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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
Subject:	COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITEE AND THE COMMITTEE OF THE REGIONS Competitiveness of the Banking Sector and the Single Market in Banking.

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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITEE AND THE COMMITTEE OF THE REGIONS

Competitiveness of the Banking Sector and the Single Market in Banking

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COMMUNICATION FROM THE COMMISSION TO THE PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITEE AND THE COMMITTEE OF THE REGIONS

Competitiveness of the Banking Sector and the Single Market in Banking

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

Banks play a key role in the EU economy and a competitive banking sector is essential to finance growth, innovation and strategic priorities. Banks' competitiveness also relies and depends on a flourishing and robust economy. Banks are the main source of financing for EU households, large corporates, and small and medium-sized enterprises. Beyond their traditional role in lending, banks facilitate access to capital markets, helping firms to obtain equity and debt financing and enabling savers to invest. In a rapidly evolving geopolitical landscape, these various roles of the banking sector are even more important in preserving the EU's strategic autonomy. Their role is critical to meet the growing financing needs faced by EU companies, particularly in strategic sectors.

The Savings and Investments Union (SIU) strategy[1] will improve the way the EU financial system facilitates the allocation of savings to productive investments. The strategy envisages an efficient and integrated banking sector, based on a single rulebook and a completed Banking Union. The strategy, and the outline of proposals in this report, are aligned with the EU's Competitiveness Compass[2], the recommendations of the Letta[3] and Draghi[4] reports, the Single Market Strategy[5], the 'One Europe, One Market' roadmap[6] and the Regulatory Deep Cleaning Action Plan[7]. In supporting the wider EU economy, a competitive banking sector must have the possibility to operate as seamlessly as possible across borders, offer a wider choice of products to savers and investors and reach appropriate scale in accordance with prudential requirements and competition rules. At the same time, a competitive banking sector must be sufficiently flexible, have diversified business models, be able to foster innovation, and accommodate new entrants.

The EU banking sector and capital markets are inter-dependent and should develop in parallel. Banks can help foster the development of EU capital markets, especially on a cross-border basis, while benefitting from significant revenue streams linked to related investment and corporate services. Banks can accompany investors, for example, through the development of tailored products or underwriting activities. In turn, a more efficient and integrated capital market can help banks to become more competitive domestically and internationally. In the EU, this complementarity between the banking and capital markets would not only help in financing the economy, including its strategic priorities, but would reduce reliance on foreign international banks for critical financial services.

A poorly performing or fragile banking sector cannot play its economic role effectively and support the growing investment needs faced by EU companies. Accordingly, the EU banking sector must be sufficiently robust and resilient to potential shocks, with solid

1 European Commission (2025), *Savings and Investments Union Strategy*.
2 European Commission (2025), *EU Competitiveness Compass*.
3 Enrico Letta (2024), *Much more than a market*.
4 Mario Draghi (2025), *The future of European competitiveness*.
5 European Commission (2025), *A strategy for making the Single Market simple, seamless and strong*.
6 European Commission (2026), *One Europe, One Market Roadmap of the European Parliament, the Council of the European Union and the European Commission*.
7 European Commission (April 2026), Regulatory Deep Cleaning Action Plan accompanying the communication on a *Simpler, Clearer and Better Enforced EU Rulebook*.

fundamentals (e.g. profitability, market valuations, return on equity, lean cost structures, robust governance), and appropriately calibrated levels of capital and liquidity. Indeed, such resilience can be regarded as a crucial aspect of competitiveness in the banking sector.

This Communication and the accompanying Staff Working Document deliver on the Commission's commitment to assess the current state of competitiveness in the EU banking sector. The following sections highlight the substantial progress made in improving the resilience and overall performance of the sector in the past 15 years, outline the main problems that still need to be addressed and propose a positive, future-oriented way forward. It is based on extensive consultations with all stakeholders to ensure that the analysis, assessment and conclusions are rooted in evidence as outlined in the accompanying Staff Working Document.

In considering the competitiveness of the EU banking sector, trade-offs between various objectives must be acknowledged up front, including the following:

- *Promoting innovation and sustainable growth must be achieved while preserving resilience*. Promoting innovation and growth in the EU economy will require responsible culture change, and some rebalancing in the regulatory framework for banks, implying movement from a current, often highly risk-averse approach to a one that is open to responsible and measured risks. The Commission has a key role to play in that regard, by reflecting on the appropriate level of risk the system overall can support. However, the resilience of the banking sector must be preserved, as it is a precondition to sustainable growth.

- *Harmonisation of rules at the EU level implies reduced national discretion*. Building an integrated EU banking sector will require a truly single rulebook but this cannot be achieved if gold-plating, divergent implementation, reporting duplication or overreaching of national powers with regards to mergers continue.

- *Integration of the EU banking sector must be accompanied by appropriate safeguards to address legitimate concerns*. Integration of the banking sector requires a change in the current relationship between home and host Member States and will be acceptable only if financial stability in all Member States is equally protected.

- *Measures taken to boost competitiveness can be expected to impact the level of capital requirements of banks.* Improving market integration, removing overlaps, simplifying the regulatory framework, harmonising methodologies for certain requirements or introducing more proportionality, will have an impact on the requirements applied to certain banks in certain policy areas, and will require careful calibration in light of their overall impacts.

Managing these various trade-offs will require a combination of technical expertise and political judgement in carefully adjusting the balance between risk-taking and resilience within the banking sector. It will be done through the measures outlined in this report and on a continuous basis through more forceful monitoring by the Commission of the competitiveness of the banking sector.

2. Progress and remaining challenges in the EU single banking market

In response to the global financial crisis (GFC), the EU has developed a single rulebook for banks and has reformed its supervisory, resolution and macroprudential frameworks. Over the past 15 years, these reforms have helped to improve banks' resilience and facilitated effective crisis management when needed. In the Banking Union, the Single Supervisory Mechanism (SSM) is responsible for authorising all banks and directly supervises 111 banks representing over 85% of total banking assets. For those banks, the Single Resolution Mechanism (SRM) is responsible for crisis preparedness and management and is supported by a Single Resolution Fund (SRF) of more than EUR 81 billion. National deposit guarantee schemes are well-funded and have been reinforced to allow rapid redemptions, thus increasing depositor confidence. The European Banking Authority (EBA) has played a central role in developing the single rulebook and strengthening supervisory convergence across the EU, while the European Systemic Risk Board (ESRB) has played the role of early-warning system and assisted in the implementation of national macroprudential measures.

Regulatory and institutional reforms have been accompanied by a profound transformation in the EU banking sector. In contrast to the period leading up to the GFC, EU banks are resilient with strong capital and liquidity positions. This resilience has been consistently confirmed by EU-wide stress testing exercises carried out by the EBA and the European Central Bank (ECB), including the most recent exercise conducted in 2025[8]. More importantly, the EU banking sector's resilience has proven its effectiveness in real-world conditions during the COVID-19 pandemic, the energy shock following Russia's full-scale invasion of Ukraine, and the banking turmoil in the United States and Switzerland in spring 2023. Banks acted as shock absorbers rather than amplifiers of economic stress. Since 2023, EU banks have also returned to sustained profitability, reaching pre-crisis returns on equity, showing that resilience and profitability can go hand-in-hand.

The EU banking sector is resilient and profitable, but it remains highly fragmented along national borders and faces a number of challenges related to the regulatory framework and its implementation. These challenges need to be addressed to allow deeper involvement of banks in addressing the significant investment needs which the Draghi report identified at 1 200 billion EUR annually, to maintain competitiveness, progress on the twin transitions, strengthen security and resilience and remain technologically sovereign, translating into investment needs especially in strategic sectors such as deep tech, clean-tech, defence, artificial intelligence, and biotech.

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

The Commission has identified **three main challenges limiting the potential of the banking sector from effectively supporting the EU economy**. First, the sector is too fragmented, preventing upscaling, efficiency gains, productive use of resources, and geographic diversification across national borders. Second, the transposition of international standards into the EU regulatory framework could better consider EU specificities and be more proportionate. Third, certain aspects of the EU regulatory framework are unduly complex and burdensome and should be simplified. Addressing all three of these challenges is essential to build a banking sector that is not just resilient but better supports the EU economy by financing sustainable growth, innovation, security and long-term prosperity.

2.1 Fragmentation along national borders

Cross-border integration of the EU banking sector has improved over past years but remains at unsatisfactory levels. Integration is mostly limited to the interbank market, with other cross-border activities remaining very limited. For example, cross-border corporate lending within the euro area represents only about 16% of total corporate lending[9]. This is mainly due to difficulties in reaching clients in other Member States without a physical bank presence, or in expanding and establishing a bank presence in new markets, either organically or through cross-border consolidation. Since the GFC, consolidation of the EU banking sector has occurred almost exclusively domestically, as cross-border mergers and acquisitions across the EU have significantly declined, albeit with an increase in 2025. This has resulted in many banking groups in the EU being large relative to the size of their home economy, but not relative to the size of the EU or the Banking Union economies, or international competitors.

Fragmentation in the banking sector reflects a very pronounced national dimension in the EU regulatory framework.

- **Unlike in other jurisdictions, the EU regulatory framework requires cross-border banking groups to comply with capital and liquidity requirements at both consolidated level and at the level of subsidiaries.** This feature prevents these groups from managing more of these resources centrally at group level, thereby limiting efficiency. Furthermore, it limits the efficiency of cross-border banking groups, acting as a de-facto barrier to cross-border mergers. It has been estimated that removing constraints on liquidity held in the cross-border subsidiaries of EU banking groups would release about EUR 230 billion of high-quality liquid assets[10]. This strong national dimension in prudential regulation reflects concerns about the potential impacts of a bank failure on the economies of Member States hosting cross-border subsidiaries. Such concerns persist despite the implementation of the single rulebook, the significant levels of resilience achieved by banks, and progress in developing the Banking Union (which, however, remains incomplete, especially in the absence of a

9 European Central Bank (2026), *ECB response to the Commission consultation on the competitiveness of the EU banking sector*

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

Banking Union-wide mechanism for deposit insurance). Other prudential factors contributing to persistent fragmentation are the divergent treatment of domestic and cross-border intragroup exposures, the heterogeneity and lack of predictability in setting prudential requirements and the insufficient coordination among supervisors, resolution and macroprudential authorities.

- **National gold-plating and differences in the transposition of EU rules is a further source of fragmentation.** These elements undermine the effectiveness of the single rulebook, making it cumbersome and costly for banking groups to operate across borders. Meanwhile, increased reliance on soft-law instruments within the regulatory framework – often interpreted as binding constraints by EU and national competent authorities, banks' compliance officers and external auditors – can compound this effect.

- **National interventions in bank mergers prevent banks from acquiring scale at EU level.** Unjustified interventions at the national level too often hinder the ability of EU banks to consolidate. As a result, those banks are prevented from scaling up at the EU level[11], including via cross-border mergers. This impacts their valuations and ability to generate efficiency gains, limits their capacity to offer critical financial services to households and businesses and constrains them from effectively competing in global financial markets for corporate and investment banking activities.

- **National rules or differences in the transposition of EU rules in areas other than the prudential sphere limit cross-border banking activities** These non-prudential barriers include anti-money laundering controls, civil law, data protection, taxation[12], insolvency law and foreclosure rules and certain consumer protection rules that, although somehow harmonised at EU level, are not applied uniformly across Member States. The implementation of different national rules can disincentivise banks from pursuing the cross-border provision of services, particularly in retail banking. In today's increasingly digital environment, a crucial limitation relates to IT platforms developed by banks to cater for the needs of a national market which cannot be easily replicated across the EU. This constrains the business model of cross-border banking, limits competition among banks, reduces choice for clients, and increases prices.

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11 Scale is an important factor determining a bank's contribution to the economy in a number of areas pertaining to investment banking activities, e.g. underwriting sovereign or commercial debt issuances, equity issuance, custodian services, primary dealing in EUR forex and derivatives markets, M&A advise and deal structuring, financing of large critical projects and others.

12 The European Commission recently published a study undertaken by an external consultant on the current tax framework of the financial sector. This study looks at both VAT – from which most core financial services are exempt – and sectoral taxes applied at the national level in the EU.

2.2 Implementing international standards taking into account EU specificities

The EU is committed to the international standards set by the Basel Committee for Banking Supervision and recommendations of the Financial Stability Board. The implementation of international standards is essential to protect financial stability and preserve the level playing field. In the EU, contrary to other jurisdictions, international standards are applied to all banks to preserve the integrity of the Single Market. There are more than 4500 banks and around 650 banking groups in the EU, creating a diverse banking ecosystem financing the EU economy. Banks range from complex global systemically important banks operating worldwide, to smaller banks with a more traditional or less complex business model that support local SME financing, including in less developed regions. Because of their role in financing the EU economy, the regulatory framework should enable banks to finance many different types of companies, from long-established businesses to fast growing digital companies, including startups and scale-ups. Furthermore, the European market relies on bank lending to finance essential long-term, strategic investments. Despite efforts to reflect this diversity in the regulatory framework, many rules continue to apply irrespective of size or business models, resulting in unnecessary complexity and administrative burden for banks.

Large EU banks compete globally and are required to operate in an environment where implementation of international standards differs across jurisdictions. Deviations and delays in implementing agreed international standards in some major jurisdictions have increased concerns regarding EU banks' competitiveness in global markets. To address severe competitive imbalances prompted by third-country jurisdictions failing to meet international standards, the Commission will continue to closely monitor the international situation and make use of the available regulatory tools, while safeguarding financial stability.

In addition, the EU regulatory framework, and its implementation involving many different authorities, add layers of requirements that go beyond the international standards. In this respect, the EU differs substantially from other major jurisdictions. Combined, the characteristics of the European banking system and the specificities of the EU regulatory and supervisory framework, require a careful consideration of the implementation of international standards.

2.3 Undue complexity in the regulatory framework

While post-GFC reforms have significantly improved resilience in the EU banking sector, the regulatory framework has become unduly complex.

- **Complexity arises in part from the multi-layered granular regulatory framework**. The framework is based on two distinct levels of legislation[13] and additional supervisory guidance[14] co-existing, in many cases, with additional national rules. While

13 Level 1 "framework legislation" (regulations or directives) and Level 2 "technical measures" (delegated and implementing acts and regulatory and implementing technical standards).

14 Level 3 "supervisory convergence" guidance (European Supervisory Authorities' Guidelines), interpretative Q&As, opinions, recommendations and supervisory practices and horizontal expectations.

these multiple layers allow for faster and tailored amendments whenever necessary without recourse to a lengthy legislative amendment process, they are at times excessively granular thus becoming burdensome to implement, in particular for smaller banks. The increasing granularity in the EU framework also reflects an effort to standardise how EU rules are applied at national level. Also, banks themselves often create unnecessary complexity and granularity by over-interpreting regulations or by seeking regulatory and supervisory guidance to minimise compliance risks.

- **Reporting and disclosure requirements can also be a source of complexity**. While data reported by banks is needed to supervise banks and promote market integrity, reporting and disclosure requirements have become in many cases burdensome, costly and duplicative.

- **Complexity is further compounded by parallel or sometimes overlapping rules on microprudential, macroprudential, and resolution aspects.** This is because parts of the banking framework have been reformed in several stages and often in isolation. Furthermore, co-legislators have, over time, largely transposed or preserved national specificities in EU legislation. The overlaps with the various requirements that banks must meet at the same time can give rise to duplications and limit buffer usability (the capital stack issue)[15]. Moreover, the interaction of the rules across the three separate but inter-related prudential fields is often sub-optimal.

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

3. A way forward for the EU banking sector

The range and nature of challenges facing the EU banking sector require coherent, future-oriented, comprehensive and ambitious policy measures, based on an impact assessment, as per the Better Regulation principles. Acting to address only some of the challenges will not be sufficient to create the conditions for a sustainable and structural improvement in competitiveness, or to ensure that those improvements are durable over time. This package would comprise legislative and non-legislative measures, including measures to simplify and streamline the regulation of capital requirements. Proposed measures will foster

[15] EBA (June 2026), *EBA Report on Simplifying the Stacking Order of the EU Prudential and Resolution Framework*

market integration with appropriate safeguards for financial stability across all Member States, to ensure that the implementation of international standards takes greater account of EU specificities and reflects a proportionate approach, with a strong emphasis on simplifying the EU regulatory framework throughout any forthcoming proposals. This will include the formalisation of the de-priorisation of EBA mandates for technical standards, as discussed with the co-legislators.

3.1 Fostering integration with appropriate safeguards

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

➢ *Addressing prudential barriers to integration*

EU banking groups must comply with prudential requirements at every level, from the main parent company down to each individual subsidiary. EU law allows exceptions to these rules, but mainly if a subsidiary is located in the same Member State as its parent company. The prudential requirements for cross-border groups provide reassurance to host Member States in relation to local financial stability concerns, but they can hinder the efficient allocation of resources within these groups and ultimately affect their overall performance and resilience. Supervisors of cross-border groups should have the powers to ensure that liquidity and capital are distributed more efficiently among the parent and its subsidiaries, including in stress situations. This would allow for a more efficient allocation of resources within cross-border banking groups, implying more opportunities for economies of scale and risk diversification (notably as regards sovereign exposures[16]) and lower costs for households and businesses. Such benefits would make the banking sector more competitive overall and would support the financing of key EU priorities. The way cross-border groups structure their operations should be based on commercial decisions, in line with prudential and competition policy requirements, and should not be subject to unjustified interference by national authorities.

In this context, the Commission will:

- ***Propose measures to allow cross-border groups to enhance efficiency in the allocation of capital and liquidity. Group-wide supervisors should have the power to ensure that requirements are met at the level of the parent entity and to require that the parent allocates sufficient resources to its subsidiaries in a timely and enforceable manner, both in going concern and in crises situations. The exercise of those powers should consider the diversity of cross-border banking groups, including the nature of the subsidiaries within the group, their resilience, as well as the level of integration***

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

and commitments made within groups. Also, the exercise of those powers should be underpinned by appropriate safeguards regarding creditor and depositor protection.

- ***Propose measures to apply a similar regulatory treatment of intragroup exposures[17] at both domestic and EU levels.***
- ***Propose further measures to address the risk of excessive concentration of sovereign exposures and further encourage the diversification of sovereign bond portfolios by banks.***
- ***Use its enforcement toolkit where it identifies breaches of Union law by Member States, notably regarding interventions in mergers and acquisitions which risk undermining the free movement of services and capital, as well as the freedom of establishment set out in the Treaty on the Functioning of the European Union. The new draft merger guidelines[18] also give Member States clearer guidance on the circumstances under which they may intervene in transactions subject to merger control at EU level.***

➢ *Providing appropriate safeguards*

Measures addressing prudential barriers to integration must be accompanied by appropriate safeguards ensuring financial stability across the EU. Concerns persist that subsidiaries of cross-border banking groups could face capital and liquidity shortages, especially in times of crisis, leaving national authorities to manage failures without sufficient support from the parent.

Many cross-border groups operate under a *single-point-of-entry* resolution strategy, where crisis management measures are applied at the parent level, while subsidiaries are supported through the upstreaming of losses to the parent and downstreaming of capital. If group-wide support falters, subsidiaries – especially if important for local economies – could be left vulnerable, potentially triggering intervention from national Deposit Guarantee Scheme (DGS).[19] Addressing these risks requires building trust among authorities by ensuring that capital, liquidity, recovery and resolution plans are strong enough to maintain adequate provision of services and prevent disorderly outcomes. Mechanisms would also be required to ensure the financial soundness of cross-border group as a whole as it emerges from resolution and seeks to regain access to financial markets. The SSM and the SRM, supported by the single rulebook, are well placed to offer these safeguards. Three quarters of the covered deposits in the Banking Union are now under the direct oversight of the SSM and SRB and are held in

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17 Any asset, liability, or financial relationship between entities within the same group.

18 The guidance highlights that EU law only permits such national interventions for specific reasons other than protecting competition. Interventions should be limited to those strictly necessary to protect genuine legitimate interests and must adhere to the principles of proportionality and non-discrimination. Commission’s new draft merger guidelines, p. 90.

19 In addition, while DGSs are fully built and some of them exceed the minimum target level, they may remain vulnerable to local shocks resulting from the failure of one or several small banks, creating potential liquidity shortfalls that may force them to rely on public support.

banks planned for resolution at EU level, as opposed to liquidation under national insolvency proceedings. These banks have appropriate loss-absorbing capacity and potential access to the SRF, which already ensures a high degree of loss mutualisation within the banking sector. At the same time, the Commission will give due consideration to non-Banking Union Member States, which operate under different institutional arrangements.

In this context, the Commission will:

- ***Replace the 2015 EDIS proposal with a new proposal to review and simplify the structure of the deposit insurance framework to better align the responsibilities for and financing of crisis management and deposit insurance measures, within the existing safety nets of the Banking Union, both at central and national levels. The proposal will also address the remaining vulnerabilities of DGSs to liquidity shortfalls. The objective will be to ensure that the failure of a cross-border group would not create distortions in individual Member States or liabilities to DGSs and national budgets, as well as to ensuring equal protection of covered deposits throughout the Banking Union. Overall, it will reduce the complexity deriving from the current delineation between deposit guarantee schemes and resolution funds.***
- ***Propose measures to improve the predictability of group resolution strategies and to support a more integrated allocation of funds within cross-border groups, including in times of stress.***
- ***Support ongoing efforts between relevant institutions and Member States to strengthen credible and predictable backstop funding mechanisms for the provision of liquidity in resolution with adequate safeguards, in line with the European dimension of resolution and supervision in the Banking Union and with international standards.***

➢ *Addressing non-prudential barriers to integration*

There are also non-prudential barriers to integration, which are costly to navigate when conducting banking business across borders. Absent a harmonised EU framework, national insolvency laws remain fragmented and continue to limit the cross-border operations of banks, for example on aspects affecting loan collateral repossession under bankruptcy laws. Co-legislators have made progress on specific issues, for example establishing a uniform creditor hierarchy under the CMDI framework. As of today, however, more structural and ambitious attempts to harmonise insolvency laws across the Union have not found consensus among Member States. The Commission is ready and remains committed to working towards further harmonising insolvency laws.

Anti-money laundering (AML) and some consumer protection rules have been harmonised across the EU to a large extent but are often applied differently in Member States. Further legislative efforts were carried out to achieve higher level of harmonisation, for example, in relation to the recent set up of the Anti-Money Laundering Authority (AMLA) and under the new Consumer Credit Directive applicable as of 20 November 2026[20].

Non-prudential barriers may discourage banks from offering pan-EU banking products – such as deposits or retail loans – and result into additional costs, in particular generated by IT systems that need to be adapted to the different national legal orders of 27 Member States. The digitalisation and technological advances for the provision of banking services (i.e. open banking, tokenisation of assets, the impact of artificial intelligence including access to high-quality data, adaptation of rules to new business models such as deposit platforms, client facing apps, e-wallets) can boost competitiveness.

In this context, the Commission will:

- ***Work with the AMLA in implementing the EU's single AML rulebook, which will apply directly in Member States from 10 July 2027 and will harmonise Know Your Customer requirements and Suspicious Activity Reporting across the Union***.
- ***Continue to monitor the national application of consumer protection rules to facilitate and foster cross-border activity, ensuring that consumers can more easily access a broader offer of bank services, while maintaining an appropriate level of protection.***
- ***Assess if consumer protection rules are gold-plated or applied in a way that unnecessarily fragments the market.***
- ***Continue to monitor the potential of digitalisation and IT implications for the banking sector to ensure that the regulatory framework is sufficiently agile to support more digitalised banking services and to foster innovation, while preserving cyber-resilience.***

3.2 Implementing international standards while taking account of EU specificities and ensuring proportionality

The EU has faithfully adopted international standards and, in certain areas, gold-plated them by applying the standards at all levels of consolidation and to all banks, rather than just large, internationally active ones. While this approach has significantly increased resilience, it may have led to overlook certain EU specificities.

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[20] Directive (EU) 2023/2225 of the European Parliament and of the Council of 18 October 2023 on credit agreements for consumers and repealing directive 2008/48/EC (OJ L, 2023/2225, 30.10.2023) establishes full harmonisation of consumer protection rules in the field of consumer credit, to ensure that all consumers in the Union enjoy a high and equivalent level of protection of their interests and to create a well-functioning internal market.

➢ *Implementation of international standards taking account of EU specificities*

The EU has adopted the Basel III agreement in EU law since 1 January 2025, with a number of transitional measures. As one of the largest banking markets, EU supervisors and the Commission are engaged in shaping international standards and should proactively work towards ensuring that global frameworks take account of different market realities, including those of the European banking sector. In addition, the implementation of international standards into EU law should take due account of the specificities of the EU banking sector, to help avoid disproportionate effects on certain activities or banks and ensure that the framework delivers its prudential objectives in an efficient and balanced manner.

International level playing field is essential. Pending implementation elsewhere, the Commission has taken steps to postpone until 1 January 2027 the entry into application in the EU of certain aspects of the Basel market risk framework (Fundamental Review of the Trading Book). On 4 June 2026, the Commission adopted a delegated act to mitigate some of the effects of its application until the end of 2029. The delegated act is now under scrutiny in the Council and the European Parliament.

The EU is progressively introducing the output floor[21], combined with a number of transitional measures, designed to allow banks and authorities to progressively adapt to the Basel agreement. Meanwhile, various approaches have been taken within third-country jurisdictions, including removing the output floor altogether. EU-based stakeholders have expressed different views on the future of the output floor, including on the appropriate level of calibration, the level at which the requirement should apply (solo or consolidated level), the scope of risks covered by the framework and how it interacts with the underlying standardised approach, for instance in areas like specialised lending, project finance and trade-related finance.

Despite the SME support factor, the prudential treatment of unrated corporates is a structural challenge for the EU regulatory framework. Since EU companies, and particularly SMEs, mostly rely on bank financing rather than capital markets, the vast majority do not hold an external credit rating. The Commission will therefore assess the possibility of removing the need for an external rating, with a view to easing access to bank financing for such companies. Such an assessment should also examine whether the proposed policy could create disincentives for companies to seek a credit rating, thereby undermining transparency and the long-term growth of deeper equity and corporate bond markets in the EU and diminishing the available information for banks to assess risks of corporates. A strategic, long-term approach would need to be considered to achieve the fundamental goal of the SIU to promote more diversified funding sources through the single capital market. .

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

The prudential treatment of residential real estate exposures also requires careful calibration. Requirements in this area can influence access to housing finance, including how they impact housing supply, and affect the functioning of specific market segments, while the framework must remain risk sensitive. At the same time, it should also be considered that steps to increase mortgage lending may push housing prices higher in conditions of limited supply, thereby worsening affordability and undermining its intended objective.

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

Finally, **the competitiveness of the EU banking sector is not only a question of prudential considerations, technology, and innovation. It also depends on the banks' ability to attract, retain and reward highly skilled professionals in a global market for talent**. Against this background, the Commission is assessing possible adjustments to the remuneration framework. Updated remuneration rules could contribute to fostering the competitiveness of the EU banking sector while ensuring that remuneration policies do not provide incentives for excessive risk-taking.

In this context, the Commission will:

- ***Make clear proposals regarding the output floor and its transitional arrangements on unrated corporates and mortgage lending on the competitiveness of EU banks, as well as its interaction with the other parts of the framework, including measures to properly balance resilience and the broader financing of the economy.***
- ***Continue to monitor the implementation of international standards across jurisdictions and implement a long-term, strategic, EU approach to market-risk capital requirements, based on the experience gathered and on level playing field considerations.***
- ***Evaluate the regulatory treatment of strategic investments through specialised lending, including project finance for infrastructures and the energy transition, as well as the regulatory treatment of trade finance with a view to ensuring that European banks can support European companies and strengthen supply-chain security.***
- ***Propose a revision of the prudential treatment of banks' investments in software assets to ensure that the framework is prudentially sound, consistent with the digital and cyber-risk environment and that it provides the correct incentives for banks to invest in innovation and digital resilience.***

- ***Explore potential areas of action to ensure access to lending for IP-intensive companies and more broadly for the immaterial economy, including by inviting relevant stakeholders to reflect on capacity building programs, valuation frameworks and risk-sharing mechanisms. This work will take into account the upcoming IP-related actions in the Startup and Scaleup Strategy, such as the European Innovation Act.***
- ***Assess possible adjustments to the current remuneration framework for material-risk takers and its impact on the EU banking sector. The Commission is assessing how to reduce unnecessary burden and complexity, address unintended effects on pay structures, prevent distortions in competition for specialised talent and adapt the framework to systemic risks.***

➢ *Ensuring proportionality in the regulatory framework*

Europe needs large banks capable of competing internationally in markets where scale is essential but also benefits from smaller more locally oriented banks. Smaller banks play a role to support EU investment priorities and SME financing at local level, including in less developed regions, building up on proximity and ultimately boosting the lending offer.

The EU regulatory framework recognises the specificities of smaller and non-complex banks, but complexity in the framework may still impact smaller banks in a disproportionate way. A regime better tailored to small and non-complex banks should be measurably simpler and less burdensome in terms of compliance costs, while preserving adequate risk-based requirements, safeguard financial stability and maintain incentives to improve risk management practices.

In this context, the Commission will:

- ***Propose a regime in CRR that allows small and less complex banks to be more clearly identified within the regulatory framework, regardless of their legal and organisational structure, possibly adjusting current criteria and thresholds to reflect the reality of the EU banking sector, with less, adapted and simpler requirements in the relevant frameworks for the prudential, macroprudential and resolution dimensions. Such a regime should also enable the EBA to work on Level 2 and Level 3 measures in a way that caters more effectively for small and less complex banks, with a reduced number of requirements and processes.***
- ***In the context of completing the Banking Union, the Commission will continue its dialogue with the SSM and SRB on the efficient application of proportionality, including in relation to the particular circumstances that justify the qualification of credit institutions as being less significant, despite meeting the default significance criteria in the SSM Regulation.***

In addition, investment firms contribute to the diversity and depth of the capital market by offering services that both complement and compete with those of credit institutions, such as providing liquidity, contributing to an efficient allocation of capital and supporting the issuance of equity and debt securities. Any unjustified obstacles within the regulatory framework to the contribution of investment firms must also be addressed. The joint EBA and ESMA opinion on the functioning of the prudential framework for investment firms[22] concluded that the regulation meets its original objectives, while suggesting targeted amendments.

In this context, the Commission will:

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

3.3 Simplifying the regulatory framework

Making the regulatory framework simpler can bring tangible benefits for banks and supervisory authorities without undermining resilience. The framework has been made more complex by successive revisions of the microprudential, resolution and macroprudential rules, often conducted independently with insufficient attention to how they interact. Measures are now required to remove excessive granularity, overlaps and inconsistencies within and between the various sets of rules. But reducing undue complexity should not lead to de-regulation that fundamentally undermines the resilience of the banking sector, as resilience is a precondition for the sector's competitiveness.

Furthermore, reporting under the regulatory framework has become unduly burdensome and costly. Any reports that are not proportionately helping to improve resilience and integration should be reduced or removed from the regulatory framework.

➢ *Microprudential rules*

Microprudential rules include Pillar 1 requirements, Pillar 2 requirements and Pillar 2 guidance. Pillar 1 requirements determine the statutory levels of capital to be held by a bank. Pillar 2 requirements set bank-specific levels of capital, while Pillar 2 guidance is also bank-specific but is non-binding and reflects supervisory expectations of the total level of capital banks should maintain to withstand periods of stress. Apart from risk-based requirements, supervisors can also set Pillar 2 leverage ratio requirements.

Concerns have been expressed about the current design and application of Pillar 2 requirements and guidance, especially about possible overlaps with other requirements which can lead to double counting. Concern has also been expressed about limited transparency in the methodologies used to set Pillar 2 requirements and guidance, leading to a demand for a clearer explanation of decisions, increased clarity and incentives relating to remediation and a better reflection of underlying risks.

The SSM has already committed to implementing a series of improvements relating to Pillar 2 requirements and guidance. It has recently implemented a new methodology for

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22 European Banking Authority (2025), *The EBA and ESMA recommend targeted revisions to the investment firms' prudential framework*.

Pillar 2 requirements and has proposed a reform agenda intended to increase the efficiency, effectiveness and risk-based focus of prudential supervision more generally. These reforms are an important step in ensuring an appropriate supervisory review framework. To complement those ongoing efforts, further steps might be considered to ensure that supervisory requirements remain risk-based and proportionate, while avoiding unnecessary complexity or overlaps with other aspects of the capital framework.

In this context, the Commission will:

- ***Propose measures to enhance the functioning of Pillar 2 guidance to ensure its targeted application.***
- ***Propose to remove Pillar 2 capital requirements related to the leverage ratio.***

➢ *Resolution rules*

EU resolution rules require banks to hold a minimum amount of own funds and eligible liabilities (MREL) to ensure they can absorb losses in the event of failure. While this has increased the resilience of EU banks, the current MREL design has become complex and, in some cases, duplicative, notably with different eligibility criteria and calibration between MREL requirements and the Total Loss-absorbing Capacity (TLAC) requirements linked to international standards. This complexity hinders predictability and consistency and impacts the level playing field across EU banks.

The resolution rules also include ancillary provisions, derived from the own funds' regime, which are sometimes unduly complex for MREL instruments. For instance, the prior permission regime, designed to protect banks' loss-absorbing capacity, has imposed administrative burdens on banks and resolution authorities. Although the SRB has proposed a new streamlined approach to accelerate the granting of these permissions for banks willing to buy back or replace their MREL instruments, further improvements are needed.

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

In this context, the Commission will:

- ***Propose to revise the MREL framework, bringing it closer to international standards by eliminating unnecessary discrepancies with the TLAC standard and by introducing a simpler, more automatic and predictable calibration. The revised framework will preserve the resilience of the resolution framework, retain incentives for resolvability, and ensure that requirements are proportionate, in particular for smaller banks.***
- ***Propose a streamlined process for granting permissions to banks in a sound financial position to speed up authorisation of buybacks and liability management, reduce***

compliance costs and increase flexibility, while maintaining resolvability and adherence to the TLAC standards.

- ***Propose that certain assessments in the resolution planning phase – including those on frequency of resolution planning cycles or the related adoption procedures – are made more proportionate to reflect the fact that resolution planning activities have matured since the crisis management framework was introduced.***

➢ *Macroprudential rules*

National authorities are responsible for setting macroprudential measures, while considering the specificities of their banking sectors and economic cycles, with a toolkit including capital buffers, a risk weight adjustment toolkit and borrower-based measures. The most impactful macroprudential measures are capital buffers, which are set in addition to Pillar 1 and Pillar 2 requirements and may be used by banks in time of distress to avoid deleveraging and to preserve lending to the economy. This decentralised framework has become particularly complex in the absence of a harmonised EU methodology, reflecting a high number of capital buffers, a design of the buffers catering to specific risks and events, national discretion in setting the level of buffers and identifying banks subject to buffers. The lack of predictability and consistency in the application of this framework can weigh on banks' business decisions, especially for cross-border activity, consolidation or reorganisation. Moreover, the multilayered governance involving EU and national authorities creates further complexity. The recommendations of the ECB's High-Level Task Force on Simplification[23] as well as the replies to the targeted consultation confirm these challenges.

In this context, the Commission will:

- ***Propose to revise the macroprudential framework to ensure a simpler toolbox and greater convergence and consistency in the application of macroprudential tools across the EU. More specifically, the number of buffers (countercyclical buffer, systemic risk buffer) should be reduced and their design and calibration improved. The framework for other systemically important institutions (O-SII) should be harmonised by addressing shortcomings in the O-SII identification and buffer calibration.***

➢ *Interaction among microprudential, resolution and macroprudential rules*

Microprudential, macroprudential and resolution rules are implemented autonomously by different relevant authorities but interact in ways that often result in duplicative and inconsistent requirements. This outcome overburdens banks through overlapping layers of capital that are set for different purposes but may in some cases address the same risks and

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

impose undesirable constraints on the use of capital buffers in times of stress. For example, double-counting of certain instruments to comply with capital buffers and other minimum requirements (leverage ratio and MREL) can prevent banks from using buffers without breaching requirements. Investor perceptions and profitability concerns can also complicate buffer usability. To address these challenges, the relevant authorities need to adopt a holistic approach to setting microprudential, resolution and macroprudential requirements. While the authorities should retain discretion, the setting of requirements should be more predictable and transparent to allow banks to perform more efficient capital planning and to offer increased transparency to the financial market.

In this context, the Commission will:

- ***Propose stronger coordination mechanisms between authorities responsible for implementing microprudential, resolution and macroprudential rules to ensure that requirements are set coherently and are subject to reinforced and clearer accountability. Authorities will need to enhance coordination and exchange of information, reflecting a holistic perspective on both overall capital needs for the system as a whole and for the bank in question.***
- ***Review the procedure to amend, where necessary, technical standards across the framework, strengthen the requirement for impact assessments by the EBA and enhance accountability/control mechanisms on how mandates are granted and applied.***
- ***Propose to move certain microprudential, resolution and macroprudential rules into directly applicable regulations to enhance clarity, supervisory convergence and reduce the administrative burden for banks***.

➢ *Streamlining reporting and disclosure requirements*

While reporting and disclosure requirements are essential for a well-functioning banking sector, the reporting framework for banks has become very burdensome. Total reporting costs for EU banks, comprising all expenditure related to the operation of the reporting system (staff, IT, legal, accounting, auditing and consultancy services) have been estimated at EUR 11.2 billion per year[24]. The reporting burden stems from the frequent changes of reporting requirements, unnecessary complexity, the lack of clarity and consistency, and duplication of reporting stemming from the limited data sharing among authorities.

Significant steps have already been taken to simplify and streamline reporting requirements, in line also with the Commission's strategy on supervisory data[25]. These include legislative changes to simplify the reuse of supervisory data for disclosures and other measures to significantly ease the reporting burden for small and non-complex institutions (Pillar 3 Data Hub), the Better Data Sharing Regulation which will curb duplicative data

[24] European Banking Authority (2021), *Study of the cost of compliance with supervisory reporting requirements*.

[25] European Commission (2021), *Strategy on supervisory data in EU financial services*.

requests and require EU authorities to regularly review and remove redundant reporting and also advance on their efforts on integrated reporting[26], and the Omnibus I package and subsequent simplifications of the EU taxonomy and European Sustainability Reporting Standards[27]. The European Single Access Point, once up and running, will also improve accessibility and reduce duplication by facilitating centralised electronic access to public data about banks and their products. The Commission will continue to engage with the EBA to make sure that prudential reporting and disclosure requirements are proportionate and consistent with the broader sustainability framework.

Furthermore, EBA has already implemented several substantive measures to reduce the reporting burden for banks. Together with additional measures proposed in 2026, the number of data points in EU reporting frameworks is expected to be cut by 50%[28]. Despite this progress, stakeholders confirm the need for further streamlining, with the priorities being reporting integration, proportionality and a technological upgrade.

In this context, the Commission will:

- ***Support the transition from the current reporting approach to more integrated prudential, statistical, and resolution reporting, with robust governance arrangements and a common data dictionary as cornerstones and incentivise the relevant authorities, advised by the Joint Bank Reporting Committee, to proceed with the technical work and deliver tangible improvements.***

- ***Considering all options available to improve the competitiveness of the EU banking sector including potentially reviewing the mandate of the EBA, propose targeted legislative changes, where needed, to mandate the EBA to deliver further proportionality, simplification and automation of reporting on a technical level, including as regards materiality thresholds for minor reporting errors and other aspects that unduly increase the reporting burden.***

- ***Propose amendments to the EBA Regulation regarding Level 2 acts, mirroring those introduced in the proposal to amend the ESMA Regulation under the Market Integration and Supervision Package (MISP).Invite the EBA to revamp its single interactive rulebook by linking all Level 3 Guidance and Q&As directly to the corresponding provisions of the legal framework on its website, thereby improving accessibility and transparency. As part of this process, the EBA could audit existing Q&As and remove those that are outdated.***

- ***Support the EBA and other authorities to regularly review, reduce and remove duplicative reporting, in line with the Better Data Sharing Regulation.***

[26] OJ L, 2025/2088, 21.10.2025, ELI: http://data.europa.eu/eli/reg/2025/2088/oj

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

[28] European Banking Authority (2026), *Efficient reporting: simpler, smarter, proportionate*.

- ***Work with national authorities to limit additional national reporting, as this adds significant complexity and increases the burden for reporting entities. Incentivise national authorities to make full use of the option to share data under the Better Data Sharing Regulation.***

4. Competitiveness as a shared responsibility

Enhancing the competitiveness of the EU banking sector will require a culture change among all relevant stakeholders. Banking-sector risks must be well managed, especially in the current context where the more established risks relating to credit, operations and market developments are now compounded by newer risks related to cyber activity, geopolitical tensions, environment and climate threats. However, risk management should focus on material threats, moving away from strictly compliance-based approaches to deliver a more efficient, holistic and focused approach to risk management.

The Commission should more proactively monitor and ensure adequate balance between risk-taking and financial stability, to ensure the framework and its application do not hinder competitiveness and growth. Regulators and supervisory authorities should focus on risks that matter most for overall financial stability, and avoid a zero risk tolerance culture, as this could hinder banks in supporting economic activity. Policymakers should refrain from retaining national specificities that fragment the market. Accountability instruments should be used to the maximum extent, and, if ineffective, reinforced.

The Commission is the primary EU institution responsible for executing the EU's competitiveness and competition mandate. Going forward, the Commission will reinforce the use of its responsibility to regularly review the functioning of European banking system and its impact on the internal market, helping to ensure that supervisory, and resolution activities remain effective, proportionate and supportive of the smooth functioning of the single market and EU competitiveness[29] . The Commission is working with EBA to ensure that its supervisory guidance, in particular when subject to comply and explain processes, is proportionate.

At the same time, banks, their senior managers and staff, as well as auditors and accountants must be willing to be part of this cultural shift and take more responsibility for applying the law based on materiality. While regulators and supervisors should take a more proportionate approach and act to reduce the complexity, the length and the level of detail of their measures – be it law, guidance or Q&As – banks need to play their part by refraining from continuous demands for guidance in search of an ever-higher degree of legal certainty. Compliance with the law should be grounded on its underlying substance rather than approached as a tick-the-box exercise. It is a shared responsibility to change the behaviours that have collectively created a banking environment that is hyper-prescriptive, overly complex and dominated by risk-aversion.

[29] Article 32 of Regulation (EU) 1024/2013 and Article 94 of Regulation (EU) 806/2014.

In this context, the Commission will:

- ***Work with the EBA, supervisors and market participants to draw a clearer distinction between requirements – which require compliance – and non-binding guidance harmonising the way requirements are applied.***
- ***Consider a mandate for the EBA and for the ESRB to regularly produce reports on the adequacy of bank capital requirements across the EU to reinforce the existing accountability processes (in the context of European and national Parliaments, as well as of the Council and national governments).***
- ***Work with EU and national authorities to ensure that supervisory practices are neutral with respect to the organisational model of a bank and do not discourage cross-border banking activity, including via branches and the free provision of services.***
- ***Organise regular discussions with the SSM and SRB, and potentially with other relevant stakeholders to discuss the functioning of the banking system and the impact of supervisory and resolution actions on the smooth functioning of the internal market.***

5. Engagement and next steps

In this Communication, the Commission has outlined a way forward to a more competitive EU banking sector that will connect savings to investments more efficiently, better exploit the potential of both cross-border and domestic markets and ensure that households and businesses have the widest choice of financing options, lowest costs and highest returns. A more competitive banking sector must be resilient, profitable and open to competition and innovation. Delivering this way forward will imply a significant, encompassing and forward-looking reform, focused on high-impact improvements.

The Commission recognises the ambition of the co-legislators to reform the banking framework and strengthen the competitiveness of EU banks, as put forward in the European Council conclusions of December 2025[30] and March 2026[31], as well as the Parliament's annual report on the Banking Union[32].

The Commission therefore encourages all stakeholders to be ambitious in implementing necessary reforms and welcomes feedback on this Communication as it prepares measures to be proposed in the first quarter of 2027.

30 European Council (December 2025), *Conclusions on Simplifying the Union's Financial Services Regulation*

31 *European Council Meeting Conclusions* (March 2026)

32 European Parliament (April 2026), *Banking Union Annual Report 2025*