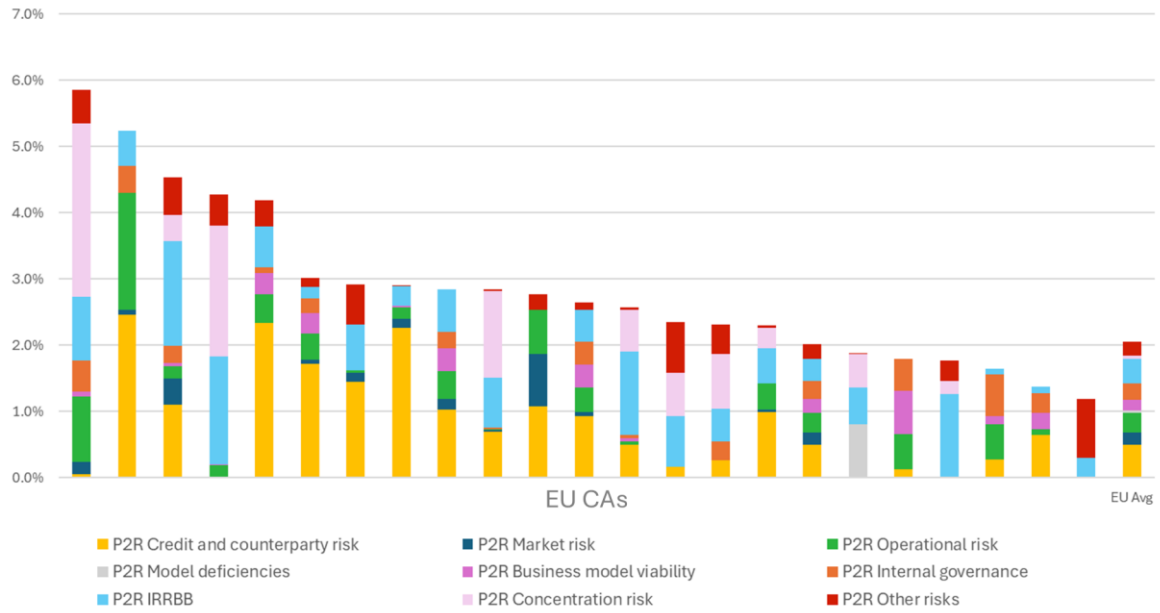
Source: 2025 analysis on supervisory convergence – 288 institutions

40. Given the increased robustness and risk sensitivity of the revised CRR3/CRDVI framework for determining TREA, it may be worth reassessing whether such a P2R composition, observed in more than 70% institutions in the examined sample, will hold in the future. Furthermore, despite the progress observed in the EBA's forthcoming 2025 analysis on supervisory convergence in the context of Pillar 2, particularly with regard to consistency in risk identification, Figure 9 highlights some dispersion in P2R by risk category across authorities. While such differences may first reflect underlying variations in institutions' risk profiles across

[21] See for more detail the 2025 report on Supervisory Convergence for which the publication is forthcoming.

the EU, there may also remain additional scope for further convergence in how P2R is set, also within banking groups.

Figure 9. Average P2R (in total capital) risk-by-risk decomposition by competent authority - weighted average



Source: 2025 analysis on supervisory convergence – 288 institutions. Four competent authorities did not provide the risk-by-risk breakdown and are therefore not included in the chart

41. The forthcoming revision of EBA SREP Guidelines includes several elements aimed to addressing some of these observations arising from the EBA's analysis on supervisory convergence in the context of Pillar 2, further strengthening the P2R framework and fostering additional supervisory convergence in this area. These include:

i. The need for competent authorities to ensure the complementarity between P1R (including the CRR3 output floor) and P2R, by assessing the level and composition of the P2R where such complementarity may no longer be ensured, for instance in the event of changes in TREA dynamics arising from significant amendments to the P1R regulatory framework, so as to ensure that P2R remains appropriately calibrated to the institution's risk profile.

ii. The operationalisation of the steps for competent authorities to eliminate potential double-counting between the output floor and P2R components (i.e. 'P2R for regulatory model deficiencies').

iii. The introduction of a high-level, flexible escalation framework between supervisory measures to promote consistent approaches in selecting appropriate measures, tailored to the nature of identified findings.

iv. The non-exhaustive breakdown of risks into sub-categories ('risk taxonomy'), to support a more risk-based and proportionate supervisory approach, further promoting consistent risk identification across countries, while preserving sufficient flexibility and not limiting the scope of supervisory judgement.

42. To support a focused and balanced application of P2R as a key microprudential tool in the revised CRR3/CRD VI framework, and to enhance its consistent application across the EU, additional clarity in the CRD may be warranted through targeted amendments.

43. First, it could be reaffirmed that P2R should start by focussing on risks or elements of risks not covered by the TREA framework. Risks, such as concentration and IRRBB in particular, which are not covered by Pillar 1, should be duly reflected in the P2R. The possibility to impose P2R for risks that are covered but deemed not to be sufficiently captured by it (i.e. credit, market and operational risk) would remain fully in the competent authorities' remit, with its use envisaged to mainly cover cases where unexpected losses arising from risks not yet adequately captured by TREA can be quantified, with particular emphasis on institutions exhibiting specific or outlier risk profiles compared to their peers.

44. A robust and consistent application of the framework should support supervisors and allow them to dedicate sufficient attention to sectoral or emerging risk trends, focusing on institutions most exposed to such vulnerabilities. In this regard, a number of newer risks developments – including ESG, geopolitical, growing dependencies related to ICT providers, AI systems or cyber threats – may in practice represent intensified manifestations of existing risk categories, particularly operational and governance-related risks, whose calibration and supervisory treatment may require further reassessment. In such cases, supervisors should use all available tools, prioritising – where appropriate – qualitative measures to ensure the effectiveness of institutions' governance arrangements, first lines of defence, operational resilience frameworks and recovery planning capabilities. Competent authorities should develop clear and transparent methodologies to assess potential overlaps between P2R and P1 requirements, including – where appropriate – leveraging reviews by the competent authorities' second line of defence. The EBA will continue supporting this effort alongside the existing legislation and set of technical regulations.

45. Second, P2R is also widely used to address weaknesses in business model and internal governance. It is acknowledged that these dimensions may pose a threat to institutions' viability and ultimately result in material capital losses and/or liquidity outflows. The effectiveness of quantitative capital measures, particularly on a stand-alone basis, in addressing such underlying weaknesses may however vary. Given the nature of these issues, clear, enforceable and time-bound qualitative measures often represent the most effective supervisory response and are widely used as such. The CRD already limits P2R use to cases where 'other supervisory measures are unlikely to ensure timely remediation'. In line with this principle, the prioritisation of qualitative measures in these areas may be emphasised, thereby strengthening the concept of an escalation framework of supervisory measures already introduced, in a flexible and high-level manner, in the revised SREP Guidelines. In other words, qualitative measures in this area should be prioritised while they could also be complemented by P2R as needed, in particular where institutions fail to remedy the supervisory concerns that gave rise to those measures, or where its application is justified by timing considerations pending the resolution of the underlying concerns.

46. In light of the revised scope of internal approaches for the calculation of own funds requirements and the more robust CRR3/CRDVI framework – including the introduction of the output floor – the use of P2R for "deficiencies in regulatory models" could be further restricted

or even removed from the CRD, and, where needed, prioritisation could be given to targeted corrective measures stemming from supervisory validation processes with a potentially direct impact on the TREA framework. In current practice, P2R use for this purpose remains very limited, with a small number making extensive use of it while others do not apply it at all. While such use may be justified as a temporary measure pending the outcome of competent authorities' internal model validation processes, in practice these deficiencies are addressed by most supervisors through targeted corrective measures with a direct impact on the TREA framework (e.g. margins of conservatism or multipliers applied to internally estimated risk parameters).

47. The precise impact of this refocusing, given the institution-specific nature of P2R, remains difficult to determine at this stage as it depends on an institution's risk profile and the robustness of its risk framework. In any event, the objective would remain to preserve the overall capital neutrality at the system level and supervisory judgment, ensuring adequate resilience.

48. All in all, the EBA observes that the high-level assessment of the approach on EBA's four simplification principles is as follows:

i. **Resilience**: difficult to quantify at this stage as it may depend on various elements, although it may be unchanged thanks to the effective use of more qualitative tools, improvements in TREA measurement under Pillar 1 (CRR3 implementation), and refocus of P2R.

ii. **Basel compliance** is unchanged

iii. **Proportionality** is unchanged

iv. **Efficiency** is improved with an enhanced level playing field and better transparency / predictability for market participants / investors to value the institution.

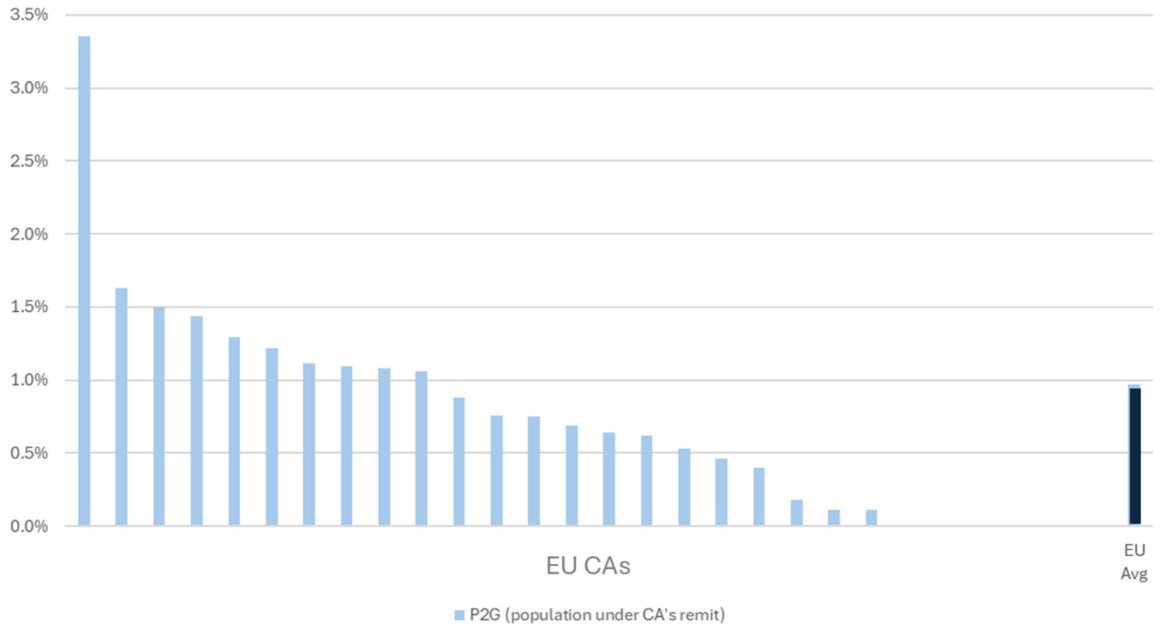
3.2. Reaffirming the role of P2G

49. Under Article 104b of the CRD, P2G represents a supervisory expectation for additional own funds to ensure an institution's internal capital suffices to cover all the risks that an institution is exposed to and to ensure that the institutions' own funds can absorb potential losses resulting from stress scenarios. The SREP Guidelines further clarify that P2G should act as a cushion against a P1+P2 Requirement breach (Total SREP Capital Requirements - TSCR), and that, if stress tests show no expected breach under adverse scenarios, competent authorities may decide not to impose a positive P2G entirely. In addition, given the similar purpose served by the 2.5% CCoB (i.e. to hold a sufficient capital base to absorb losses in stressed periods), P2G should be offset against that buffer.

50. The EBA Pillar 2 benchmarking exercise highlights increasingly converging – albeit with some remaining heterogeneity – P2G methodological approaches. In particular, this concerns the use of 'hurdle rates' (e.g. comparison between the stressed CET1 ratio vs. TSCR or Overall Capital Requirements – OCR, namely TSCR plus buffers) to determine whether P2G should be set above zero. Partial CCoB offsetting is sometimes applied (e.g. via multiplicative factors), rather than fully recognising the 2.5% buffer's protective effect.

51. Consequently, P2G ranges from zero or near-zero in some countries (six) to systematically positive levels in others (see Figure 10) with this dispersion being driven primarily by differences in supervisory approaches rather than by the impact of stress tests on institutions' capital profiles[22]. The P2G ranges from 0% to 4.5% for GSIIs/OSIIs. It is below 1.5% for 75% of the GSII/OSIIs and with ample headroom, which is close to above 3% for most of them (75% of them) (see also Figure 32 the annex).

Figure 10. Average P2G by CA (in CET1 capital) – weighted average



Source: 2025 analysis on supervisory convergence – 288 institutions (to be noted that six CAs apply a 0% P2G for institutions in the sample)

52. The P2G is not a requirement set by the competent authority, and unlike the buffer requirements, operating below P2G does not trigger MDA restrictions. It is not supposed to be communicated to the market and is explicitly designed to be usable in time of stress. This may not have been fully understood by the industry. Industry feedback received in the context of EBA's 2024 report on the stacking order suggests that institutions tend to *de facto* treat P2G as a binding requirement, albeit less stringent than the combined buffer requirement – despite its

[22] In practice, from a market perspective, heterogeneity may be amplified by how some banks disclose their P2G voluntarily, even though it is generally intended not to be disclosed.

intended usability for institution-specific reasons and limited consequences of instances where P2G is not met.

53. The 2024 EBA report on the stacking order included a survey showing that usually more than half of the institutions place a 'management buffer' of their own on top of P2G. The report also found that P2G is perceived as less usable than capital held above it and noted that the practice of placing the management buffer and a higher surplus above the combined buffer requirement and P2G, as many institutions do, may help avoid situations in which P2G is not met.

54. This seems to indicate a reluctance by institutions to make use of P2G, which in turn could limit the usability of the combined buffer requirement under stress[23]. However, institutions may also choose to operate above their buffer requirements for reasons unrelated to P2G, such as internal capital allocation decisions, rating agency expectations or requirements stemming from other elements of the capital stack (e.g. leverage or resolution requirements).

55. The challenge seems to lie in how the EBA stress test results are translated into P2G[24]. Clarifying its non-binding nature or adjusting expectations around management buffers, while potentially helpful, may not be sufficient to fully resolve this. To help reduce the perception of P2G as a 'hard' requirement, further clarification could be provided in the CRD that dipping into the P2G does not automatically trigger restrictions or mechanistic supervisory consequences – other than potentially enhanced supervisory dialogue as mentioned in the SREP Guidelines, and in addition to the already established principle in that no MDA is activated[25].

56. The EBA suggests reaffirming and maintaining the current objective of the P2G stated in the SREP Guidelines, namely that it should protect against the breach of TSCR under stress in an adverse scenario (or alternatively OCR in the baseline scenario) and should be fully offset against the CCoB. In addition to the quantitative outcome of the stress test, P2G should explicitly focus on assessing the adequacy of an institution's capital under stress. In line with the current framework, competent authorities – may continue to decide to not impose P2G where the quantitative outcomes of the supervisory stress suggest limited capital depletion under the adverse scenario – taking into account the mentioned 'hurdle rates' – and where there are no additional qualitative concerns warranting such guidance.

57. In practice, supervisors would continue to assess an institution's capital adequacy, capital planning as well as institution's stress testing framework as they do now. As a rule, a P2G would be set where an institution's management buffer is deemed insufficient under stress or where, taking into account more qualitative considerations, such as an insufficiently robust or conservative capital planning process, such guidance is considered warranted. As a result, the availability of this supervisory tool would therefore fully remain, and emphasise institutions' responsibility for forward-looking capital planning and potentially facilitate buffer usability.

[23] To the extent that part of the CBR is released, such as is possible with the CCyB, the CBR could be considered as usable without dipping into the P2G.

[24] This does not call into question that the process, including stress testing, should continue to evolve to capture risks relevant to banks in a proportionate manner, for example by enhancing it through a more top-down implementation leading to consistency of outcome.

[25] See Article 104b of Directive 2013/36/EU.

58. Linking P2G to capital headroom may theoretically result in procyclical effects in capital demand depending on when it would be enacted, as lower capital in a crisis might trigger P2G more frequently. It is therefore important that the competent authority considers trajectories in business and corresponding capital planning, exercising forward-looking judgment in its monitoring. Supervisors would assess exactly when to enact P2G, and preferably not at a late stage, to avoid unintended procyclicality in periods of market stress (or could even show some lenience in how to view P2G similar to how it was done during COVID).

59. The high-level assessment in terms of EBA's four simplification principles implies the following:

i. **Resilience:** Overall, it would be expected for resilience to remain broadly unchanged, as no significant amendments vis-à-vis the current SREP GLs framework are proposed (i.e. possibility to not set P2G is already envisaged and accommodated under the current framework).

ii. **Basel compliance**: N/A (P2G not envisaged by the BCBS nor existing in major non-EU jurisdictions).

iii. **Proportionality** is improved: while P2G remains a fully available tool for supervisors, the cost of compliance could be diminished.

iv. **Efficiency** is improved with enhancement of buffer usability and reinforcing institutions' own assessment, while the approach could result in institutions having a diminished insight on the competent authority's assessment of capital planning. However, residual ambiguity may not be an issue, as there is a supervisory dialogue on capital planning and supervisors perform active monitoring with a forward-looking perspective in case of deterioration.

3.3. Considerations on merging micro layers

60. Separately, the respective roles of and relationships between CCoB, P2R and P2G have been considered. While they were introduced at different stages with different purposes, they collectively contribute to the same overarching microprudential objective: strengthening individual institutions' resilience. The CCoB was established under Basel III at the onset of the financial crisis (2010–11) to provide an additional layer of loss-absorbing capacity above Pillar 1 (P1R) minimum requirements and to force institutions to conserve capital though automatic distribution restrictions when in stress capital ratios decline. Upon its transposition into the CRD IV, it was embedded within the EU's regulatory framework alongside Pillar 2.

61. Subsequent developments, in the EU (CRD V), introduced and refined Pillar 2 capital by explicitly structuring it into two components: the P2R, a binding minimum requirement, and the P2G, a non-binding supervisory expectation. Though distinct in their legal nature, both P2R and P2G operate additively to the CCoB and minimum P1R, reinforcing resilience beyond P1R while addressing institution-specific risks.

62. The analysis has therefore considered whether any simplification could be achieved by consolidating the three layers, while ensuring that competent authorities' capacities are not unduly constrained. In other words, can a single, larger layer – instead of three – achieve the same prudential outcomes more efficiently[26]?

63. The EBA identified two hypothetical approaches for regrouping these layers, focusing on their objectives, trade-offs, and implications for supervisory practice, which have been analysed and in the end are not recommended.

64. A first avenue considered was to combine all microprudential layers above the Pillar 1 minimum (CCoB, P2R, and P2G) into a single requirement[27]. This approach was envisaged as a possible way to clarify what is required on top of P1R in one go and create scope for streamlining supervision by integrating methodologies, reducing overlaps between SREP assessments and onboarding stress testing at the root in tailoring it to institutions idiosyncrasies while improving communication with institutions and markets.

65. If framed as a minimum requirement, the merged layer would have tightened expectations for CCoB and P2G, neither of which currently functions as a strict minimum. This however would have reflected to some extent the reality that CCoB is rarely treated as usable, while P2G can be perceived as a *de facto* requirement (as noted in the 2024 EBA report on the stacking order). In practice, if the merged layer were treated as a minimum, it would have added the CCoB (2.5%) and the P2G (on average 1%) to the current minimum CET1 requirements.

66. Alternatively, treating the fully merged micro layer as a buffer would have made it usable subject to MDA restrictions. This configuration would have resembled the US Stress Capital Buffer (SCB), where stress test results inform an extension of the CCoB and the minimum requirement strictly consisting of P1R only (4.5% for the CET1 stack). Treating it as a buffer would have reduced the minimum requirements by the size of P2R, which for the CET1 stack is approximately 1.1% on average, while it increases the combined buffer requirements by the size of the P2G (on average 1%).

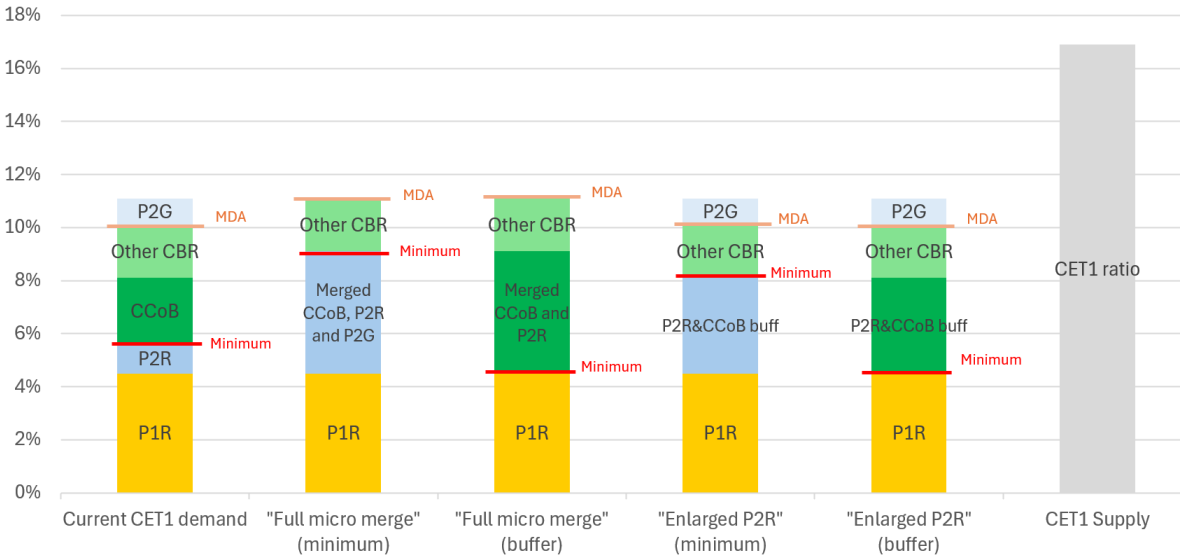
67. A second avenue examined was a more focused 'enlarged P2R', combining only CCoB and P2R while leaving P2G separate. If the merged layer is a minimum, this would have raised the minimum requirement by 2.5%, which would have not been very different from the current approach where CCoB can in practice be perceived as a minimum. If merged as a buffer, it would have had the same effect as under the full micro merge described in previous paragraphs.

68. Figure 11 summarises the impact of the above approaches on the CET1 stack of an average EU institution, assuming – for simplicity – that the merging of layers does not change their calibration.

[26] To note that an extensive example was already drawn out in "Bufferati" (Woods - Bank of England - 2022) (link).

[27] For clarity it is to be noted that the approach is not compatible with the previous proposal in section 3.2. (Reaffirming the role of P2G).

Figure 11. Average CET1 stack in EU currently and impact of merged approaches



Source: Supervisory reporting. Size-weighted averages of EU banking sector (2689 institutions at highest level of consolidation in EU/EEA). Layers in green are buffer requirements subject to MDA. "Other CBR" refers to O-SII/G-SII CCyB and SyRB buffers which are assumed to remain unchanged. The CET1 ratio is after deduction of parts of the T1 and TC minima not met by AT1/T2.

Raising or lowering the minimum requirement would have implications for loss absorption in severe stress[28]. A higher minimum requirement could bring forward in time FOLTF assessments, while a buffer approach might delay FOLTF[29]. However, an analysis of the capital position of G-SIIs/O-SIIs, indicates that when adding CCoB and P2G to the minimum CET1 requirement, even the most constrained institutions retain a 3–4% CET1 headroom above this minimum, suggesting that it leaves sufficient capacity to absorb severe stress (see also

69. Figure 31 in the Annex). In this regard, as a part of their recovery planning framework institutions should have in place considerable overall recovery capacity – ORC, consisting in the ability of institutions' managerial actions – recovery options – to counter a range of severe macroeconomic and idiosyncratic stress scenarios to foster the restoration of their financial position (including the capital and liquidity profile) following a significant deterioration.

70. When only adding CCoB to the minimum, as is the case under the 'enlarged P2R' approach, the most constrained institutions would still retain approximately 5% CET1 headroom.[30]

71. In addition, there is currently no automaticity in the link between a breach of P2R and a Failing or Likely to Fail (FOLTF) assessment. Rather, such a breach forms part of a broader supervisory and resolution assessment. Nonetheless, it would necessitate additional guidance clarifying

[28] When carrying out stress testing, a change in the capital ratio reference relevant for FOLTF may influence the post-stress capital ratio, that supervisors expect to see.

[29] To be noted that it is unlikely that in case P2R would be absorbed into a single buffer requirement, the minimum requirement could decrease to as low as 4.5% CET1 (which is below the minimum 5.125% trigger in AT1 instruments).

[30] See also Figure 30 in the Annex.

that the process for reaching a FOLTF assessment remains unaffected and continues to be based on an assessment of the institution's intrinsic viability (e.g. including liquidity).

72. Overall, the EBA does not recommend to pursue any of these avenues. It observes that while both approaches would have potential to address the number of layers in the framework, uncertainties remain regarding potential challenges, such as resilience (i.e. effect on the minimum) and the type of methodological synergies that can be achieved. At a high-level in terms of EBA's four simplification principles this would have implied the following:

i. **Resilience**: If the minimum requirement is raised (under the 'full micro merge' or 'enlarged P2R'), resilience is increased at the expense of buffer requirements. Calculations indicate that this leaves enough headroom to absorb losses under stress, particular under the 'enlarged P2R' approach where P2G is kept separate. Making adjustments to keep fully capital neutral in terms of minimum requirement is conceivable but has not been analysed at this stage. If as a buffer, resilience stays broadly the same assuming it is unlikely that institutions come close to the P1R (FOLTF may occur earlier). In all cases, but particularly when increasing minimum requirements substantially, clarifications have to be made to the interaction with MREL.

ii. **Basel compliance** is unchanged.

iii. **Proportionality:** Merging these layers can bring scope for more efficient processes, possibly by relying more on standardised conservative levels and focusing more on cases of elevated risk.

iv. **Efficiency** addresses the issue identified regarding too many layers. Merging layers, may drive methodological synergies/efficiencies in the assessment of microprudential risks, however this would need to be developed, and depending on the concrete specification, some transparency may be lost compared to the three separate layers currently. Simplification into one layer (e.g. minimum or buffer) makes the level of the minimum requirement less relevant as a FOLTF reference.

3.4. Leverage ratio

73. The EU leverage-based stack consists of a 3% minimum requirement, a potential Pillar 2 requirement for the leverage ratio (P2R LR), an add-on for G-SIIs (the LR G-SII buffer), calibrated at 50% of the risk-based G-SII buffer requirement, and Pillar 2 guidance for the leverage ratio (P2G LR). Since the 3% minimum and the LR G-SII buffer are Basel-prescribed elements, the assessment of complexity focuses on P2R LR and P2G LR which are EU additions.

74. The SREP Guidelines (paragraph 394) clarify the possibility of setting P2R LR to address elements of excessive leverage risk that are not covered, or not sufficiently covered, elsewhere in the leverage ratio framework, in particular to capture forms of regulatory arbitrage or optimisation. Since P2R LR addresses only leverage-related risks that are not otherwise reflected in the leverage ratio, CRDV (recital 15) clarifies that it should not lead to an add-on in the risk-based stack, but rather in the leverage-based stack itself.

75. Since the implementation of the CRR2 and CRDV, competent authorities have been gaining experience in setting Pillar 2 layers for the leverage ratio. Consistent with the objective that P2R LR should be used only exceptionally, the EBA's analysis on supervisory convergence in the context of Pillar 2 shows that P2R LR was imposed on 11 institutions only in 2025, representing around 4% of the 288-institution sample and falling under the remit of four competent authorities. In addition, P2G LR, which is derived from stress testing, is currently set for 23 institutions, representing around 8% of the sample and likewise falling under the remit of four competent authorities.

76. In the interest of simplification, the EBA has assessed the possibility of removing both P2R LR and P2G LR. This would reduce the number of layers while remaining Basel compliant. The removal of P2G LR appears in line with the role of the leverage ratio as a backstop ratio. Moreover, where post-stress leverage ratio levels were to raise concerns, these could also be addressed through P2G in the risk-based framework, since capital depletion under stress is, in substance, an amount regardless of whether it is expressed through the risk-based ratio or the leverage ratio.

77. However, the removal of P2R LR may be less straightforward, given that it currently provides a useful supervisory tool to address certain forms of arbitrage or excessive optimisation that would otherwise not be adequately captured and could weaken the effective backstop function of the leverage ratio. Therefore, rather than removing the P2R LR layer it could be otherwise considered to redefine it as a buffer, giving it the same character (consequence of breach) as the LR G-SII buffer. All in all, the EBA observes that the removal of P2G LR and converting P2R LR (if to remain) into a buffer (merged with the LR-G-SII buffer for G-SIIs) can contribute to the simplification of the leverage ratio stack. At a high-level in terms of EBA's four simplification principles implies the following:

i. **Resilience**: Removal of P2G LR would not materially affect resilience since the effect of the stress test depletion is in any case discussed in the context of an institution's risk-based ratio.

ii. **Basel compliance:** N/A (P2G not envisaged by the BCBS nor existing in major non-EU jurisdictions).

iii. **Proportionality** is unchanged.

iv. **Efficiency:** While only affecting a minority of institutions, the removal of P2G LR removes a (possible) layer and converting P2R LR to a buffer would align it with the LR-GSII buffer.

3.5. Capital composition

78. The EU capital framework comprises several layers designed to absorb losses in both going concern (CET1 and AT1) and gone concern (T2 and eligible liabilities). Over the years, the EBA has actively monitored own funds issuances, maintaining a list of eligible CET1 instruments[31]. Through its monitoring reports[32], the EBA has provided guidance to ensure the loss-absorbency capacity of own funds instruments and their full regulatory compliance. As a result, the EBA requested 16 amendments to national corporate laws which were successfully implemented across 13 EU countries. The EBA also effectively supported the transition period for grandfathered instruments by clarifying their legacy treatment[33]. Regarding AT1 instruments, the EBA work fostered standardisation of the terms and conditions across the EU with some issuers using the provisions proposed in the EBA standardized templates. This increasing standardization has continued in recent years and the EBA believes that this trend is partly due to the guidance regularly published by the EBA and regularly communicated by supervisors.

79. AT1 instruments came under scrutiny following the March 2023 distress of Crédit Suisse, when AT1 instruments were written down before CET1 was fully exhausted. Although this event initially disrupted the market, AT1 spreads and issuance recovered swiftly. In response, some countries have begun reviewing the role and design of AT1 instruments.[34] In light of these developments, the EBA reflected on several approaches to streamline the capital stack, and especially to review the design of AT1 instruments.

80. The EBA assessed the impact of removing AT1 instruments from the going concern capital to eliminate issues with AT1 instruments such as questions on the timing or the complexity of their loss absorbency features (Table 1). This approach has a high and skewed impact. Institutions would need to replace up to 1.5% RWA in Pillar 1 and up to around 18,75% of the P2R by CET1. In addition, AT1 instruments would not be available resources to cover LR requirements anymore, particularly affecting several institutions that highly rely on AT1 to meet the LR. Overall, restricting the composition of Tier 1 to CET1-only is expected to result in a total shortfall of EUR 20.2 billion in CET1, with the most significant impact borne by G-SIBs (EUR 16.6 billion) In total, 56 institutions are projected to face a CET1 shortfall (including 4 G-SIBs)[35]. The removal of AT1 instruments from the going-concern capital stack would also risk disrupting a mature European market, where AT1 instruments provide a reliable source of loss-absorbing funding to institutions and have developed into a highly standardised asset class supported by a specialised investor base.

[31] The EBA updates its list of Common Equity Tier 1 instruments | European Banking Authority

[32] EBA Report on the monitoring of Additional Tier 1 (AT1), Tier 2 and TLAC/MREL Eligible Liabilities of European Union Institutions, Report on monitoring AT1 and MREL.pdf, 2024 and EBA report on the monitoring of CET1 instruments issued by EU institutions, EBA Report on the monitoring of CET1 instruments issued by EU institutions - update.pdf

[33] EBA Opinion on the prudential treatment of legacy instruments, EBA-Op-2020-17 Opinion on legacy instruments.pdf, 2021 and EBA Opinion on legacy instruments : outcome of its implementation, 2022

[34] The Swiss authorities considered in June 2025 maintaining AT1 instruments but linking coupon suspension more explicitly to the financial health of the institution concerned FINMA, 2025.

[35] For reference, and as shown in the table, currently, 21 banks do not fully meet their P2G, with an aggregate shortfall of EUR bn 0.8 shortfall.

Table 1. Removal of AT1: CET1 capital shortfall above RW/LR stacks (including P2G)

Type of institution	Scenario	Total number of institutions	Number of institutions with shortfall	Shortfall amount (EUR bn)	Share of shortfall (% TREA)
G-SII	STATUS QUO	7	0	-	0.0%
	REMOVAL OF AT1	7	4	16.6	0.5%
O-SII	STATUS QUO	104	0	-	0.0%
	REMOVAL OF AT1	104	7	2.2	0.0%
NON-SII	STATUS QUO	2578	21	0.8	0.0%
	REMOVAL OF AT1	2578	45	1.4	0.0%
TOTAL	STATUS QUO	2689	21	0.8	0.0%
	REMOVAL OF AT1	2689	56	20.2	0.2%

Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Note: The sample covers 2689 institutions at highest level of consolidation in EU/EEA. The Removal of AT1 scenario assesses the impact of converting the current AT1 requirements (P1R and P2R) into a CET1 requirement. Under the Removal of AT1 scenario, AT1 instruments can be used to meet T2 requirements.

81. Several possible adjustments to the features of AT1 instruments could contribute to enhancing their design such as increasing the trigger level or the transition to a conversion-only loss-absorption mechanism, together with the elimination of the write-down/ write-off features. The EBA also held high-level reflections on measures to enhance the permanence of AT1 instruments, including raising the first call date term to 10 years. In addition, the EBA preliminarily reflected on further adjustments, which would not currently be aligned with the Basel framework. Specifically, these included the exclusion of AT1 coupons from the MDA with the objective to enhance buffer usability as well as the possibility to introduce a discretionary coupon catch-up mechanism that would replace the current regime, whereby coupons may be cancelled without the possibility of recovering unpaid amounts.

82. All in all, the EBA observes that there are no straightforward solutions to changing the role of AT1 instruments considering the potential for high and skewed impacts that could distort well established EU AT1 markets. Regarding the design of AT1 instruments, it may be considered further how to facilitate their use, subject to any international development, with initial reflections pointing to various trade-offs. Overall, the assessment against the EBA's four simplification principles is as follows:

i. **Resilience**: can diminish if the role of AT1 is not replaced by an increased CET1 minimum requirement. If replaced by CET1 then it is not capital neutral. Potential effect of adjustment of AT1 features not fully assessed.

ii. **Basel compliance** can be affected if AT1 instruments are excluded from the going concern capital and are not replaced by an increased CET1

minimum requirement. Some adjustments to the design of AT1 instruments are, and some are not Basel compliant.

iii. **Proportionality** for cooperatives and mutuals, or in other particular cases, can diminish if conversion mechanism is required.

iv. **Efficiency:** a heightened trigger or conversion mechanism each have their complexities.

MAIN CONCLUSIONS AND OBSERVATIONS ON THE STREAMLINING OF THE MICROPRUDENTIAL PART OF THE FRAMEWORK

- To remove macroprudential considerations from TREA, specifically Article 458 (2)(d)(iv) CRR risk-weight adjustment measures, LGD floors under Article 164 CRR, and the real estate risk-weight adjustments under Article 124(9) CRR in conjunction with a full phase-in of the output floor.
- To preserve the current role of P2R as set in CRD and SREP Guidelines, further harmonising its setting on the basis of risk materiality, and supporting supervisory effectiveness through targeted amendments to the CRD framework. First, reaffirming the focus of P2R on risks or elements of risk not or not sufficiently covered by Pillar 1 requirements, thereby preserving the complementarity of the two frameworks, also in light of CRR3 implementation (including the output floor). Second, clarifying that P2R may address more qualitative weaknesses in a complementary manner when other measures or remedial actions undertaken by institutions are insufficient. The forthcoming revised SREP Guidelines propose to introduce a high-level and flexible escalation framework aimed at supporting consistent approaches by competent authorities in selecting the most appropriate measures, depending on the nature of the identified findings.
- To reaffirm the current role of the P2G as set out in CRD and the SREP Guidelines, which focus on the assessment of the adequacy of an institution's capital under an adverse scenario. As a rule, P2G would be set where the institution capital is deemed insufficient under stress, taking into account capital 'hurdle rates' such as TSCR or OCR, as well as more qualitative elements, including cases where the capital planning process is considered insufficiently robust or conservative.
- Not to merge CCoB with P2R or P2G. While these options would reduce the "number of layers", they would also entail design and calibration complexities.
- In the leverage ratio stack, to retain layers only to the extent they are necessary and harmonise the remaining layer, with the removal of P2G LR and converting P2R LR (if retained) into a buffer.
- Not to change the composition of capital. Especially regarding the role of AT1 in the going-concern capital stack, excluding AT1 instruments would have significant market and capital implications. To work on possible adjustments to the features of AT1 instruments if it could enhance the actual usability, contributing to relevant international developments.

4. Simplification of macroprudential elements

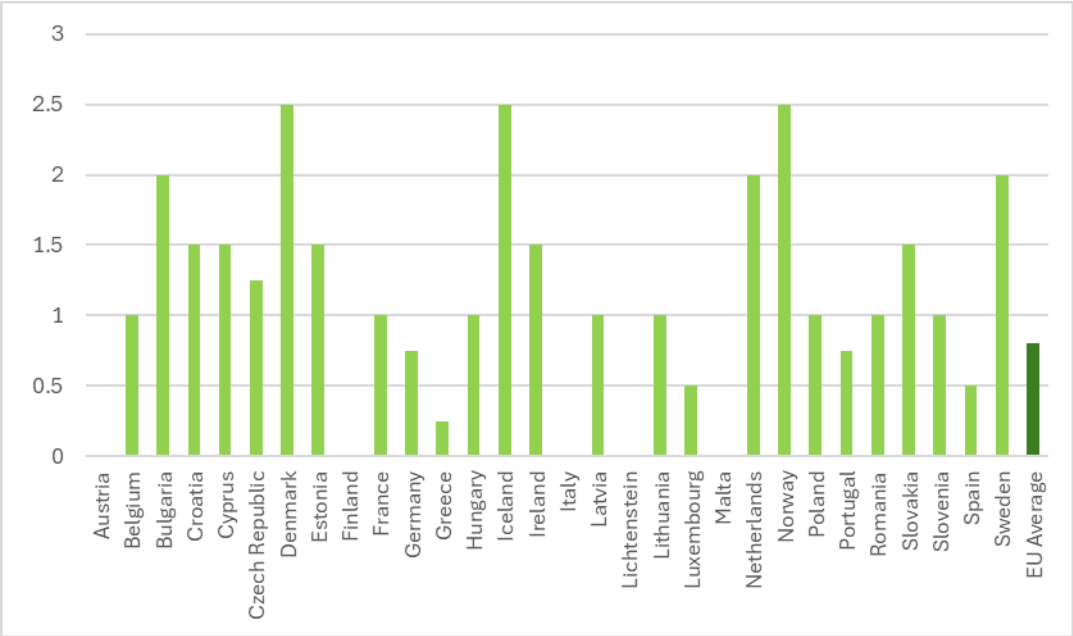
83. Several capital buffers in the current framework are designed to enhance the banking system's resilience against systemic risks not fully addressed by Pillar 1 requirements. This function is primarily fulfilled by the Countercyclical Capital Buffer (CCyB), the Systemic Risk Buffer (SyRB), and the buffers for Global and Other Systemically Important Institutions (G-SII/O-SII); collectively, these are referred to below as the macroprudential layers. The key question is how these macroprudential elements can be streamlined while maintaining the current level of resilience.

4.1. A single releasable macroprudential buffer

84. A key response to the global financial crisis was the introduction of the CCyB under Basel III, designed to ensure institutions have sufficient capital to remain viable and maintain essential banking services in a downturn. As part of CBR, the CCyB is placed below the Maximum Distributable Amount (MDA) trigger and is intended for release in stress to mitigate deleveraging risks, allowing institutions to absorb rather than amplify shocks.

85. The buffer is set by the macroprudential authorities based on a country-specific systemic risk assessment and applies reciprocally to all institutions with exposures in that country. Each institution's effective CCyB is a weighted average of the rates in countries where it has exposures. Currently, the EU average CCyB stands at 0.8%, with rates varying up to the 2.5% limit for automatic reciprocity (Figure 12Figure 12).

Figure 12. CCyB setting by country (April 2026)



Source: ESRB website macroprudential database and supervisory reporting.
Notes: The EU average in the figure refers to a size-weighted average.

86. The SyRB is an EU-specific macroprudential tool aimed to prevent and mitigate macroprudential or systemic risks not covered by the CCyB, the O-SII and G-SII buffers and can be applied flexibly. In accordance with Article 133(5) of the CRR authorities have the possibility to set the SyRB in different ways, for example on all exposures or on sectors (i.e. sectoral SyRB), on all or a subset of institutions, and at various levels of consolidation (individual, consolidated, or sub-consolidated basis). Even though this allows for a more precise, targeted measure, it also contributes to complexity.

87. The practical implementation reflects this variety, with 9 EU/EEA countries applying a broad SyRB, and 11 countries that target specific sectors (e.g. real estate). Table 2 below indicates that of all 20 SyRB/sSyRB measures 14 apply to all institutions and 6 are targeted to a subset of institutions. In addition, in terms of geography, some measures (particularly those targeted to a subset of institutions) also apply to exposures that are located abroad in addition to domestic exposures.

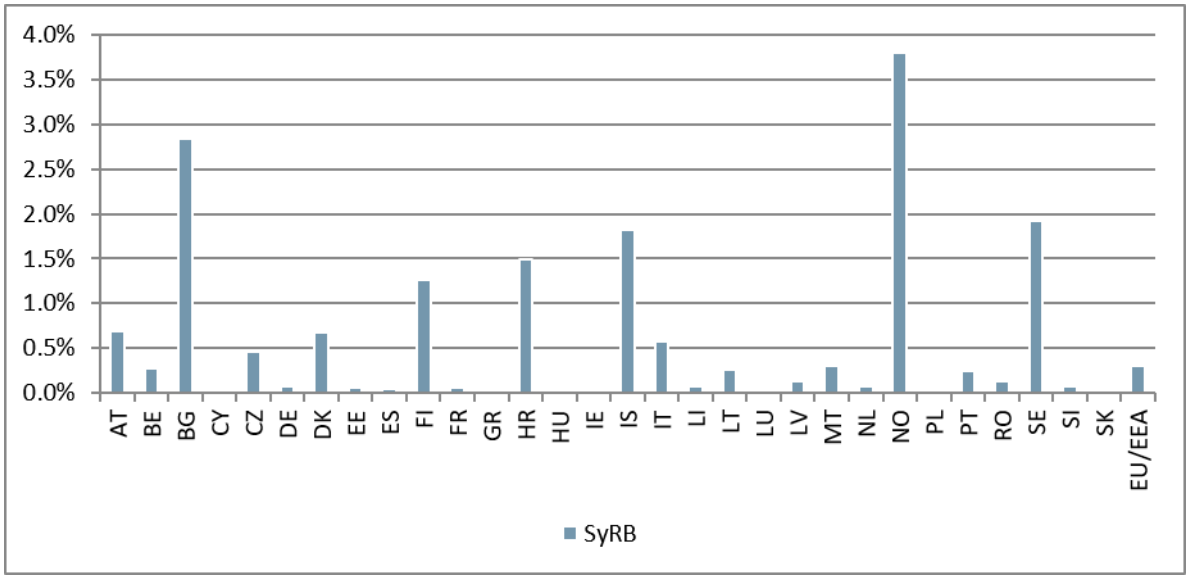
Table 2. Types of SyRB measure and frequency of their application in the EU

Type	How many	Of which (scope of institutions affected):	
		All institutions	Subset of institutions
SyRB	9	6	4
sSyRB	11	8	2
Total	20	14	6

88. This variety is also evident in the height of the rates, with an average SyRB of 0.3% in the EU/EEA, but ranging from 0.0% to 4.5% on institution level. For over half of the institutions in

the EU/EEA, the SyRB is zero and for three quarter of the EU/EEA institutions it is less than 0.1%. The average SyRB rates across countries are very different (Figure 13), with 6 countries where institutions are on average subject to SyRB rates higher than 1% (in one case up to 3.9% on average).

Figure 13. Average SyRB (including sSyRB) by country of institution incorporation



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample covers 2858 institutions at the highest level of consolidation in the MS (which includes subsidiaries of an institution with a Head Office in another EU/EEA) other and 2689 institutions at the highest level of consolidation in EU/EEA. Individual country data includes subsidiaries, which are excluded from EU aggregate. For example, at country level the subsidiary in country X of a bank domiciled in country Y is included both in data for countries X and Y (for the latter as part of the consolidated entity). In the EU aggregate, only the consolidated entity domiciled in country Y is considered.

89. Unlike the CCyB, the SyRB does not have to be automatically reciprocated, but only voluntarily. In practice, for 12 out of the 20 SyRB/sSyRB measures, reciprocation by non-domestic institutions is either not relevant (e.g for the six measures specifically targeted to a subset of institutions) or for other reasons not requested by the designated authority that initiated the measure. However, for eight out of all SyRB/sSyRB measures the ESRB have issued recommendations (based on request from designated authority) for active reciprocation from foreign authorities[36]. The foreign institutions must then verify whether their home authority has reciprocated these decisions. A May 2026 report from ESRB indicates that in practice, since 2015 – the start of ESRB's reciprocity recommendations – reciprocity by relevant authorities has gradually increased with also the introduction of sectorial buffers under the CRDV.

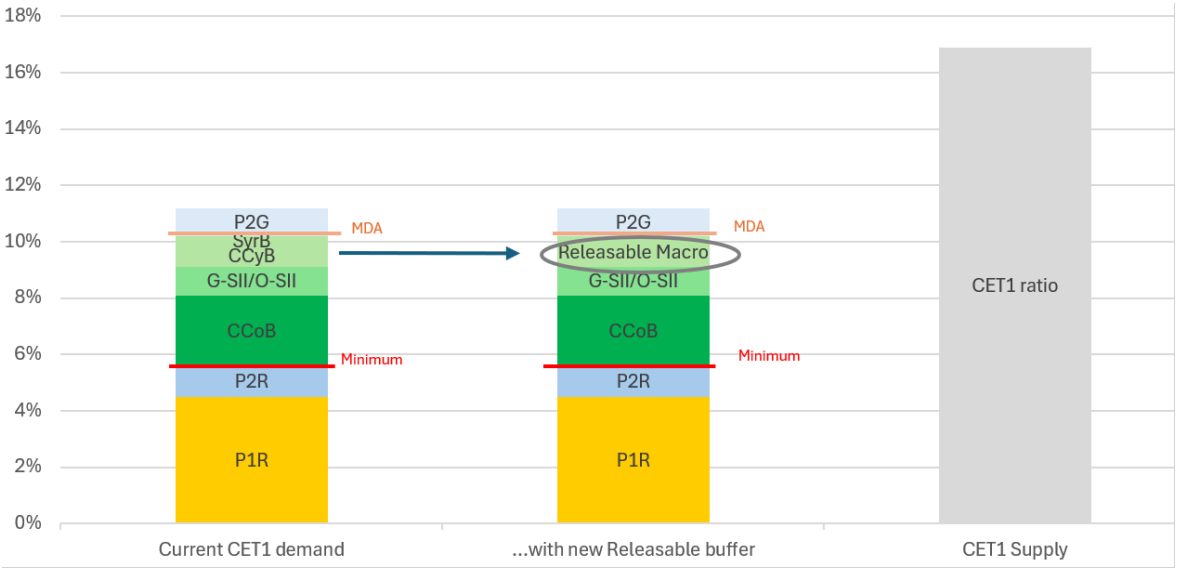
90. Overall, the current framework exhibits wide heterogeneity in CCyB and SyRB rates across countries. While it might reflect cyclical and structural differences across economies and financial systems in Europe, there may also be overlaps in risk coverage particularly if

[36] Overview of reciprocations on ESRB website (link). The ESRB recommendations are also published in the Official Journal: Recommendation of the European Systemic Risk Board of 9 July 2025 amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2025/5) via amendments.

authorities in different countries apply different tools (e.g. one an institution-specific SyRB and another an SyRB on country exposures). This adds to the complexity of the reciprocity process. This is in addition to the macroprudential adjustments to TREA (Articles 164, 458, 124 of the CRR), which pose similar challenges as explained in section 3.1.1.

91. As illustrated in Figure 14, SyRB and the CCyB can be consolidated into a single releasable macroprudential buffer that can build on characteristics already common to the two buffers: both are set and released by macroprudential authorities and allow institutions to continue lending to the real economy during stress periods. In specific, COVID-19 demonstrated that the SyRB can be implemented in a releasable manner, with approximately half of the authorities releasing it either fully or partially[37]. Just like the CCyB, the SyRB in many cases applies country-wide and appears to remain in place for extended periods[38].

Figure 14. Average CET 1 stack (demand) under framework with current macro-buffers and new Releasable buffer



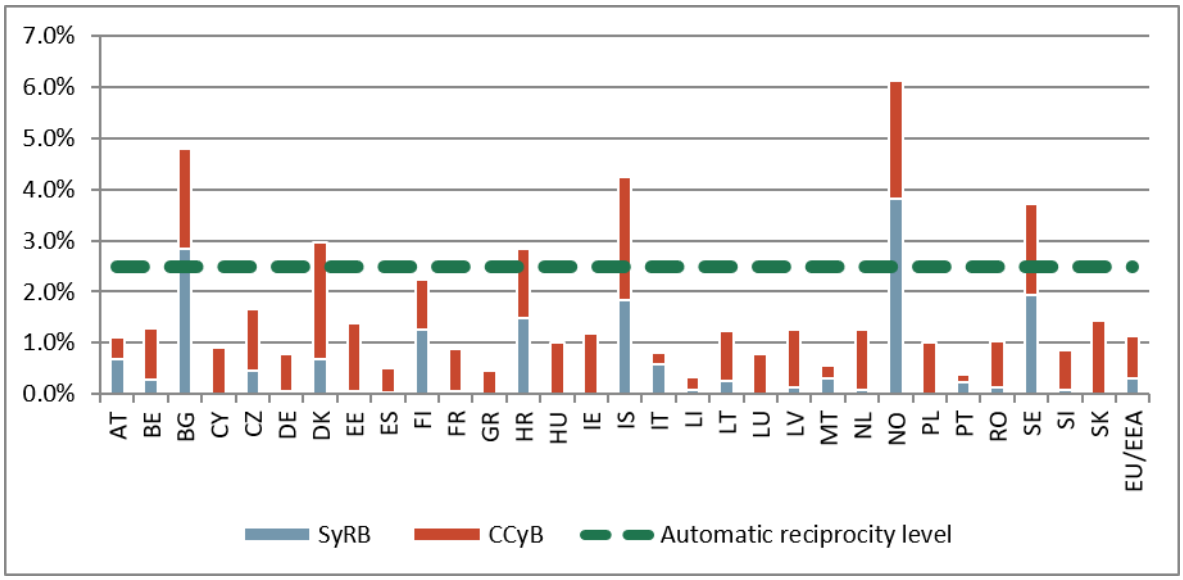
Source: Supervisory reporting. Size-weighted averages of banking sector (2689 institutions at highest level of consolidation in the EU/EEA). Layers in green are buffer requirements subject to MDA. Impact of Cyclical buffer introduction in isolation (without other changes).

92. Figure 15 below illustrates the average size per country of the possible consolidated macroprudential buffer, if it would be the sum of the current of CCyB and SyRB applicable to institutions. In pursuing capital neutrality for this specific area it may amount to 1.1% on average across the EU, this resulting from the addition of the actual CCyB and SyRB as presently applied. The dotted line at 2.5% represents the current threshold for the automatic reciprocity for the CCyB.

[37] See also Figure 2 of 2022 EBA advice on the review of the macroprudential framework (link). The release of the SyRB between December 2019 and June 2021 added another EUR 33.5 bn or 38 bps of EEA banks' total RWA (see Figure 2) to the released capital

[38] Most currently active CCyB rates have been set since 2022 (post COVID-19), see also Table 7Table 7 in the Annex.

Figure 15. Average SyRB (including sSyRB) and CCyB for institutions by country of incorporation



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample covers 2858 institutions at the highest level of consolidation in the MS (which includes subsidiaries of an institution with a Head Office in another EU/EEA) and 2689 institutions at the highest level of consolidation in EU/EEA. Individual country data includes subsidiaries, which are excluded from EU aggregate. For example, at country level the subsidiary in country X of a bank domiciled in country Y is included both in data for countries X and Y (for the latter as part of the consolidated entity). In the EU aggregate, only the consolidated entity domiciled in country Y is considered.

93. The new consolidated macroprudential buffer would need to be operated under a common methodology while allowing for the appropriate flexibility to be embedded to capture local financial imbalances. This is because it should continue to cover for some more sectoral risks considering that risks can accumulate disproportionally in one sector (e.g. a subset of real estate exposures); or potentially consider current practices regarding a positive neutral CCyB rate (or early activation). To remove the complexity of the current implementation set-up, authorities – building on their understanding of the domestic market – would set a buffer rate on domestic exposures, which all institutions (also all non-domestic institutions with the relevant domestic exposures) need to apply, respecting the principle of same risk, same rate. For proportionality reasons only significant risks of this type should be addressed.

94. This approach hinges on the development of a methodology to support convergence at a high-level in the application of the consolidated releasable buffer in the EU which would allow the calibration of local rates considering the structural differences in markets at local level and recognising significant differences in the macro-financial cycles among countries. It would need to consider how the concept of same exposure, same buffer rate across institutions (i.e. full automatic reciprocity), brings a trade-off between the need to reflect local imbalances while also keeping an appropriate share of capital covering macro risk versus micro risk. This assessment could consider that (currently) the CCyB and SyRB have no maximum limits (although subject to approval for levels over e.g. 5%), that the new consolidated buffer can only be set for domestic exposures, while also considering that part of the underlying risks may be captured through other tools, including stress testing exercises and the forward-looking expected credit loss provisioning under IFRS 9.

95. All in all, the EBA suggests that a single releasable macro buffer replace CcyB and SyRB, be releasable and build on a TREA delineated from macroprudential considerations (Art 458, 124, 164). At a high-level in terms of EBA's four simplification principles it implies the following:

i. **Resilience** is unchanged assuming that generally imbalances can be addressed via the new buffer recalibration.

ii. **Basel compliance** is unchanged as the buffer can be seen as an extension of the CCyB.

iii. **Proportionality** is enhanced with institutions only having to consider one macroprudential tool.

iv. **Efficiency:** enhanced transparency building on the CCyB's country-based exposure calculation that reduces risk of overlaps. A common methodology can promote convergence while leaving flexibility to recognise that markets and macro-financial cycles vary across the EU. In addition, if the exposures subject to the measure are more clearly defined, it will be simple and much less costly for institutions to implement it compared to today. The administrative burden will be reduced also for authorities. Buffer usability will also be enhanced since authorities can more easily identify impact on released buffer levels as there will be no overlaps between measures.

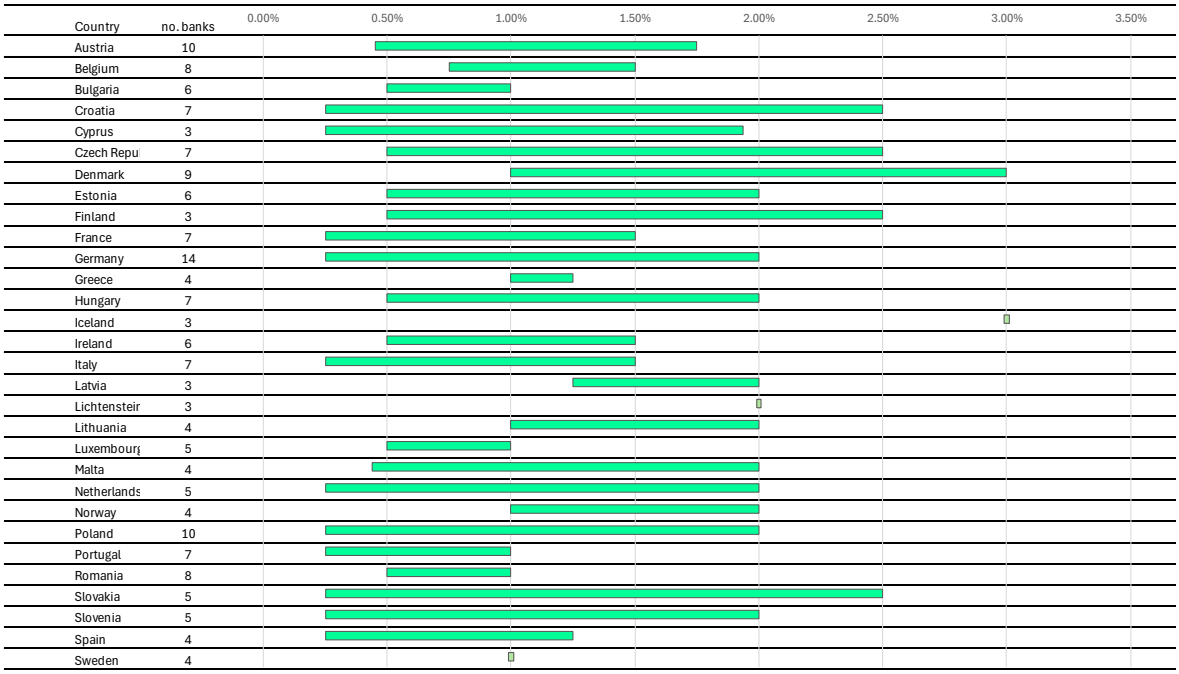
4.2. The systemic buffers

96. The O-SII buffer framework was introduced in the EU with the CRD IV in 2013, as part of the post-crisis macroprudential reforms following the global financial crisis. Its purpose was to strengthen the resilience of domestically systemically important institutions whose distress or failure could have significant adverse effects on the national financial system and the real economy, even if they are not globally systemic. Building on the experience with its implementation, the EBA has assessed whether the O-SII, as a non-cyclical/non-releasable macro buffer can be simplified.

97. A key issue identified is that O-SII buffers (see Figure 16 below) vary greatly between EU countries. In addition, it is to be noted that since the development of the O-SII framework, the EU has seen institutional progress leading to harmonised banking regulation, supervision and resolution, with accompanying joint financing arrangements for resolution, which leads to the question as to whether institutions' systemicity should be assessed on an EU scale on top of a national scale and how the O-SII framework may be updated to take account of this[39].

[39] ECB shows progress in this regard by applying an O-SII floor methodology that to a degree builds upon the partial recognition of banks' exposures within the Banking Union as domestic.

Figure 16. Dispersion of O-SII buffer rates (as reported in 2025)



Source: ESRB website macroprudential database.

98. Figure 17 below shows a dispersion in the identification and scoring of O-SIIs across the EU and in the resulting O-SII buffer levels at similar scores. Therefore, as mentioned in the EBA's 2022 advice on the review of the macroprudential framework, the Capital Requirements Directive (CRD) may require developing a methodology covering both O-SII identification and the setting of buffer rates.

99. In addition, in terms of proportionality, EBA acknowledges that the current O-SII methodology may result in a frequent O-SII designation of comparatively small institutions. As Figure 18 below indicates, 11 O-SIIs have a balance sheet smaller than EUR 5 billion. An O-SII designation triggers a certain degree of complexity by itself, not just the imposition of a buffer requirement, but also an inability to qualify for 'simplified obligations' (Article 4(1) of the BRRD) or for the definition of SNCI, and possibly a higher supervisory intensity and administrative burden.

Figure 17. Final O-SII buffer (y-axis) vs. O-SII score (x-axis)

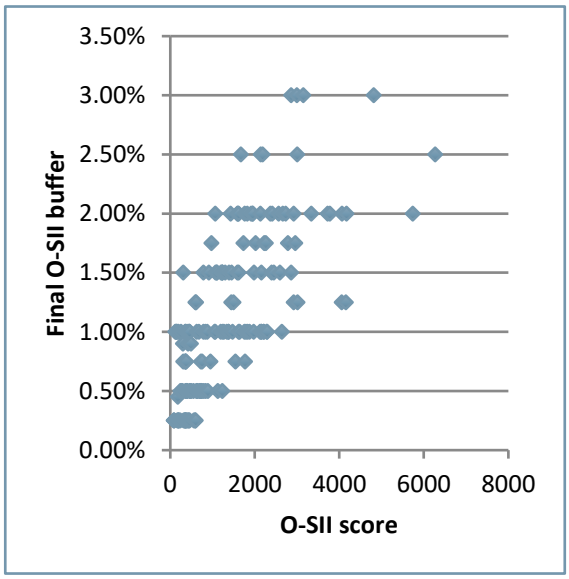
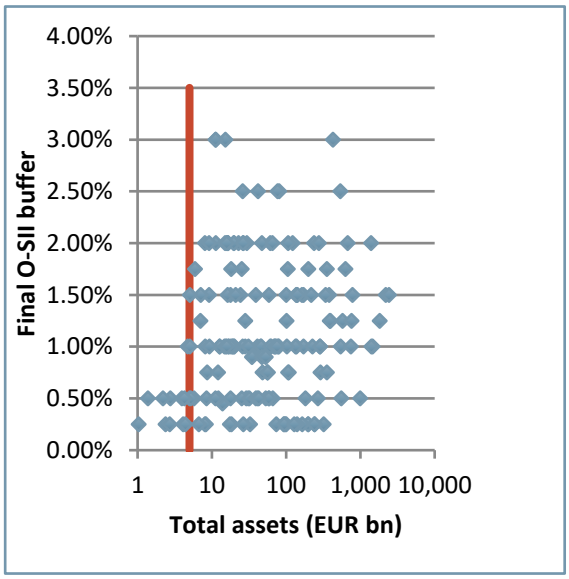


Figure 18. O-SII buffer rates (y-axis) vs. total assets EUR billion (x axis)



Source: EBA list of O-SIIs for 2024 and EBA supervisory reporting data (2024 Q4)
Note: Where total assets were not available, TEM was used as a proxy. Red line is set at EUR 5 billion.

100. Against this background, an update of the common methodology could review the drivers for the current wide range of outcomes, the national objectives, and the due proportionality. Further, the O-SII scoring at the lower end of the range can also be reviewed with a view to consider interactions with developments on related files such as the TFE recommendation 10, which seeks to introduce more proportionality in the framework through a more systematic application of simpler rules for the Small non-complex institutions (SNCIs).

101. All in all, the EBA suggests that an updated methodology for O-SII scoring and considering buffer calibration options can contribute to the simplification of the framework while allowing to recognise structural differences. At a high-level in terms of EBA's four simplification principles it implies the following:

i. **Resilience** is unchanged, although at the margin possibly fewer small O-SIIs.

ii. **Basel compliance** is unchanged.

iii. **Proportionality** is to be improved by making the methodology more selective regarding institutions with a low balance sheet size / in a small domestic banking sector. Work in the context of TFE recommendation 10 (on simplification for SNCIs) may align with such a review.

iv. **Efficiency** In an increasingly integrated European financial market, it makes sense to view the O-SII framework as applying to systemic importance (also) for the entire market and not only narrowly at a domestic level. For G-SIIs an example of taking a broader view has been shown to work.

MAIN CONCLUSIONS AND OBSERVATIONS ON THE STREAMLINING OF THE MACROPRUDENTIAL PART OF THE FRAMEWORK

To enhance the efficiency of the macroprudential framework by:

- creating one single releasable macroprudential buffer that consolidates CCyB and SyRB.
- developing a high-level common methodology for this new single releasable macroprudential buffer to support convergence while allowing flexibility to recognise that markets and macro-financial cycles vary across the EU.
- updating the common methodology for the O-SII scoring and considering the O-SII buffer calibration.

5. Streamlining the resolution framework

102. Being based on the going concern framework, the MREL framework inherently reflects some of the complexities illustrated above for the going concern. However, it is fair to consider that it also contains an element of proportionality, as the vast majority of institutions within the EU is not subject to MREL at all[40] since only institutions and groups eligible for resolution are affected by the MREL framework[41]. A key question is how those aspects of complexity of the resolution framework can be streamlined while maintaining the current level of resilience in resolvability and recapitalisation capacity. In particular, any simplification should aim to address the number of requirements based on different metrics and, the level of standardisation in MREL calibration, and address the complexities that derive from the fact that resources between going concern and gone concern are shared and the time lags between going and gone concern decisions.

5.1. Tackling 'Multiple requirements based on different metrics'

5.1.1. The alignment in definition of TLAC and MREL eligible resources

103. MREL and TLAC resources are currently not fully aligned. In particular, structured notes are eligible for MREL but not for TLAC, and crossholdings of G-SII eligible liabilities and multiple point of entry (MPE) adjustments are deducted for TLAC but not for MREL.

104. A simplification would be to fully align MREL eligible resources with the TLAC resources by eliminating structured notes from MREL eligible resources – and by deducting MREL cross-holdings and MPE adjustments from MREL eligible resources. This would reduce duplications and inconsistencies.

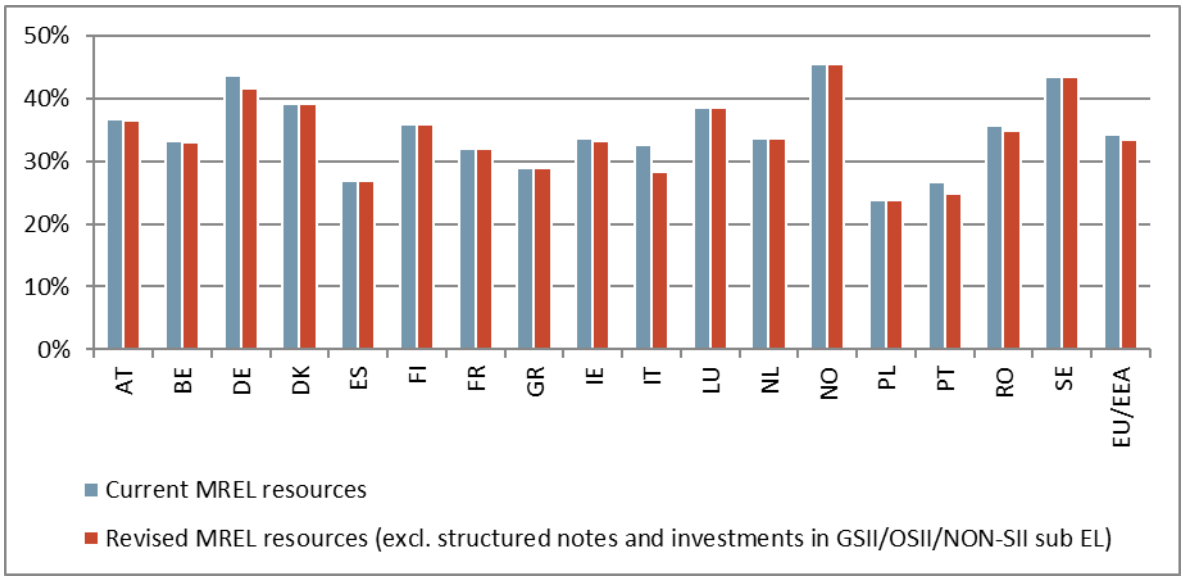
105. EBA data analysis confirms that this alignment should have overall a limited impact on the current level of MREL resources[42]. When excluding structured notes and cross-holdings, average MREL resources (as % TREA) would decrease respectively by 0.7% and by 0.2% (from 34.3% to 33.4% in total) with impact concentrated in a limited number of countries (Figure 19). In addition, no institutions in the sample would fall below their minimum MREL requirement as a result of those changes.

[40] As of December 2025, out of 2689 EEA institutions, only 254 are resolution entities (for which an MREL requirement is set).

[41] As per Article 45c(2a) of the BRRD, no MREL is set for liquidation entities. By way of derogation, resolution authorities may assess whether it is justified to determine MREL above LAA, This assessment takes into account, in particular, the impact on financial stability, and on the risk of contagion to the financial system, including with regard to the financing capacity of deposit guarantee schemes.

[42] The analysis assesses the impact of eliminating structured notes and holdings by other resolution entities of subordinated liabilities issued by G-SIIs, O-SIIs and non-SIIs from MREL resources. While the TLAC framework – being applied to G-SII – eliminates only the MREL G-SII cross-holdings, as the MREL framework applies to all EU resolution banks, the deduction of the analysis is applied to all institutions' subordinated cross-holdings. Additional residual elements were not quantitatively assessed due to data constraints.

Figure 19. MREL resources (as % of TREA) – excluding Structured notes and excluding Investments in G-SII/O-SII/Non-SII subordinated EL



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The figure shows weighted average ratios. Countries with less than 3 institutions in the sample are not displayed due to confidentiality.

106. While recognising that this simplification tackles only one specific aspect of difference between the TLAC and MREL frameworks and other differences remain, this approach ensures a step forward in terms of further alignment to the global standards while preserving capital neutrality.

107. Considering the EBA simplification principles, this approach would entail the following:

i. **Resilience**: The alignment of resources should result in limited impact on the level of MREL resources. In addition, maintaining the link with the going concern framework will ensure that institutions have sufficient capital to meet their minimum requirements after resolution.

ii. **FSB compliance:** The alignment of resources between TLAC and MREL will further align the two frameworks.

iii. **Proportionality:** Not impacted.

iv. **Efficiency:** simplification derives from the elimination of differences in resources between TLAC and MREL.

5.1.2. The streamlining of the subordination requirement

108. The current MREL subordination requirement is based on a different input parameter (8% TLOF) compared to the MREL formula that is expressed in TREA/TEM and this introduces an additional element of complexity.

109. The 8% TLOF is used in the gone concern framework as an input for the calibration of the MREL subordination requirement[43] and to access the resolution financing arrangement (RF – single resolution fund or national resolution financing arrangement). However, these two TLOF references (subordination and access to RF) are different because they consider different purposes. Namely, the subordinated MREL requirement is computed at consolidated level and concerns only subordinated MREL eligible instruments, while the level to access the RF concerns the loss absorption and recapitalisation of the resolved entity and is computed at the solo perimeter of the resolution entity.

110. A suggestion for simplification is to streamline the calibration of the MREL subordination requirement - while maintaining unchanged the current scope of institutions to which the subordination requirement is applied – converting the 8% TLOF input parameter for subordination into a TEM metric to be consistent with the overall base of MREL in TEM[44].

111. EBA quantification shows that, on average, TEM exceeds TLOF by 5.6%, with a more pronounced difference for G-SIIs, where TEM is on average 11.5% higher (Figure 20). However, for the majority of institutions (174 institutions accounting for 64.4% of TREA in the sample), the absolute difference between TEM and TLOF lies within a range of 0–10% (Figure 21).

112. Replacing 8% TLOF with a percentage of TEM while maintaining the same MREL subordination levels would correspond to a 7.6% TEM requirement[45], with limited variation (between 7.2% to 8.2%) across categories of institutions (Figure 22).

[43] Under BRRD (Art. 45 and 45b), subordination requirements should be applied to G-SIIs, Top Tier banks (resolution entities with total assets above Eur100bn) and 'fished' banks (Art.45b(8)). In addition, there is discretionary subordination power for other resolution entities where needed to avoid no creditor worse off (NCWO) risk.

[44] The main differences between TLOF and TEM stem from off-balance sheet items (e.g. derivatives, etc.) not included in TLOF and the exclusions of certain exposures (e.g. promotional loans) in TEM.

[45] 6.6% to match the current subordination requirement following adjustments by RAs (Figure 23).

Figure 20. TEM vs. TLOF by bank type, weighted average

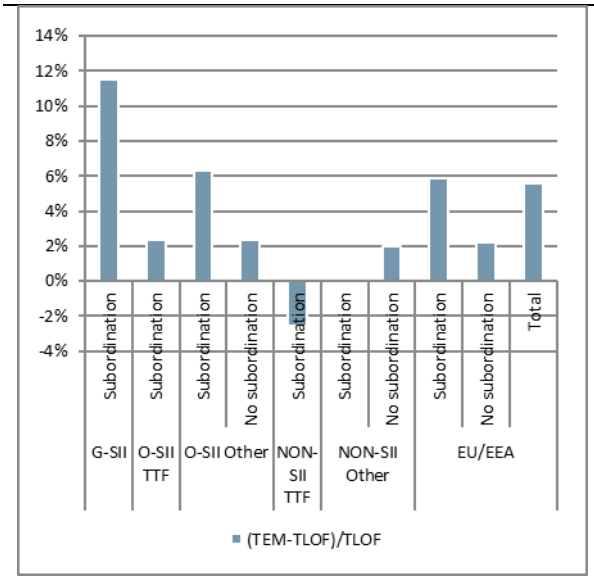
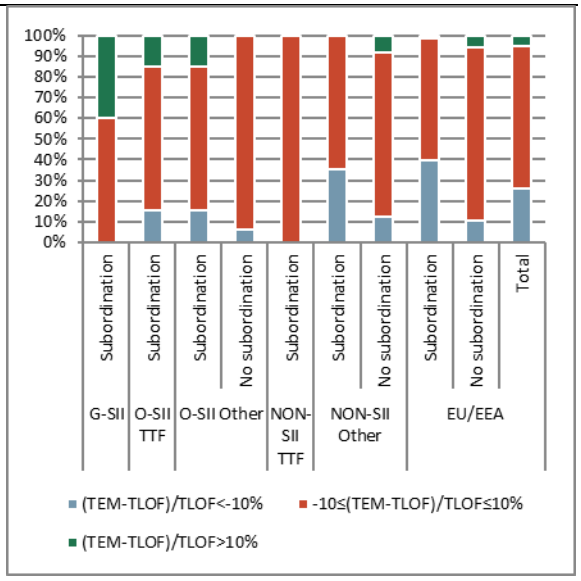


Figure 21. TEM vs. TLOF by bank type, distribution



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The figure shows weighted average ratios.

Figure 22. Equivalence factor for TEM to be equivalent to 8% TLOF

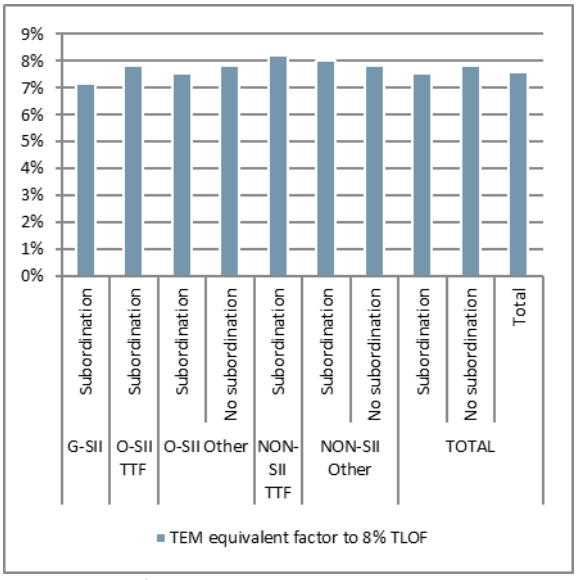
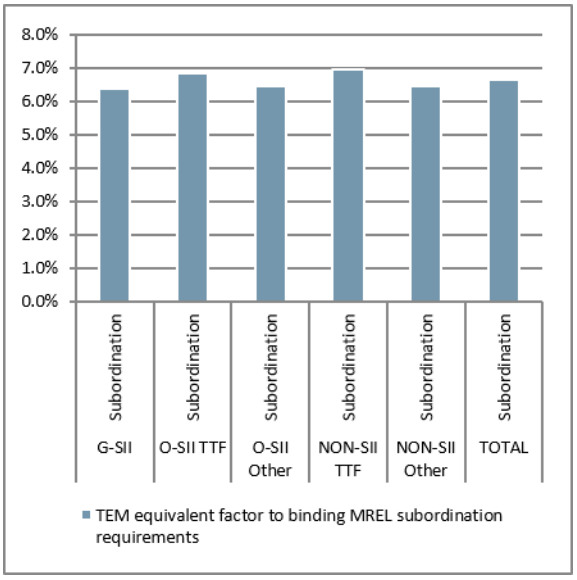


Figure 23. Equivalence factor for TEM to be equivalent to binding MREL subordination requirements



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The figure shows weighted average ratios. MREL subordination requirement is the higher between the MREL subordination requirement calibrated using (i) Total Risk exposure amount (TREA) and (ii) Total Exposure Measure (TEM). Subordination requirements imposed upon other institutions to address no creditor worse off (NCWO) risks are considered.

113. The results point therefore to the fact that an element of complexity of the current MREL subordination requirement could be tackled by converting the TLOF input parameter into a percentage of TEM ensuring equivalent subordinated requirements compared to the status

quo. This change should have no impact on the level required to access the RF, considering that the 8% TLOF subordination and 8% TLOF access to the RF amounts are different. Rather, the conversion of TLOF into a TEM base would only tackle the specific element of subordination included in the MREL framework and would not extend to the TLOF base metric to access the RF.

114. Considering the EBA simplification principles, this approach would entail the following:

i. **Resilience** is not impacted on average, as the conversion into the TEM base would need to ensure equivalent subordinated levels.

ii. **FSB compliance** is not impacted.

iii. **Proportionality** is not impacted as the scope of application of the subordination requirement would remain unchanged.

iv. **Efficiency:** simplification derives from reducing the number of input parameters to consider for the requirements (although access to the RF will remain linked to TLOF).

5.1.3.8% TLOF (fully subordinated)

115. As an alternative approach to address the complexity of the MREL framework, in particular in relation to the issue of multiple base metrics and MREL standardisation, it could be considered to link the MREL requirement to a single fully subordinated metric – e.g. to the input parameter used to set the MREL subordination requirement (8% TLOF). Under this approach, for all institutions currently subject to MREL, the MREL requirement will simply correspond to an 8% TLOF requirement to be met with own funds or subordinated debt (including senior non-preferred).

116. This approach would achieve significant simplification and increase consistency and predictability across institutions by removing different parallel MREL requirements and replacing them with a single, standardised, balance-sheet-based metric with indirect linkage to access to the RF. Full subordination would also further strengthen clarity around bail-inability, supporting the effectiveness of resolution execution.

117. However, the use of a single balance sheet metric would have the drawback of not being risk-sensitive and therefore not being able to differentiate in its determination different risk profiles and be less suited to capture the diversity of EU resolution banks. In addition, de-linking the MREL requirement from the prudential going concern framework creates a risk that institutions could not have sufficient resources to be recapitalised after resolution.

118. The application of the 8% TLOF requirement would result in 49 institutions (out of a sample of 254) – mainly small non-systemic institutions – with a MREL shortfall (EUR 10.0 billion in total) mainly due to a shortage of subordinated liabilities as currently most of those institutions are not subject to a subordination requirement (Table 3).

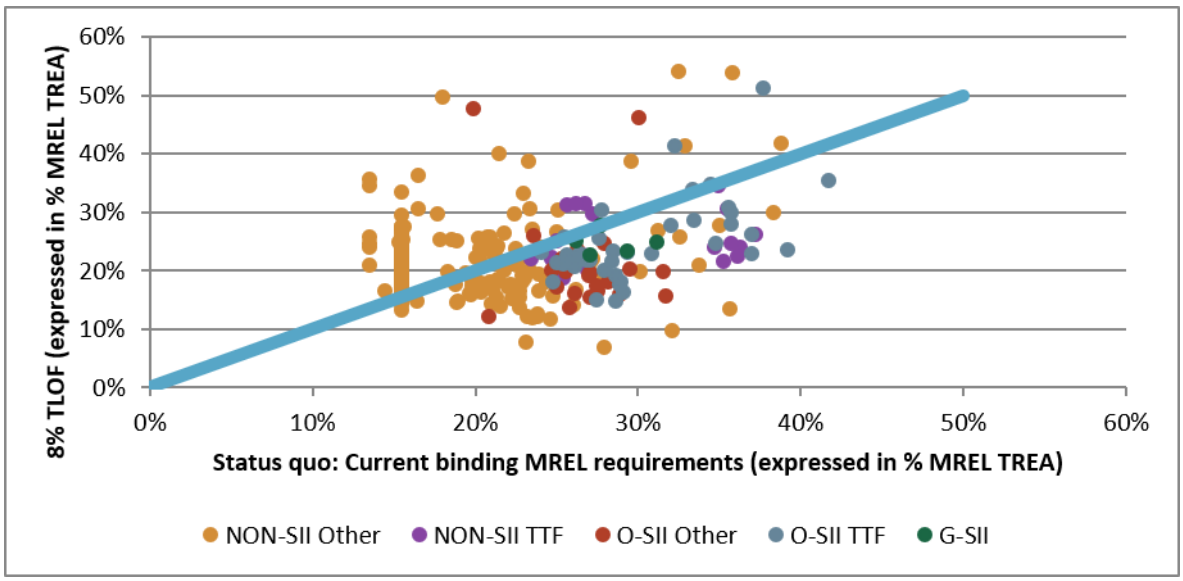
Table 3. 8% TLOF – MREL shortfall (weighted average by group)

Bank type	Scenario	Total number of institutions	Number of institutions with MREL shortfall	MREL shortfall amount (EUR bn)	Share of MREL shortfall (% MREL TREA)
G-SII	STATUS QUO	5	0	-	0.0%
	8% TLOF	5	0	-	0.0%
O-SII TTF	STATUS QUO	39	0	-	0.0%
	8% TLOF	39	4	0.6	0.0%
O-SII Other	STATUS QUO	24	0	-	0.0%
	8% TLOF	24	3	1.6	0.3%
NON-SII TTF	STATUS QUO	19	1	0.1	0.0%
	8% TLOF	19	6	1.6	0.6%
NON-SII Other	STATUS QUO	167	3	0.2	0.0%
	8% TLOF	167	36	6.3	1.4%
TOTAL	STATUS QUO	254	4	0.3	0.0%
	8% TLOF	254	49	10.0	0.1%

Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The 8% TLOF scenario assesses the impact of replacing the current MREL requirements (including subordination requirements) with a single requirement equal to 8% TLOF to be met by own funds and subordinated requirements. Under the 8% TLOF scenario, G-SII are still subject to the current TLAC requirements. The figure shows weighted average ratios.

119. Compared to the current MREL requirements, the 8% TLOF will require on aggregate less resources resulting in different impacts across institutions depending on their risk density levels, as shown in Figure 24 below.

Figure 24. 8% TLOF –8% TLOF requirements vs. current binding MREL requirements (expressed in % MREL TREA)



Source: MREL/TLAC reporting data (2025Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The 8% TLOF scenario assesses the impact of replacing the current MREL requirements (including subordination requirements) with a single requirement equal to 8% TLOF to be met by own funds and subordinated requirements. Under the 8% TLOF scenario, G-SIIs are still subject to the current TLAC requirements.

120. Considering the EBA simplification principles, the EBA observes that this approach would entail the following:

i. **Resilience**: on aggregate will require less resources than the status quo, although fully subordinated. Moreover, the resolution requirement would not be linked to the going concern framework, meaning that some institutions may not have sufficient capital to meet their going concern requirements after resolution. On the other hand, the higher subordination standard would facilitate the application of the bail-in tool, potentially improving resilience, and decreasing the risk of breaching the no-creditor-worse-off (NCWO) principle.

ii. **FSB compliance** is not impacted and TLAC requirements would continue to apply to G-SIIs.

iii. **Proportionality:** The introduction of a subordination requirement for all institutions would penalise smaller institutions that do not currently have a subordination requirement. In addition, relying on a single, non-risk sensitive requirement would not enable to factor in different risk profiles or business models.

iv. **Efficiency** would improve as a single standardised requirement level applied to all institutions would be clear, transparent and predictable.

5.2. Tackling 'Non-standardised MREL Calibration'

5.2.1. Standardisation of the MREL requirement with minimisation of discretionary adjustments

121. While recognising that adjustments better tailor requirements to the specificities of the institutions, multiple non standardised adjustments increase complexity. Moving towards a more standardised MREL framework by maintaining the current adjustments and simplifying their computation or through a limited number of predefined adjustments could enhance consistency, transparency and comparability across institutions, while also improving predictability for both institutions and markets.

122. Simplification of the current calibration of MREL could therefore be achieved by reducing the current adjustments to a standardised adjustment differentiated by resolution strategy, which would also incorporate the impact of balance sheet depletion post resolution where applicable, or by simplifying the computation of the adjustments. On the link with resolvability – while recognising that the extent to which an institution is resolvable should not directly impact the amount of capital needed for its recapitalisation – an additional standardised add-on adjustment could be considered to reflect the potential issues in executing resolution for entities with material challenges for resolvability.

123. Taking into account that the current MREL calibration gets particularly complicated by the adjustments in the estimation of the recapitalisation amount, simplification could in principle be envisaged through an ad-hoc prudential regime for post-resolution institutions – where the market confidence charge (MCC) and macroprudential buffers could be reassessed in the calibration of the recapitalisation amount, with buffers subsequently rebuilt during a transitional period. However, there could be concerns that removing the MCC or other buffer-related elements could undermine market confidence and macroprudential policy effectiveness, as buffers serve as proxies for peer requirements and resilience, and systemic risk does not disappear with resolution.

124. Against this background, to assess the quantitative impact on MREL requirement of limiting adjustments while also standardising them, it is necessary to identify the current materiality of adjustments in the calibration of MREL and then to evaluate the effect on MREL requirements of eliminating those adjustments. EBA data analysis includes the combined effects of balance-sheet depletion, post-resolution Pillar 2 requirements and transfer strategy discounts, where applicable, but it is unable to reflect separately each adjustment.

125. The quantitative assessment shows that, for institutions with an open bank bail-in as the preferred resolution strategy, the overall adjustment to the TREA base used for the calculation of the recapitalisation amount and the market confidence charge (MCC) generally ranges between 0% and 10% (4.1% on average) (**Error! Reference source not found.**). For institutions under a transfer strategy, overall adjustments are higher for most institutions, typically around 20% to 30% (24.6% on average) (**Error! Reference source not found.**). The analysis confirms that the removal of all adjustments and of the MCC (i.e. MREL requirement at 2x(P1+P2)), would generally lead to a reduction in MREL requirements although with some variation across bank types and resolution strategies (bail-in vs. transfer). Retaining only an MCC without

adjustments (i.e. MREL at 2x(P1+P2)+CBR-CCyB) would result in an increase in the MREL requirements, primarily for institutions with a transfer strategy (Figure 27).

Figure 25. TREA adjustments by strategy

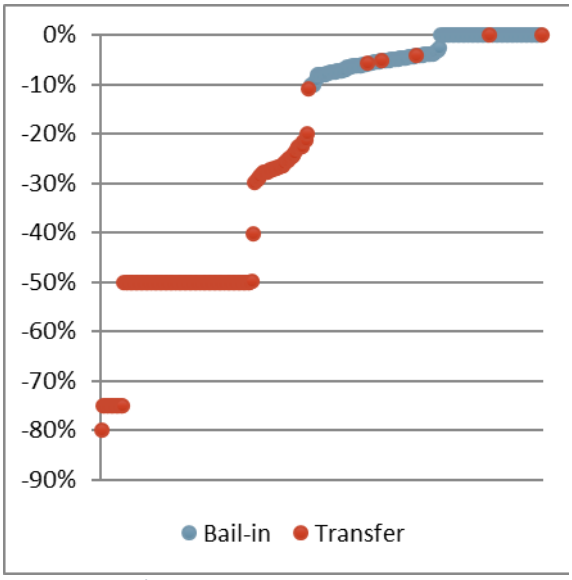
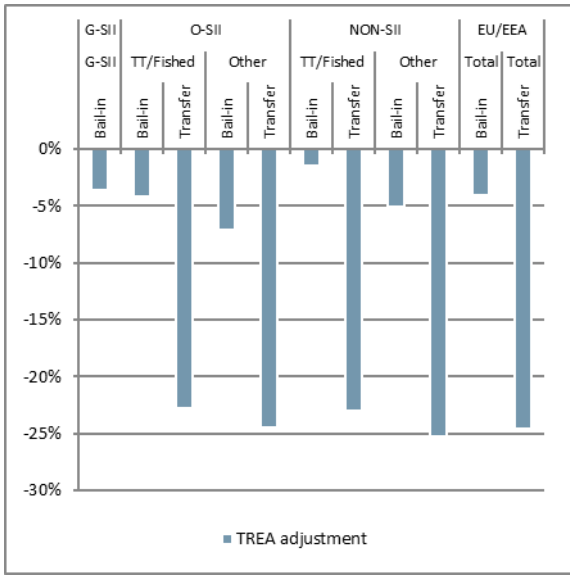
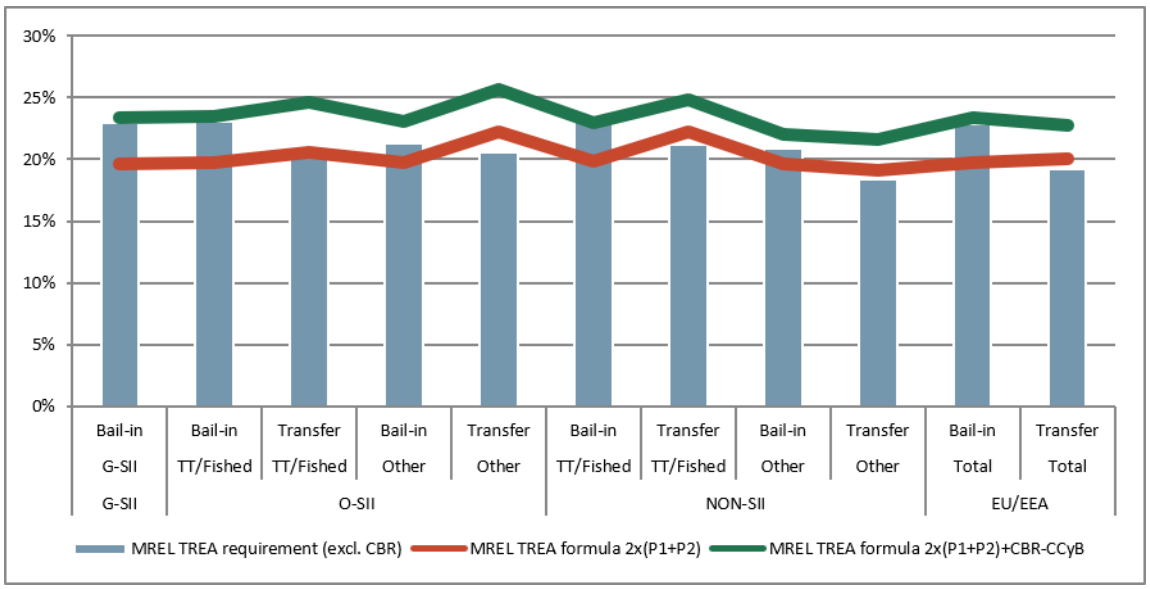


Figure 26. TREA adjustments by strategy and bank type



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The figure shows weighted average ratios.

Figure 27. Current MREL TREA requirement vs. MREL formula



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The figure shows weighted average ratios.

126. Overall, the analysis suggests that moving towards a more standardised framework by removing all the adjustments would lead to a limited increase in overall MREL requirements on average. Any difference relative to the current requirements could be addressed by maintaining

the adjustment reflecting the preferred resolution strategy (e.g. transfer strategy, etc. and including applicable balance sheet depletion) in a standardised formula, complemented by a standardised adjustment for resolvability in case of material resolvability challenges.

127. On the basis of the EBA simplification principles, this approach would imply the following:

i. **Resilience**: Maintaining the link with the going concern framework will ensure that, on average, institutions have sufficient capital to meet their minimum requirements after resolution.

ii. FSB compliance is unchanged.

iii. **Proportionality:** Proportionality is taken into account when including the adjustment on resolution strategy for MREL calibration. In addition, maintaining risk sensitivity will reflect the difference in risk and business profiles.

iv. **Efficiency:** Simplification derives from limiting and standardising discretionary adjustments.

5.2.2. TLAC + (Resolution) Pillar 2

128. The complexity of the MREL framework in particular of multiple adjustments for MREL calibration could also potentially be addressed with the use of a uniform floor ('Resolution Pillar 1') calibrated for example at the level of the TLAC requirement (TLAC), supplemented by an institution-specific component ('Resolution Pillar 2') determined by the resolution authority that could take into account additional relevant elements (e.g. resolution strategy, business reorganisation capacity post resolution, resolvability etc.).

129. Under this approach:

- GSIIs and top tier institutions would have as Pillar 1 resolution requirement the current level of TLAC at 18% TREA (6.75% TEM); to consider proportionality, institutions with assets of less than €100bn would have a reduced Pillar 1 requirement at 16% TREA and a corresponding reduced TEM requirement.
- To increase certainty and transparency, the 'Resolution Pillar 2' requirement could be subject to a maximum level ('cap') in the BRRD and the calibration criteria could be set out in a standard methodology. Prudential buffers (current CBR) would still apply on top on the total risk-based requirement.
- As regards the eligibility of resources, the current TLAC Term Sheet would apply for the minimum component (i.e. own funds and subordinated eligible liabilities) with the 3.5% senior debt allowance maintained for the smaller institutions to consider proportionality. The institution-specific 'Resolution Pillar 2' component could be met however with non-subordinated eligible liabilities for all institutions.

130. This approach would have the advantage of simplifying the number of requirements and adjustments bringing the MREL framework closer to the global TLAC framework. Using the uniform floor as the default level for the subordination requirement would remove the need

for separate subordinated MREL and TLAC requirements. An issue however is that this approach would partly remove the link with the going concern framework, raising uncertainties on the availability of resources to cover the recapitalisation needs post resolution and potentially maintaining complexity in the calibration of the institution-specific component.

131. Based on the quantitative assessment, there would be a shortfall in subordinated eligible liabilities which could be partly mitigated by allowing smaller institutions to use the existing 3.5% TLAC senior debt allowance. Under the assumption that the senior debt allowance is removed for all institutions (Table 4), in our sample of 254 institutions, 34 institutions – of which 27 small and non-systemic (non-SII) – would have a shortfall (compared to 4 in the current framework). Under the alternative assumption that the senior debt allowance is retained for all institutions except the G-SIIs and Top Tier institutions (Table 5), the number of institutions with a shortfall would reduce to 30, of which 27 small (non-SII).

Table 4. TLAC+(Resolution) Pillar 2 – MREL shortfall

Bank type	Scenario	Total number of institutions	Number of institutions with MREL shortfall	MREL shortfall amount (EUR bn)	Share of MREL shortfall (% MREL TREA)
G-SII	STATUS QUO	5	0	-	0.0%
	TLAC+	5	0	-	0.0%
O-SII TTF	STATUS QUO	39	0	-	0.0%
	TLAC+	39	4	3.7	0.1%
O-SII Other	STATUS QUO	24	0	-	0.0%
	TLAC+	24	3	1.2	0.3%
NON-SII TTF	STATUS QUO	19	1	0.1	0.0%
	TLAC+	19	1	0.1	0.0%
NON-SII Other	STATUS QUO	167	3	0.2	0.0%
	TLAC+	167	26	1.3	0.3%
TOTAL	STATUS QUO	254	4	0.3	0.0%
	TLAC+	254	34	6.3	0.1%

Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The TLAC+ scenario assesses the impact of replacing the current MREL requirements (including subordination requirements) with three parallel requirements for G-SII and Top Tier banks and two parallel requirements for Fished/Other banks. For G-SII and Top Tier banks, the new requirements consist of 18% of TREA + CBR and 6.75% of TEM to be met with own funds and subordinated liabilities and 18% TREA + TLAC+ P2R + CBR to be met with own funds and eligible liabilities. For Fished and other banks, the new requirements consist of 16% of TREA + CBR to be met with own funds and subordinated liabilities and 16% TREA + TLAC+ P2R + CBR to be met with own funds and eligible

liabilities. The TLAC+ P2R is set at a level to maintain current levels of MREL requirements. The figure shows weighted average ratios.

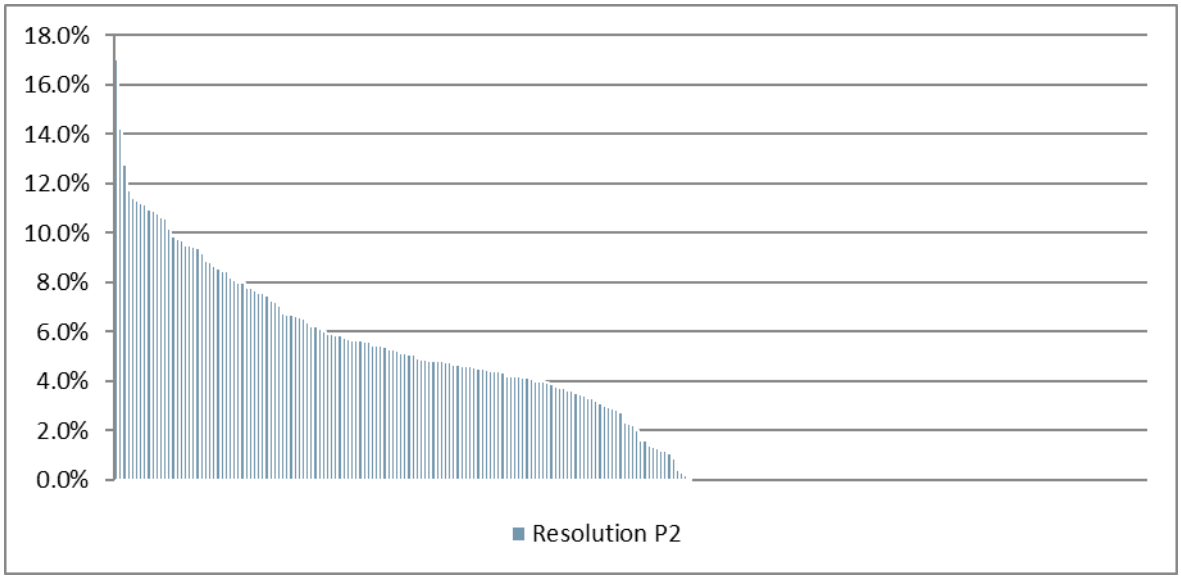
Table 5. TLAC + (Resolution) Pillar 2 with 3.5% senior debt allowance for Fished/Other banks– MREL shortfall

Bank type	Scenario	Total number of institutions	Number of institutions with MREL shortfall	MREL shortfall amount (EUR bn)	Share of MREL shortfall (% MREL TREA)
G-SII	STATUS QUO	5	0	-	0.0%
	TLAC+ with 3.5% senior debt allowance	5	0	-	0.0%
O-SII TTF	STATUS QUO	39	0	-	0.0%
	TLAC+ with 3.5% senior debt allowance	39	0	-	0.0%
O-SII Other	STATUS QUO	24	0	-	0.0%
	TLAC+ with 3.5% senior debt allowance	24	3	1.2	0.3%
NON-SII TTF	STATUS QUO	19	1	0.1	0.0%
	TLAC+ with 3.5% senior debt allowance	19	1	0.1	0.0%
NON-SII Other	STATUS QUO	167	3	0.2	0.0%
	TLAC+ with 3.5% senior debt allowance	167	26	1.3	0.3%
TOTAL	STATUS QUO	254	4	0.3	0.0%
	TLAC+ with 3.5% senior debt allowance	254	30	2.6	0.0%

Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The TLAC+ with 3.5% senior debt allowance scenario assesses the impact of replacing the current MREL requirements (including subordination requirements) with three parallel requirements for G-SII and Top Tier banks and two parallel requirements for Fished/Other banks. For G-SII and Top Tier banks, the new requirements consist of 18% of TREA + CBR and 6.75% of TEM to be met with own funds and subordinated liabilities and 18% TREA + TLAC+ P2R + CBR to be met with own funds and eligible liabilities. For Fished and other banks, the new requirements consist of 16% of TREA + CBR to be met with own funds, subordinated liabilities and senior debt up to 3.5% of TREA and 16% TREA + TLAC+ P2R + CBR to be met with own funds and eligible liabilities. The TLAC+ P2R is set at a level to maintain current levels of MREL requirements. The figure shows weighted average ratios.

132. The methodology to calibrate the institution-specific component would need to ensure that the current MREL requirement levels would be maintained, while pursuing the simplification objective. **Error! Reference source not found.** shows that, in order to maintain current MREL levels, the value of the institution-specific 'Resolution Pillar 2' component would range from 0% to 17% with a weighted average of 5%.

Figure 28. Distribution of 'Resolution Pillar 2' component based on current MREL requirements



Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The TLAC+ P2R is set at a level to maintain current levels of MREL requirements.

133. On the basis of the EBA simplification principles, the EBA observes that this approach would imply the following:

i. **Resilience** would depend on the calibration of the institution-specific 'Resolution Pillar 2' component. On the other hand, to the extent that it strengthens the subordination requirement, the approach could potentially facilitate the application of the bail-in tool or write-down and conversion power.

ii. **FSB compliance** is ensured as MREL requirements would align further with the TLAC global framework.

iii. **Proportionality** would be considered by setting a lower TLAC floor requirement for smaller institutions including the 3.5% senior debt component. However, institutions that currently do not have a subordination requirement would be subject to one and may face higher costs.

iv. **Efficiency** is improved by applying a single standardised requirement level to all institutions. The overall level of complexity and transparency will

depend on the methodology for the calibration of the 'Resolution Pillar 2' component.

5.3. Tackling 'Shared resources between going and gone concern'

5.3.1. Setting a specific framework for tackling MREL breaches

134. As a possible suggestion to address challenges related to sharing of common resources between going and gone concern frameworks, including the application of the automatisms in the MREL Maximum Distributable Amount (M-MDA) regime, the replacement of such automatisms with cooperation arrangements between RAs and CAs could be further explored. For instance, such a framework could set out a clearly articulated but flexible range of measures to be considered where institutions are in MREL breach.

135. A more structured interaction in the presence of MREL breaches, compared to the current approach, could further promote a joint consideration of capital adequacy across the going and gone concern frameworks by the authorities, better addressing the interlinkage between prudential and resolution requirements and the different objectives of the authorities.

136. On the basis of the EBA simplification principles, the EBA observes that this approach would imply the following:

i. **Resilience**: not impacted.

ii. **FSB compliance:** unchanged.

iii. **Proportionality:** not impacted.

iv. **Efficiency:** replacing the automatism in the trigger for assessment of MREL breaches would enable authorities to address related complexities in the interaction of the stacks.

5.3.2. One stack approach[46]

137. An alternative approach to address the complexities in the current resolution framework could consist in amalgamating the requirements into a single stack instead of retaining separate MREL and capital requirements. The single stack would consist of the recapitalisation amount (RCR calibrated based on both TREA and TEM) for gone concern, sitting below the going concern elements (P1+P2R+CBR+P2G), with all necessary capital and eligible liabilities allocated to the RCR before being allocated to the going-concern requirements. Under this approach the

[46] This is the evolution of an initial "disentanglement approach" which proposed to address complexities through the disentanglement of the recapitalisation component of MREL from the going concern requirements.

requirements could be met with the same type of instruments as the current MREL, but instruments used to comply with the going concern stack, including buffers and P2G, would no longer be counted to meet gone concern requirements at the same time.

138. The RCR would be set as a percentage of the going concern requirements, with the institution's resolution strategy serving as the primary reference point and would ideally be fulfilled solely with subordinated debt or capital. If full subordination is not feasible while maintaining capital neutrality, a senior debt allowance could be introduced.

139. This approach foresees an automatism that would establish that authorities (supervisory and resolution) have the ability to assess whether an institution is Failing or Likely to Fail (FOLTF) as soon as total capital and eligible liabilities fall below the MREL minimum, similar to how a breach of the minimum own funds requirement is treated. To avoid counterintuitive situations where an institution is declared FOLTF solely for not being able to refinance MREL instruments, proportionality could be considered by, for instance, allowing the institution to remediate the shortfall by issuing eligible debt within a reasonable timeframe.

140. Replacing the current MREL framework with the one stack approach on the EBA sample of 254 institutions would generally result in an increase of MREL shortfalls mainly due to the extended subordination requirement (Table 6). 83 institutions (compared to 4 in the current framework) will have a resource shortfall, 48 of these being smaller and non-systemic (non-SII).[47]

Table 6. One stack approach (fully subordinated)– MREL shortfall

Bank type	Scenario	Total number of institutions	Number of institutions with MREL shortfall	MREL shortfall amount (EUR bn)	Share of MREL shortfall (% MREL TREA)
G-SII	STATUS QUO	5	0	-	0.0%
	ONE STACK APPROACH (FULL SUBORDINATION)	5	2	21.6	0.9%
O-SII TTF	STATUS QUO	39	0	-	0.0%
	ONE STACK APPROACH (FULL SUBORDINATION)	39	19	77.3	2.2%
O-SII Other	STATUS QUO	24	0	-	0.0%
	ONE STACK APPROACH (FULL SUBORDINATION)	24	14	22.9	4.8%
NON-SII TTF	STATUS QUO	19	1	0.1	0.0%

[47] This could be mitigated by a senior debt allowance.

	ONE STACK APPROACH (FULL SUBORDINATION)	19	11	5.3	2.0%
NON-SII Other	STATUS QUO	167	3	0.2	0.0%
	ONE STACK APPROACH (FULL SUBORDINATION)	167	37	11.5	2.5%
TOTAL	STATUS QUO	254	4	0.3	0.0%
	ONE STACK APPROACH (FULL SUBORDINATION)	254	83	138.5	1.9%

Source: MREL/TLAC reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 254 resolution banks at the highest level of EU/EEA consolidation that are subject to external MREL and have an SPE strategy. The one stack approach scenario assesses the impact of replacing the current MREL requirements (including subordination requirements) with a single requirement equal to P1R + P2R + CBR + P2G + RCA to be met by own funds and subordinated requirements. The current RCA level is considered. The figure shows weighted average ratios.

141. This approach would have the advantage of tackling the sharing of resources between going and gone concern, including the application of the M-MDA restrictions. It would ensure that, at FOLTF point, there will always be sufficient resources to absorb losses and recapitalise the institution. Furthermore, the new stacking order would improve buffer usability as resources would not be double counted and the CBR and P2G would be positioned on top of the stack.

142. However, concerns on this approach would remain on the challenges of including any automatism triggered by the breach of the MREL and potential higher funding costs on smaller institutions as they have more limited options in issuing subordinated debt and are more likely to need CET1 to fill the gap.

143. Considering the EBA simplification principles, the EBA observes that this approach would entail the following:

i. **Resilience**: The link with the going concern framework will remain, ensuring that institutions have sufficient capital to meet their minimum requirements after resolution. However, the elimination of common resources and discretionary adjustments might increase the requirements for some institutions

ii. **FSB compliance** is unchanged.

iii. **Proportionality:** Full subordination requirements could entail higher funding costs for smaller institutions.

iv. **Efficiency:** This approach achieves simplification through a requirement design that eliminates overlapping complexities between the going and

gone concern frameworks and remove discretionary adjustments to the RCR.

MAIN CONCLUSIONS AND OBSERVATIONS ON THE STREAMLINING OF THE MREL FRAMEWORK

- To align the definitions of TLAC and MREL eligible resources in order to reduce inconsistencies between the two frameworks;
- To replace the use of the 8% TLOF in the setting of subordination requirements with a corresponding percentage of TEM, ensuring equivalent subordinated levels while being consistent with the overall base of MREL in TEM;
- To move towards a more standardised MREL framework through simplifying existing adjustment calculations and/or setting a limited number of standardised, predefined adjustments, which could e.g. factor in the impact of the resolution strategy and the challenges for resolvability. Additional simplification could also be explored through the consideration of an ad-hoc prudential regime for post-resolution banks, where the market confidence charge (MCC) and macroprudential buffers could be reassessed in the calibration of the recapitalisation amount;
- To explore further the setting of a specific cooperation framework between RAs and CAs for MREL breaches.

As regards the other proposed approaches to tackle sources of complexity, in particular:

- linking the MREL requirement to a single fully subordinated metric e.g. to the metric used to set the MREL subordination requirement (8% TLOF);
- using a uniform floor ('Resolution Pillar 1') calibrated for example at the level of the TLAC requirement supplemented by an institution-specific component ('Resolution Pillar 2');
- amalgamating the going and gone concern requirements into a single stack;

The assessments performed provide initial elements for further future consideration while taking into account their greater impact and heterogeneity of outcomes.

6. Interactions among the objectives and their respective requirements implementation

144. The applicable regulatory framework for credit institutions has been developed over time to address specific weaknesses and limit potentially very damaging externalities from financial crises. It covers a wide scope, including microprudential, macroprudential, and resolution regulation with EU and national rules enshrined in different types of instruments and with the involvement of a large number of national and European authorities. This creates a variety of obligations and requirements for institutions, including capital requirements. While the overall framework has proved effective and provided high resilience to shocks so far, it can be seen as complex.

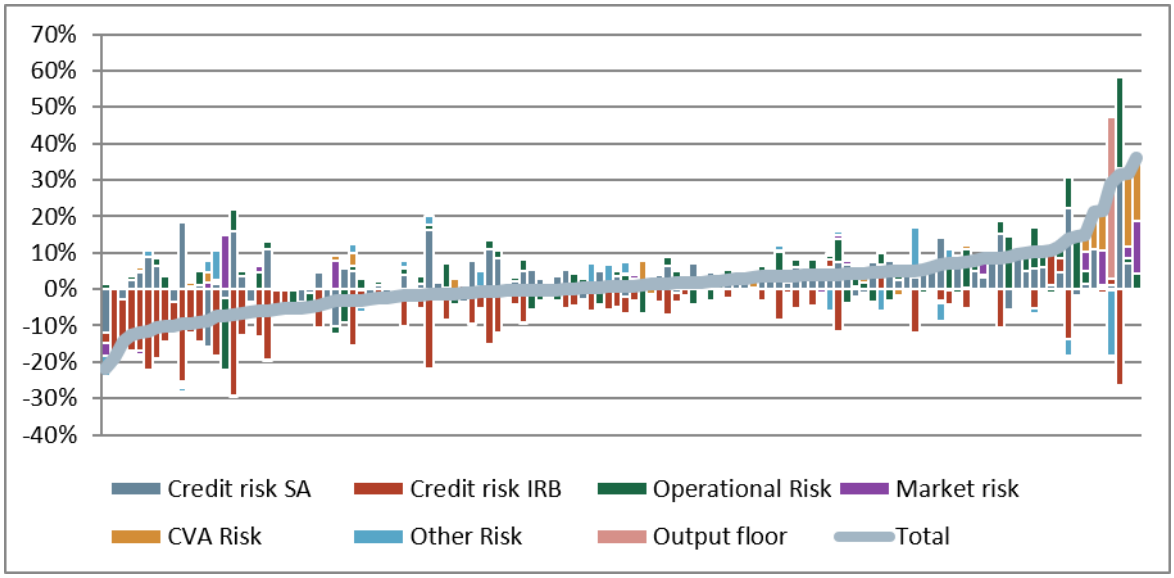
145. The interactions among the different stacks and multiple metrics and respective triggers have been pointed to many times along this report. Given its broad scope and EU-wide membership, the EBA has a unique position to reflect with institutions and relevant authorities having different mandates (microprudential, macroprudential, resolution) on the modalities of how best to deal with those interactions.

146. The EBA TFE report (recommendation 14) recommended an analysis of the coordination between public authorities[48] which is underway with a view to complementing the present work on the design of the instruments (recommendation 9 on the simplification of the current stacks of capital requirements) and providing a holistic picture at the service of the efficiency of public action.

[48] Work on enhanced and integrated coordination between public authorities under recommendation 14 of the EBA Report on the efficiency of the regulatory and supervisory framework ('TFE Report') for the EBA to set up supervisory platforms bringing authorities from various horizons together in pilot cases for specific institutions (e.g. GSIBs)

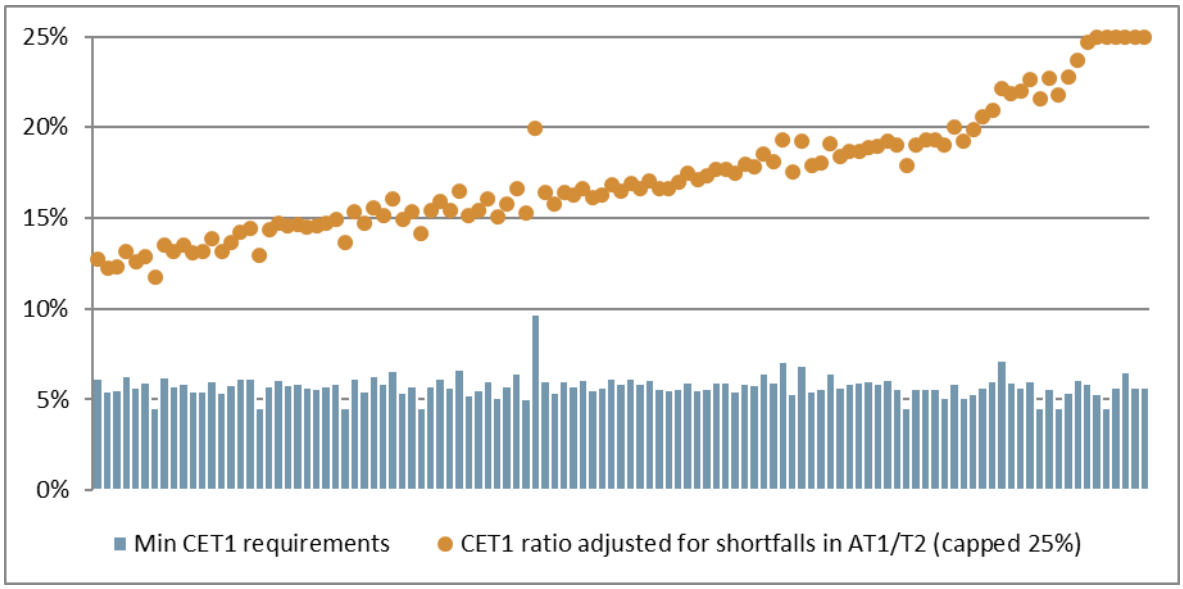
ANNEX – Supplementary quantitative analysis

Figure 29. Impact of the CRR3 on TREA, institution by institution



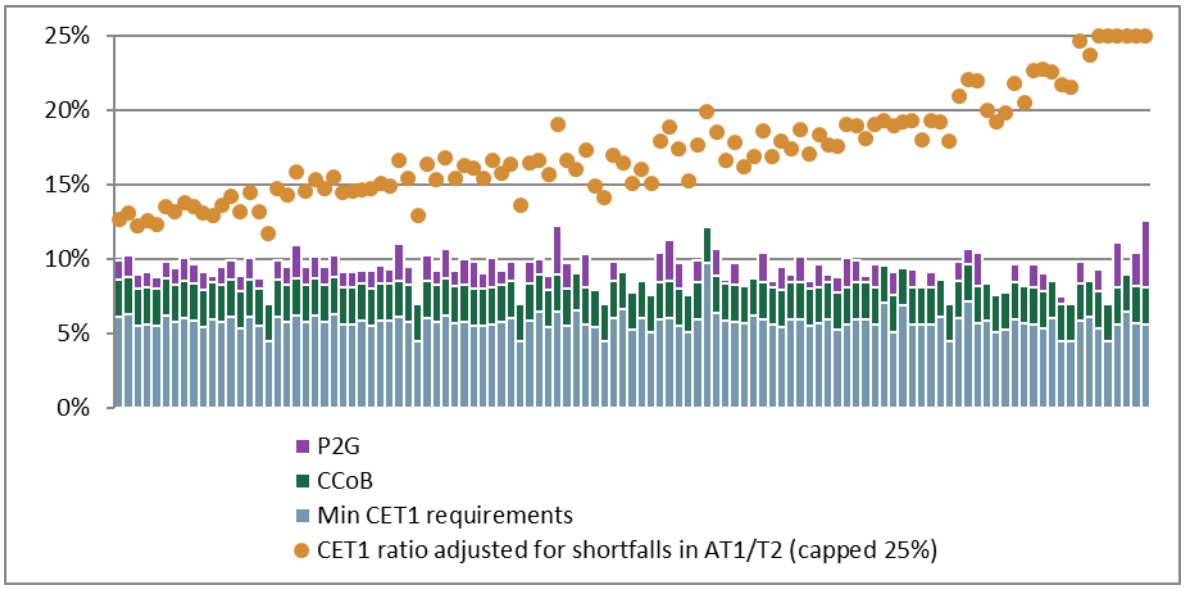
Source: EBA supervisory reporting data (2024 Q2 and 2025 Q2) and EBA calculations.
Notes: The sample selection follows the EBA's Risk Dashboard sample (EBA's Largest reporting institutions at the highest level of EU/EEA consolidation). The impact may partly reflect changes in the balance sheet composition between the two dates.

Figure 30. Distribution of Current CET1 ratio adjusted for shortfalls in AT/T2 vs. current Minimum (including P2R)



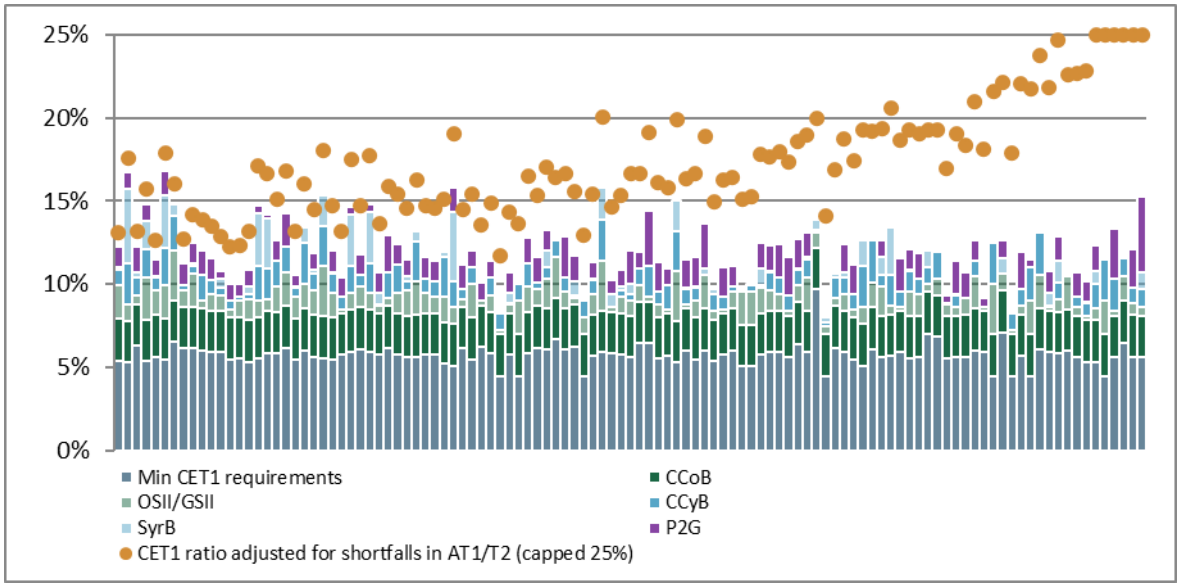
Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 111 G-SII and O-SII institutions at the highest level of EU/EEA consolidation. CET1 ratios are adjusted for AT1/T2 shortfalls. CET1 ratios are capped at 25%.

Figure 31. Minimum CET1 requirements currently, with impact inclusion CCoB and P2G vs. available CET1 (capped at 25%)



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 111 G-SII and O-SII institutions at the highest level of EU/EEA consolidation. CET1 ratios are adjusted for AT1/T2 shortfalls. CET1 ratios are capped at 25%.

Figure 32: Current CET1 requirements vs. CET1 ratio adjusted for shortfalls in AT/T2



Source: EBA supervisory reporting data (2025 Q4) and EBA calculations.
Notes: The sample consists of 111 G-SII and O-SII institutions at the highest level of EU/EEA consolidation. CET1 ratios are adjusted for AT1/T2 shortfalls. CET1 ratios are capped at 25%.

Table 7. CCyB levels as set by countries

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Austria											
Belgium										1	1
Bulgaria					0.5	0.5	0.5	1	2	2	2
Croatia									1	1.5	1.5
Cyprus									0.5	1	1
Czech Republic			0.5	1	1.5	0.5	0.5	1.5	2	1.25	1.25
Denmark					1		2	2	2.5	2.5	2.5
Estonia								1	1.5	1.5	1.5
Finland											
France					0.25				0.5	1	1
Germany									0.75	0.75	0.75
Greece											0.25
Hungary										0.5	1
Iceland			1.25	1.25	1.75			2	2	2.5	2.5
Ireland					1				1	1.5	1.5
Italy											
Latvia										0.5	1
Lichtenstein											
Lithuania				0.5	1				1	1	1
Luxembourg						0.25	0.5	0.5	0.5	0.5	0.5
Malta											
Netherlands									1	2	2
Norway	1	1.5	2	2	2.5	1	1	2	2.5	2.5	2.5
Poland											1
Portugal											
Romania								0.5	1	1	1
Slovakia			0.5	1.25	1.5	1	1	1	1.5	1.5	1.5
Slovenia									0.5	0.5	1
Spain											0.5
Sweden	1	1.5	2	2	2.5			1	2	2	2

Source: ESRB website

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