



Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

ABBL response to targeted consultation on the competitiveness of the EU banking sector

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Introduction words from the ABBL

The European Commission has initiated a public targeted consultation to gather insights from stakeholders on how to strengthen the competitiveness of the EU banking sector.

This initiative comes at a pivotal time, as the European economy grapples with extraordinary financing requirements driven by the green transition, digital transformation, and heightened global competition. 2026 is the critical year to be back on the track to competitiveness for the coming decades.

In response, and to address this highly extensive consultation, the ABBL has gathered views and insights from its banking members (prudential & supervision, risk, legal, finance, digital communities mainly) and has, for some parts, relied on the work done by the European Banking Federation (EBF), in its comprehensive work to answer the Consultation, adapting them to the specificities of our local environment in Luxembourg.

The ABBL has also deliberately resolved to leave some part of the survey in blank when our players in Luxembourg were less concerned.

We are thankful to our members for their vital contribution, to the teams of the European Banking Federation and to our peers from other European Banking Associations for the constructive and inspiring collective work on this consultation.

Even if controversial themes have still emerged from the discussions, we have also welcomed that consensus has been achieved on a number of fast-track proposals that will deliver results to improve the competitiveness of our banks.

Section 1 – Banking competitiveness in the EU and globally

1.1 – Contribution of the banking sector to the EU economy

1) How is the banking sector currently supporting economic growth in the EU, and to what extent (for example, by providing loans to households and businesses, supporting innovative sectors, and helping channel investments into capital markets (including for retail investors))? How could banks do more to boost productivity and

economic growth, thereby supporting the priorities of the EU and accelerating the green, digital and social transitions?

Please give concrete examples and evidence.

The banking sector has played its roles to maintain the flow of credit to the real economy, even in stressed situations, as recently during geopolitical crisis. We observe that EU banks are willing and able to further support competitiveness, productivity and long-term investments subject to the necessary adjustments are made to the regulatory environment

Regulation should focus on managing real risks while reducing excessive reporting obligations.

To maximise banks' contribution to EU competitiveness and strategic priorities, policy action should focus on the enabling factors directly impacting the activities and strategies of the banks, such as:

- Preserving a stable, predictable prudential framework that avoids unnecessary increases in capital requirements unrelated to actual risk and addresses overlaps between different parts of the framework.
- Ensuring effective proportionality of the regulatory framework through a systematic risk-impact approach.
- Reducing cumulative regulatory and reporting burdens, eliminating duplications and disproportionate requirements, in line with the simplification agenda.
- Preserving a level playing field with nonbank competitors and non-EU jurisdictions, removing structural disadvantages for EU banks.
- Promoting the development of banking funding sources such as securitisations, through a reduction in compliance and penalties relating to regulatory framework.
- Allowing banks to access public database especially on ESG information.
- Ensuring that banks can exercise their EU passport rights without undue hindrance will preserve a level playing field, by reducing the scope for national gold-plating or divergent implementation of EU rules can help simplify compliance for banks operating across the Union and eliminate many country-by-country inconsistencies.

Beyond the measures directly impacting the bank's contribution and impact, we are strong believer that the necessary investments should be achieved in the market and regulatory environment and infrastructure:

- Ensuring that the savings are mobilized towards long term investment, through tax incentives, in line with the SIU.
- Boosting SME digitalization and innovation financing through a favorable ecosystem for AI adoption and cybersecurity.
- Promoting financial literacy/education initiatives and inclusive banking solutions to ensure that technological and green transitions remain socially sustainable.

- Ensuring that the EU defence industry has access to the scale and type of capital required to finance critical capabilities and to strengthen Europe's security architecture.
- Moving towards a principles-based supervisory approach to empower boards and ECB decision making.
- Completing the Banking Union and advancing the Capital Markets Union, in order to reduce market fragmentation and improve cross-border integration

Finally, while this measure is not unanimously shared in the EU, we believe that only the introduction of a formal secondary objective of growth and competitiveness for supervisors will bring the necessary tone from the top on this matter.

2) Is current credit demand adequately met by banks and how is the demand and the capacity to meet it likely to evolve in the medium and long-term? Are you observing barriers affecting bank financing in support of the economy, including in areas identified as political priorities by the EU or Member States?

Please elaborate by providing evidence and identifying economic sectors where access to credit could be improved.

While overall credit demand is broadly being met, its composition has shifted. From a macroeconomic perspective, current credit demand is largely satisfied by EU banks. However, lending volumes have been subdued primarily due to the macro-financial environment rather than supply constraints. ECB surveys show that the slowdown in lending to firms and households is mainly driven by weaker investment intentions, higher interest rates and heightened uncertainty.

As regards structural barriers affecting banks, they generally report sound funding and capital positions, enabling them to support viable credit demand.

Nevertheless, we see a rising risk to see a 2-tier financing banking system, where large firms will have no issue to be financed, but smaller firm would be more limited. Mainly due to the increasing complexity of rules and processes across the EU, which may reduce flexibility in addressing more specific or less standardised financing needs.

Higher interest rates and economic uncertainty have reduced demand for leveraged investment, whereas demand remains strong for liquidity, capital expenditure related to the energy transition, and resilient sectors. A more harmonized and proportionate regulatory environment would help financial institutions better respond to these evolving financing needs.

In addition there also structural barriers resulting from the partly harmonised lending areas, such as consumer credit and mortgage lending, where national discretion, gold plating and additional host state requirements which impose disproportionate administrative and compliance costs on banks providing services cross border. As a result, otherwise viable cross border credit activities are frequently deemed economically unviable.

It is also important to consider that the EU economy is currently still under the positive effect of the substantial injection of liquidity in the economy post COVID-19. This is about to end and the EU should be ready for scarcer liquidity and financing resources.

Finally, in an open economy, the EU, whether it agrees or disagrees, needs to look at the US and at the UK who have both release capital requirements, in order to avoid competitive distortions in global business.

The ABBL fully refers to the documented argumentation developed by the European Banking Federation for years on this matter.

3) For the following types of clients seeking financing, how would you assess the ability to access finance and the availability of financing options? What obstacles may limit the ability of banks to provide credit to these clients?

Retail clients in Luxembourg generally have good access to banking services, including basic accounts, mortgages and consumer credit. Financing is broadly available through both banks and non-bank providers, and digital onboarding has further facilitated access.

However, retail clients still face constraints of different nature:

- Affordability constraints, notably higher interest rates, inflation, and cost of real estate, which affect the capacity to borrow.
- Regulatory and operational constraints for banks such as tighter credit-worthiness assessment, LTV requirements, that can limit borrowing capacity, as credit decisions remain subject to banks' solvency, risk and profitability assessments.

Finally, financing is only the next step after account opening. In some case, non-harmonised nor understood AML/KYC requirements cause lengthy and complex account-opening processes across borders and preventing a smooth financing process.

SME:

Financing access is generally adequate for established firms with solid financials and collateral, but more challenging for young and innovative SMEs due to limited collaterals, lack of financial information, and shorter credit background.

Corporate:

Large corporates generally enjoy broad and diversified access to financing, bank loans, syndicated facilities, bond markets, private placements and equity financing. Constraints arise mainly for highly leveraged firms, where prudential limits and internal risk policies restrict further exposures.

4) To what extent does market fragmentation affect consumers' and businesses' cross-border access to banking products and services? Please give examples, such

as but not limited to IBAN discrimination and difficulties of businesses and individuals to open a bank account, lack of harmonization of banking products, challenges linked to open finance data sharing. Please provide data if available.

Structural differences in national regulations continue to hinder the development of the European financial sector and the effective functioning of the Single Market. Divergent rules and interpretations across Member States, ranging from accounting treatments (e.g. “green” loans) to AML/KYC requirements, lead to inconsistent information requirements, increased complexity, and higher compliance costs.

Market fragmentation remains a key obstacle to cross-border access to banking products and services for both consumers and businesses. Despite the CRD passporting framework, national gold-plating, differing supervisory practices, and additional reporting obligations create legal uncertainty and distort the level playing field. This is particularly evident in areas such as account opening, where banks face significant challenges in verifying beneficial ownership and source of funds in cross-border contexts, especially for complex entities.

Several Member States have introduced national reporting requirements that operate in addition to fully harmonized EU frameworks, creating duplicative compliance obligations and legal uncertainty for cross-border service providers. Operational barriers are further compounded by inconsistent consumer protection rules, tax regimes, and payment standards across countries. Issues such as IBAN discrimination and lack of harmonization in reporting and onboarding processes continue to create friction.

Constraints increase operational burdens for banks, limit the rollout of cross-border services, and reduce access to finance, especially for retail clients and SMEs. Greater harmonization, consistent implementation of EU rules, and clearer guidance (e.g. on remote onboarding) are essential to reduce fragmentation, improve market integration, and unlock the full potential of cross-border banking in the EU.

The difficulties on consumers’ and businesses’ cross-border access to banking products and services depend on, for instance:

- The lack of, or the impossibility to access to credit database on the positive or negative information on borrowers, which prevent banks to assess creditworthiness in efficient way.
- Different rules for foreclosures procedures in case of default events.
- Different languages which make costly the contractual management.

A lack of product harmonization driven by differences in insolvency regimes, tax frameworks and supervisory practices, hinders the development of truly pan-European banking products.

In addition, fragmentation manifests not only through formal licensing barriers but through **operationally prohibitive requirements**, including duplicative reporting, mandatory use of national templates, access to domestic credit registers, and

divergent interpretations of consumer protection obligations. These measures disproportionately affect banks operating on a cross-border, branchless basis and effectively shield domestic incumbents from EU-wide competition.

Concrete examples of cross-border barriers:

- **Partly harmonised consumer credit and mortgage lending frameworks.** Divergent national transpositions of the Consumer Credit Directive and the Mortgage Credit Directive create overlapping, and at times conflicting, regimes for cross-border lending. Member States have exercised national discretions on affordability assessments, documentation formats, withdrawal and reflection periods, language requirements, creditworthiness checks, and pre-contractual disclosures. As a result, banks must maintain jurisdiction-specific lending documentation, credit assessment methodologies and operational processes, preventing the deployment of standardised, EU-wide lending models and fragmenting scale efficiencies.
- **National prior approval, format and language requirements.** Some Member States impose prior approval or registration requirements for consumer credit offerings and prescribe detailed, authority-mandated documentation and marketing formats in national languages. These requirements generate significant adaptation, translation and legal review costs for banks providing services without local establishment.
- **National credit registers and lending-related reporting obligations (France, Finland, Netherlands, Spain).** Obligations to consult and/or report to national credit registers necessitate jurisdiction-specific technical integrations, contractual arrangements, data-sharing mechanisms and compliance processes. These registers operate with different data scopes, formats and timelines and go beyond EU-level requirements, effectively creating de facto market access conditions for cross-border lending.
- **Duplicative tax, AML and payment reporting in harmonised areas (Belgium, Spain, CESOP).** Several Member States impose domestic reporting regimes that operate alongside fully harmonised EU frameworks, forcing banks to maintain parallel reporting infrastructures. These duplications increase compliance costs, legal uncertainty and, in some cases, raise conflicts with professional secrecy obligations.
- **Enhanced consumer protection and affordability requirements** Some Member States have introduced reinforced affordability testing, income verification, debt-to-income thresholds, record-keeping and responsible lending obligations that exceed EU minimum standards. These requirements alter lending processes, require additional data collection and documentation, and impose parallel compliance tracks for cross-border providers, particularly in consumer and revolving credit.

- **Divergent enforcement and collateral regimes affecting credit risk.** National rules governing the enforcement of pledges differ significantly, with several Member States introducing cooling-off periods, procedural hurdles or court involvement before enforcement. These divergences create uncertainty regarding collateral realisation timelines and undermine the use of standardised collateral structures in cross-border lending.
- **National gold-plating in maximum-harmonisation or regulated product areas.** Despite EU maximum-harmonisation initiatives, Member States retain discretion in areas such as product distribution, marketing, accessibility and conduct of business, such as enhanced PRIIPs, MiFID II and insurance distribution rules, and divergent implementation of the European Accessibility Act, requiring contract updates and operational changes even for cross-border services.
- **Narrow or non-recognition of reverse solicitation where an EU passport exists.** Restrictive national interpretations of reverse solicitation limit banks' ability to rely on client-initiated business, even where services are lawfully passported.

The cumulative impact of these barriers is a **chilling effect on cross-border service provision**, reduced consumer choice and diminished financial inclusion, particularly for underserved segments and smaller Member States. Rather than enabling a single market for banking services, current fragmentation forces banks into jurisdiction-by-jurisdiction operating models, directly contradicting the objectives of the CRD passport and the Single Market.

5) To what extent does the EU economy benefit from a diversified banking sector? How would you further encourage the diversity of the EU banking sector landscape, with banks operating across different business models (universal, investment, savings, mortgage financing, cooperatives, digital banks, etc.)? Please elaborate whether and how banking sector diversity matters.

A diversified banking ecosystem strengthens resilience and financial inclusion. Different models, cooperative, savings, universal, or digital banks, serve different customer segments allowing retail clients and companies to access tailored financial services, in a competitive and healthy banking environment.

This diversity also benefits to the resilience and stability of our financial sector, as different business model, or banks of different geographical origin, would react differently to geopolitical crisis.

We are strong believer that this diversity, not to be confounded with fragmentation, is a structural advantage for the EU. In practice, however, complementarities across Member States remain limited due to regulatory complexity and national specificities, including gold-plating, which constrain cross-border integration.

The policy objective should be a genuinely integrated Single Market in which different types of banks can operate, compete, and scale effectively across borders. A more

harmonized and proportionate framework would help unlock their full potential and strengthen the EU's financing capacity.

Beyond the EU frontiers, our EU banking groups need to be better supported to maintain the competitiveness of their local entities, versus non-EU banks.

6) Do you consider that national promotional banks and public guarantee institutions provide a complementary contribution to the activities of commercial banks in financing the EU economy?

National promotional banks (NPBs) and guarantee institutions play a complementary role alongside private sector actors. They help reduce lending risks through guarantees and counter-guarantees, mobilise private bank funding for key policy priorities such as SMEs, innovation and energy efficiency, and provide longer maturities or subordinated instruments where market-based financing is insufficient.

At the same time, NPBs should operate in a way that preserves fair competition and maintains a level playing field with private institutions. Within this framework, public support, whatever its form, can send a strong positive signal and help accelerate the financing of the EU economy.

NPBs and public guarantee institutions are therefore important in supporting banks' lending capacity. To be effective, access conditions for commercial banks should be simple, clear and predictable, with limited administrative and operational burden. Introducing overly complex or unfamiliar processes should be avoided, as this can reduce efficiency, delay disbursements and ultimately slow down the delivery of financing.

Complementarity works best when interventions are well targeted and proportionate, and when they avoid distorting markets or crowding out private financing. Clear eligibility criteria and greater transparency at EU level would improve the overall efficiency of the system. At the same time, national and regional promotional institutions need sufficient flexibility to adapt financing to local needs. Better integration of NPBs within EU funding frameworks, particularly through closer cooperation with the EIB, would further strengthen the coherence and effectiveness of the European financing landscape.

7) To what extent would the EU economy benefit from the following changes in the banking landscape?

Please explain

- a) Cross border bank consolidation – **neutral**.
- b) Domestic bank consolidation – **neutral**.
- c) Banking services offered across the single market - **to a large extent**.
- d) Digital banking services: **to a large extent**.

We would disagree that further consolidation whether it is at local level or cross border, is the main answer to the competitiveness issue.

Digitalised banking services can benefit the EU economy to a large extent by improving efficiency, speed, accessibility and cost-effectiveness of financial services

for households and businesses. For Luxembourg, where many banking activities are cross-border, digital channels and process automation are key to maintaining high-quality client servicing and supporting the Single Market in practice. To fully capture these benefits, further progress is needed on interoperable digital identity solutions, more consistent onboarding/KYC expectations across Member States, and continued focus on cybersecurity and operational resilience to maintain trust and inclusion.

8) What are in your view the main risks faced by EU banks today?

EU banks currently face significant structural and regulatory risks that affect their competitiveness. High compliance, administrative, and capitalisation costs continue to weigh on profitability and reduce the ease of doing business, putting EU banks at a disadvantage compared to international peers.

At the same time, legal uncertainty remains a key concern, driven by an excessively complex and multi-layered regulatory framework across Member States, with frequent changes and inconsistent interpretations.

Together, these factors undermine operational efficiency, long-term planning, and the global competitiveness of the EU banking sector.

Main reasons for above-mentioned problems:

- Proliferation of legislative acts by European and national stakeholders has led to financial institutions continuously having to adapt their internal systems -> source of legal uncertainty and high costs.
- Increasing delegation of normative power from EU co-legislators to Commission and ESAs and then back towards NCAs (often through growing number of Level 2 and 3 texts) has led to multi-layered, excessively complex, capital-intensive and unstable regulatory framework.
- Reporting and disclosure obligations have become increasingly detailed (frequent updates to reporting templates and granular data requirements generating high operational costs; and data redundancy with same data requested by several supervisory authorities).

Proposed solutions:

- Objective must be measurable reduction in compliance burdens and single definitions across the EU through regulatory simplification
- Limitation of proliferation of Level II / Level III mandates, more focus on Level I, more principle-based detail-oriented
- Conversion of key directives into directly applicable regulations and eliminate gold-plating at national level, to ensure more uniform implementation across Member States.
- Streamlining overlapping disclosure and reporting requirements across financial legislation to reduce duplicative reporting requirements across authorities (introduction of report only once principle)

- Simplification efforts should actively support innovation and digital transformation, and vice-versa.

EU Banks operate in a highly regulated and still fragmented market environment, while facing increasing competition from non-bank financial intermediaries and large global players. The cumulative effect of regulatory complexity and overlapping requirements weighs on cost structures, constrains economies of scale and limits internal capital generation.

9) What are in your view the main risks stemming from EU banks today?

EU banks are not currently a primary source of systemic risk. Thanks to significantly strengthened capital positions, robust liquidity buffers, enhanced supervisory oversight and improved risk-management practices, they are in a position of resilience.

However, insufficient proportionality in the regulatory framework may accelerate concentration within the banking sector. Smaller institutions could be compelled to scale back or exit certain activities, or to merge in order to absorb rising compliance costs.

The ABBL shares the same view as the EBF.

1.2 - Competitiveness and competition of the EU Banking sector

10) In which of the following dimensions of competitiveness is the EU banking sector performing well?

- EU Banks produce financial products at low cost and/or offer financial services at a low price - **Somewhat disagree.**
- International competitiveness EU banks are able to maintain and increase their market shares in international markets - **No consensus.**
- Innovation competitiveness: EU banks are able to supply qualitative or innovative, original financial products or services - **Somewhat disagree.**

EU banks are innovative in many areas (e.g., digital payments, onboarding, compliance/regtech, risk management and data analytics). However, the overall pace and scale of innovation and digital transformation often remain constrained compared to leading international peers due to structural factors such as market fragmentation (which limits scaling), legacy IT complexity, and significant resources absorbed by compliance and reporting obligations. For example, of the New Product Approval Process make product launches slow and encourage risk aversion.

Another important limitation to EU innovation is that investment in software is necessary for the innovation of EU banks. However, this is constrained by punitive prudential regulation on the treatment of software, which is a near-full deduction, while it is considered an ordinary asset (risk-weight of 100%) in the US. This effectively means that software investments of EU banks require more than 10 times additional capital than those investments in the US

11) What are the main regulatory and non-regulatory factors that determine and drive the competitiveness of EU banks? Please specify the factors per market segment: savings, payments, retail banking, corporate banking, investment banking (including underwriting, brokerage, custody, settlement, market making, etc.).

Savings and wealth management: Tax fragmentation, product heterogeneity across Member States, complex disclosure requirements, distribution frameworks and incentives, as well as the quality of digital user experience (UX), all play a decisive role in shaping competitiveness.

Payments: Access to critical payment infrastructures, the economic viability of instant payments, the allocation of fraud liability, and competition from BigTech wallet ecosystems are key factors influencing the competitive landscape.

12) how would you assess the current level of competition in the banking sector within the single market?

- EU banks face high levels of competition within their MS of establishment - **Fully agree.**
- EU banks face high levels of competition in the EU Market - **Fully agree.**
- EU banks face high levels of competition in global markets/markets outside of the EU - **Fully agree.**
- Traditional banks are challenged by new developments in a number of product lines and areas - **Somewhat agree.**

Competition in the EU banking sector is generally strong, particularly within national markets where a wide range of institutions compete across retail banking, payments and corporate banking activities. This has supported innovation, customer choice and the continued development of digital financial services.

EU Banks are keen to expand across EU borders in order to further scale up their businesses. However, longstanding gold-plating and fragmentation poses a significant disincentive for such expansion.

EU banks also face strong competition in global markets from large international financial institutions operating in more integrated financial systems. At the same time, technological innovation and the emergence of digital banks and fintech firms are reshaping parts of the financial services landscape, particularly in payments and digital customer services. While competition from Fintechs, digital banks and new technologies is clearly increasing, although it should be noted that many Fintechs primarily act as technology providers and partners for banks rather than direct competitors. However, in some areas such as payments, foreign exchange, and basic banking services they have proven to be a new, agile and technology-driven form of competition.

In this context, further progress towards a completed Banking Union and a deeper Capital Markets Union would strengthen the integration of financial markets, support cross-border competition and enable European banks to operate more effectively on a pan-European and global basis.

1.3 - Banks and other financial institutions as enablers of capital markets

13) According to many analysts, EU banks are persistently undervalued by investors when compared to international peers. If you agree with this assessment, what could explain this undervaluation?

Please explain

- Limited scale and inefficiency of EU capital markets - **Somewhat disagree.**
- Macro-economic environment - **Somewhat disagree.**
- Limited growth and scaling up prospects due to market fragmentation and different national rules - **Somewhat agree.**
- Underinvestment in new technologies - **Somewhat agree.**
- Supervisory practices - **Somewhat agree.**
- EU regulatory/resolution frameworks - **Somewhat agree.**
- Internal factors - **Fully disagree.**
- Uncertain or ineffective market exit for inefficient or distressed banks – **Neutral.**

Main explanations:

- Lower growth and profitability.
- Fragmented banking market.
- Regulatory burden and asymmetries.
- Investor preferences for US markets, as most European banks remain more traditional lending institutions vs. American banks that have large investment banking and asset management arms.

While broader considerations point to the EU's strategic imperative to fully develop and integrate its capital markets under the SIU agenda, the valuation gap of EU banks' shares compared to international peers cannot be primarily attributed to structural market dysfunction or the relatively smaller size of EU equity markets.

Overall, structurally lower growth, market fragmentation, and regulatory asymmetries help explain the valuation discount applied to EU banks. Reducing this gap would require meaningful progress in European financial integration—including completing the Banking Union and establishing a genuine Capital Markets Union—as well as broader reforms to strengthen the region's long-term growth potential.

14) Does the prudential framework adequately account for the activities and the complexity of intermediaries performing financial services other than core banking services? Are there any perceived undue limitations to such activities? Reference is made to financial services performed by investment firms, financial advisors, custodians, wealth managers, market makers or other liquidity providers that are not primarily or not at all engaging in deposit taking and granting loans.

The view is that in its current form, the prudential framework only partly captures the activities and complexity of intermediaries that provide non-core banking financial services, and important gaps remain, especially on the macroprudential side.

The framework is inadequate at the following levels:

Unlevel playing field: many non-bank financial intermediaries have grown to a systematically relevant scale, but are not subject to a bank-like, comprehensive prudential regime tailored for their risk profile.

Regulatory perimeter not fit for purpose: The current approach to defining what should be regulated needs to be reconsidered and potentially expanded. The core logic of traditional banking regulation is based on the existence of deposits, which require strong safeguards and justify stringent prudential requirements.

Non-bank intermediaries do not take deposits, meaning the classic banking-centric regulatory rationale may no longer be sufficient to address the risks they pose. **This can lead to leakages and regulatory arbitrage as credit, liquidity and leverage risks migrate to NBFIs.**

Need for activity-based supervision: As non-banks increasingly perform bank-like functions, it becomes essential to reassess who should be regulated and based on which risks, rather than relying solely on institutional classifications rooted in the deposit-taking model. The Governing principle should be: "**Same service, same risk, same rules**".

15) How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

Competition between banks and non-bank entities, such as investment firms, FinTechs and, in certain areas, BigTechs, has intensified across EU capital markets. While this can drive innovation, reduce costs, enhance user experience and broaden customer choice, its benefits depend on a consistent regulatory and supervisory framework that ensures a level playing field. In its absence, competition risks creating imbalances and shifting risks beyond the traditional banking perimeter.

Banks are subject to comprehensive prudential, supervisory and resolution frameworks aimed at preserving financial stability and market integrity, whereas some non-bank providers offering similar or complementary services operate under lighter or more fragmented regimes. In this context, the principle of "same activity, same risk, same rules" is crucial. Where non-bank entities carry out bank-like functions or generate comparable risks, including through critical ICT services, they should be subject to proportionate and equivalent regulatory and supervisory standards to prevent regulatory arbitrage and protect consumers, market integrity, financial stability and operational resilience.

Maintaining effective competition among financial market infrastructures (FMIs) is also key. Although they often exhibit characteristics of natural monopolies in core infrastructure services, FMI providers operate on a for-profit basis and offer additional

commercial or value-added services that compete with other market participants. A clearer distinction between core infrastructure functions and commercial activities would help ensure fair competition and reinforce a level playing field. Addressing structural asymmetries and barriers to market-driven competition remains essential for developing integrated and efficient capital markets.

At the same time, emerging infrastructures based on Distributed Ledger Technology (DLT) are likely to shape future market structures. While the DLT pilot regime seeks to promote innovation, complex operational requirements may limit participation. Ensuring business model neutrality, proportional regulation and scalability will be important to enable competitive DLT-based solutions that integrate effectively within EU capital markets.

Here again, ABBL supports the principle of “same activity, same risk, same rules.” Where non-bank entities provide bank-like services or generate comparable risks, including through critical ICT services, they should be subject to equivalent regulatory requirements and effective supervision. This is essential to prevent regulatory arbitrage and to safeguard consumer protection, market integrity, financial stability, and operational resilience.

More broadly, the regulatory framework should strike an appropriate balance between fostering fair competition and preserving financial stability and market integrity. This requires ensuring consistent treatment of comparable activities and risks, addressing structural inefficiencies, and supporting deeper financial integration across the EU.

The ABBL shares the same view as the EBF.

1.4 – Cross-border activities in the EU banking sector

16) For retail banking as well as for wholesale and investment banking, would you agree with the following statement: ‘The EU banking market is highly fragmented along national borders, domestic entities mainly cater for domestic clients, cross-border activity is subdued, and it is very difficult for clients to get banking services across the single market.

- Retail banking - **Somewhat agree.**
- Wholesale and investment banking - **Somewhat disagree.**

It is fair to say that the EU banking sector remains significantly fragmented along national borders, particularly in retail banking, while private banking and wholesale/investment banking are comparatively more cross-border in nature.

But some important nuances need to be brought in for Luxembourg.

Retail banking in the EU remains largely domestic due to non-harmonized consumer protection and contract law, product and tax specificities, and operational frictions such as KYC/AML requirements and limited account portability. Retail clients are strongly locally anchored, with customers primarily domestic or from neighboring countries.

Luxembourg is a domestic market for a few large retail groups, which primarily serve residents and local SMEs, consistent with the “domestic entities for domestic clients” part of the statement. Despite its large cross-border workforce, 89% of retail clients are domestic residents, and core services such as current accounts, consumer loans and mortgages remain mainly domestically oriented. Overall, fragmentation in EU retail banking remains substantial.

By contrast, private banking and wholesale banking activities in Luxembourg are predominantly cross-border, with 62% of clients residing outside the country according one of our member. This reflects the international mobility of high-net-worth individuals and the global nature of investment products. Similarly, wholesale and investment banking is more integrated at EU level. Corporate clients are often multi-banked across jurisdictions and typically have access to capital markets. In Luxembourg, around two-thirds of wholesale revenues originate outside the domestic market, highlighting its international profile. However, even in this segment, differences in insolvency regimes, supervisory practices and tax frameworks continue to limit full integration.

A remaining structural gap concerns small and medium-sized enterprises (SMEs), which may not always be fully served by retail banks yet are often too small to be the core focus of wholesale and investment banking. This segment remains particularly sensitive to fragmentation and financing constraints within the EU.

17) What are, in your view, the benefits and the costs associated with the current level of cross-border banking activities in the EU, and what would be the benefits and costs associated with further integration of banking activities in the EU? Please also include quantitative estimates if available.

Cross-border banking plays a critical role in global financial integration, functioning as a key driver for economic development by facilitating the movement of capital, expanding the choice of products for investors, and enhancing the financial capacity across countries. Third-country institutions often face a fragmented set of national regimes governing cross-border services provision which increase regulatory complexity and limit the scalability of business across the EU. Greater clarity and consistency in regulatory approaches to cross-border activities would encourage the broader development of an open and competitive financial ecosystem.

At the same time, cross-border banking integration in the EU remains limited, with only a few regional clusters displaying higher levels of integration. Retail and SME banking markets remain largely national, while cross-border activity is more developed in private and wholesale banking.

Limited cross-border integration constrains economies of scale, as banks must operate largely on a country-by-country basis due to divergent legal, tax, consumer protection and supervisory frameworks. Uncertainty in the regulatory alignment of certain cross-border banking activities often requires iterative solution processes, which involve lengthy coordination rounds and adjustments over time. It also limits risk-sharing and the efficient allocation of capital and liquidity across Member States (capital traps through ring fencing). While the current level of integration supports some diversification benefits and facilitates cross-border corporate financing, SMEs

remain comparatively excluded from these advantages. Further integration could strengthen resilience, improve scalability, and enhance banks' capacity to finance growth at EU level. Divergent national laws on "perfection of security" and differing rules/traditions on paper-based processes make cross-border trade (finance) expensive. Cash Management - Fragmented liquidity. Corporates must maintain multiple local accounts to navigate national tax/reporting, leading to "trapped cash." Differing national "withholding tax" procedures and settlement cycles (CSDR) make cross-border asset holding cumbersome (Post-trade silos).

The current structure largely reflects genuine national differences. Retail banking remains closely tied to domestic legal systems, tax frameworks and savings cultures, while consumer protection regimes are adapted to national specificities ("soft information"). Local knowledge continues to play a key role in relationship-based lending, particularly for households and SMEs. From a financial stability perspective, predominantly domestic banking structures can also be easier to supervise and manage in times of stress, acting as effective "firewalls."

In core retail and SME segments, cross-border banking activity often has limited practical relevance due to language barriers, legal differences and specific local market conditions. For most households and smaller businesses, cross-border banking is only meaningful where there is a clear economic link, such as cross-border employment or international business activities.

While deeper integration could improve efficiency, resilience and the overall financing capacity of the EU, it may also involve transition costs, increased supervisory complexity and potentially higher risks of cross-border contagion. These risks would need to be carefully managed through a strong regulatory, supervisory and resolution framework.

Policy efforts should therefore aim to reduce unnecessary regulatory fragmentation and facilitate cross-border activity where there is genuine economic demand, while acknowledging the inherently national nature of much of retail and SME banking.

18) What factors prevent EU banks from engaging in more cross-border activity within EU or make cross-border activity more costly?

- Divergent implementation of EU banking rules across Member States - **Somewhat agree.**
- Supervisory divergence/gold-plating by Member States/national supervisors - **Fully agree.**
- Non-harmonised macroprudential buffers – **Neutral.**
- National discretion in intragroup large exposure limits - **Somewhat disagree.**
- Incomplete banking union (lack of a European deposit insurance scheme, liquidity in resolution, etc.) - **Somewhat agree.**
- Non-prudential barriers (insolvency, investor protection, company law, taxation) – **Neutral.**
- Political barriers (government direct or indirect interference) - **Somewhat agree.**
- Complexity and length of mergers and acquisition supervisory authorisation procedures – **Neutral.**

- Costs/risks of mergers and acquisitions - **Somewhat agree.**
- Absence of economies of scale from engaging in cross-border activities - **Somewhat disagree.**

Despite the Banking Union and the Single Market framework, cross-border banking expansion within the EU remains more complex and costly than domestic expansion. This is not due to a single barrier, but to the cumulative effect of legal, tax, supervisory, operational and structural factors.

Legal fragmentation remains a key obstacle, particularly in retail and SME banking. Differences in consumer protection, contract law, insolvency regimes, property law and company law significantly increase entry costs for foreign banks, especially for products such as mortgages that are deeply embedded in national legal systems.

Each additional jurisdiction introduces incremental compliance costs that are broadly non-linear.

Tax differences further limit scalability. Many savings and investment products are closely linked to domestic fiscal regimes and national savings cultures, making cross-border replication commercially challenging.

Operational and compliance frictions including divergent AML/KYC practices, reporting obligations, documentation requirements and limited technical interoperability, add further complexity. Even where EU rules are harmonised, differences in supervisory interpretation and administrative practices increase compliance costs.

The practical consequence is that a truly pan-European bank must maintain compliance teams and legal expertise for each jurisdiction, multiplying overhead.

When this regulatory output is layered on top of divergent national transpositions, the cumulative burden becomes an effective barrier to cross-border expansion.

The Single Rulebook was conceived precisely to eliminate the regulatory fragmentation described above. In practice, however, the single rulebook has been undermined by three factors: First, the continued use of directives alongside regulations means national transposition introduces variation. Second, the extensive use of options and national discretions within the CRD/CRR framework preserves host-state divergence. Third, the growing volume of Level 2 (EBA technical standards) and Level 3 (SSM supervisory expectations, EBA guidelines, Q&As) regulation creates an additional “soft law” layer that varies in its interpretation and application across jurisdictions.

Although the Banking Union has improved supervisory convergence, national discretions, entity-level capital and liquidity expectations, and resolution planning requirements still constrain fully integrated cross-border models.

The ABBL shares the same view as the EBF.

19) Why have EU banks generally relied more on subsidiaries rather than branches and the free provision of services for their cross-border activities within the banking union and the single market?

- Incompatibility with internal organisation strategy and budgets – **Fully agree.**
- Preference for domestic markets - **Somewhat agree.**
- Preference of Member States/national authorities for subsidiaries, as they bring more employment, tax revenues, supervisory control, etc. (moral suasion) - **Fully agree.**
- Client preferences (language, trademark recognition) - **Fully agree.**
- Lack of trust in deposit guarantee schemes of the host Member States Group resolution strategy - **Fully agree.**
- Non-prudential barriers like divergences in contract and civil laws, labour laws, product features, consumer protection rules, foreclosure rules, etc. - **Somewhat agree.**
- Other operational benefits linked to the legal form of a branch vs. subsidiary - **Fully agree.**

The prevalence of subsidiaries over branches in cross-border banking reflects a combination of prudential, supervisory, host-country and strategic considerations.

From a risk management perspective, subsidiaries are separate legal entities with their own balance sheet, governance, capital and liquidity. This structure provides a degree of risk isolation within the group, reducing perceived contagion risk and protecting the parent institution in the event of distress. The requirement for standalone capitalisation is the logical counterpart of this risk-containment function.

Subsidiaries also align more closely with host-country expectations. Host authorities often favour locally incorporated entities because they satisfy domestic requirements for capital and liquidity, fit within national insolvency and deposit guarantee (DGS) frameworks, and are perceived as offering stronger depositor protection and financial stability, particularly in retail or systemically relevant activities.

Strategic and commercial factors further explain the preference for subsidiaries. In cases of expansion through acquisition, maintaining a local legal entity preserves brand recognition, client trust and established market positioning. Banking remains a trust-based business, and local identity can be commercially valuable.

By contrast, branches rely on the capital of the parent institution and may offer greater group-level flexibility and efficiency. However, the absence of legal separation implies full liability for the parent and less internal risk compartmentalisation.

20) Could you provide a quantitative estimate of the additional requirements and costs (e.g. liquidity requirements, capital requirements, resolution or macroprudential requirements, operational costs in % of balance sheet, etc.) for a banking group that makes use of subsidiaries as compared to the same banking group relying on branches or freedom to provide services?

Illustrative estimates, subject to variation depending on business models and host-country requirements, suggest that operating through subsidiaries can entail additional capital and management buffers of around 1–3% of risk-weighted assets (RWA), reflecting non-waived prudential requirements and internal MREL allocation.

The subsidiary model may also result in greater liquidity “trapping” due to entity-level LCR and NSFR requirements, alongside the duplication of governance structures, control functions and IT systems.

Taken together, these factors can significantly increase the cost of cross-border operations compared to a fully integrated branch-based model. In practice, this may translate into a CET1 ratio that is approximately 10 percentage points higher for subsidiaries compared to branches, and a leverage ratio around 1 percentage point higher.

1.5 – International level playing field

21) What is your assessment of the level playing field in the European banking market, with regards to the presence of significant non-EU financial institutions?

The level playing field between EU and non-EU institutions varies significantly across banking segments.

In retail banking, competition from non-EU banks is generally limited, and competitive dynamics are primarily shaped by intra-EU regulatory fragmentation rather than third-country entrants.

By contrast, in wholesale, investment banking and capital markets, non-EU institutions, particularly US banks, hold significant market shares in areas such as Corporate Banking, M&A, and Depository banks. In these segments, competitive asymmetries may arise from differences in market scale and capital markets depth, supervisory practices, cumulative regulatory burdens, and structural profitability and capital generation capacity.

Encouraging structured, two-way exchange of regulatory insights between the EU and other leading jurisdictions, particularly the UK, would strengthen the competitiveness of the European banking sector. Regular dialogue on supervisory approaches, emerging risks, market developments and implementation experience would enable authorities to identify what works in each other's jurisdiction, learn from each, and deepen their cooperation and coordination on more forward-looking developments.

Although EU prudential standards are broadly aligned with international Basel frameworks, variations in implementation, supervisory expectations, reporting requirements and resolution constraints can affect competitive positioning. As a result, while formal regulatory equivalence may exist, the practical competitive environment is not fully neutral.

This imbalance is reinforced by the fact that EU-based institutions must comply with a dense and comprehensive regulatory framework, including investor protection, AML/CFT and ESG requirement, across all relevant jurisdictions. In contrast, some non-EU competitors can leverage group-wide efficiencies or more flexible home-country regimes and selectively target the most profitable segments or products, often with lower structural and compliance costs.

The EU has created a regime for foreign banks (Article. 21c) in the Capital Requirements Directive (CRD6) in order to ensure a level playing field between EU

and non-EU players, in the requirements for the provision of core banking services. Attention should be paid on preserving the financing capacity of the EU from non-EU players, in area vital such as defence financing.

22) According to many analysts, EU banks have lost market share in the provision of investment banking services to EU clients compared to non-EU banks. If you agree with this assessment, what are the reasons for this decline?

We would agree that this is broadly accurate, to the benefit of the US banks.

The main reasons we can think about are the following:

1 - Link to capital market development:

Investment banking competitiveness is closely tied to the depth and integration of financial markets. EU banks have relatively less access to deeper capital markets, for example through securitisation.

2 - Strong presence of non-EU institutions:

In several segments, including equity and rates trading, prime brokerage, M&A advisory and leveraged finance, non-EU institutions, notably US banks, hold significant market shares within the EU.

3 - Scale and domestic market depth advantage:

US banks benefit from a large, integrated domestic capital market, enabling:

- Scale efficiencies.
- Higher profitability.
- Greater capital generation.
- Stronger risk-bearing capacity.

4 - Capital Markets Union gap in the EU:

The EU remains fragmented across legal, tax and insolvency regimes, limiting the development of a fully integrated capital market comparable to the United States.

5 - Profitability differentials:

Lower average profitability of EU banks.

6 - Accumulate capital:

Invest in innovation and compete in capital-intensive businesses.

7 - Regulatory and supervisory divergence:

Differences in supervisory expectations, internal model approvals, resolution requirements, governance constraints and reporting burdens can:

- Reduce operational flexibility.
- Increase compliance costs.
- Weaken competitive positioning.

Enhancing capital market integration and reinforcing the development of EU primary and secondary markets are central to strengthening the global competitiveness of EU investment banking.

Compared to US banks, EU banks have relatively less access to deeper capital markets, for example through securitisation, which leads to a relatively lower risk weight density on the bank balance sheet of EU banks and less capacity to lend or engage in investment banking services. Investment banking competitiveness is closely tied to the depth and integration of financial markets. Strengthening the EU's primary and secondary markets is essential to maintaining global competitiveness. In addition, the EU remains fragmented across legal, tax and insolvency regimes, limiting the development of a fully integrated capital market comparable to the United States. The Savings and Investments Union should be designed to help close this gap. The compliance burden in the EU is also to the detriment of wholesale banking activities, as also recently recognized in an ECB report on simplification. The simplification drive in the EU is very welcome.

23) To what extent do the following difficulties faced by EU banks hinder their ability to compete globally?

Please explain

- Divergent banking prudential rules applying to EU and non-EU banks impact international strategic choices by EU banks - **To a very large extent.**
- Supply side factors (e.g. cost competitiveness, innovation, depth of home market) - **To a very large extent.**
- EU supervisory practices affect expansion in other jurisdictions - **Neutral.**

Several factors affect the global competitiveness of EU banks:

- **Regulatory complexity and cumulative burden:** The layering of prudential rules, reporting requirements, ESG obligations, consumer protection frameworks and supervisory guidance creates high compliance costs.
- **Fragmented internal market:** National discretions and divergent implementation of EU rules limit economies of scale. Key divergences here are national legislation rather than diverging supervisory practices.
- **Resolution framework expectations:** MREL/TLAC requirements and resolution planning add structural funding costs compared to some international peers.
- **Governance and remuneration constraints:** While supporting sound risk management, differences in remuneration structures may affect talent competitiveness in certain specialised segments.

These factors do not undermine financial stability objectives but do affect cost structures and scalability.

24) To what extent do the rules on internal governance and remuneration policies of financial institutions create a competitive disadvantage for EU financial institutions vis-à-vis non-EU financial institutions? Please explain

We believe it is the case to a very large extent.

EU governance and remuneration frameworks promote prudent risk management and financial stability. However, in highly specialised, globally competitive segments (e.g., investment banking, trading, structured finance), differences in remuneration flexibility,

deferral requirements and variable compensation structures do affect the ability of EU institutions to attract and retain specialised talent compared to certain non-EU jurisdictions.

This creates a competitive disadvantage for financial institutions in the EU towards non-EU financial institutions, but also towards EU companies in other economic sectors, making talent attraction and retention in the banking sector very challenging.

Any reassessment should preserve sound governance standards while ensuring proportionality and competitiveness in global markets. The UK measures taken in 2025 to increase flexibility around senior banker pay can be an inspiration for the EU.

25) Do EU-headquartered banks and investment firms face regulatory constraints that hinder their competitiveness vis-à-vis non-EU financial firms? If yes, what are the key constraints?

Overall assessment: Yes, EU banks face structural competitiveness constraints linked to regulatory complexity and fragmentation.

The EU regulatory framework is often more detailed and prescriptive than in some non-EU jurisdictions, resulting in higher compliance, reporting and supervisory costs. EU-headquartered banks face comparatively high and complex regulatory requirements (capital, liquidity, resolution, MiFID/MiFIR, AML, consumer and investor protection, ESG/MiFID), which increase costs and reduce flexibility versus some non-EU peers.

The cumulative impact of multi-layered EU rules (Level 1/2/3), extensive and sometimes overlapping reporting requirements, and detailed governance prescriptions increases operational burdens.

Beyond prudential requirements, fragmentation in insolvency regimes, taxation, consumer protection and supervisory practices continues to limit the benefits of the Single Market.

Greater harmonisation, simplification, supervisory convergence and reduction of duplication would strengthen EU banks' competitiveness and scalability, while preserving financial stability and prudential soundness. Key constraints include overlapping and sometimes inconsistent rules across jurisdictions, slower and more uncertain approval processes, as well as stringent disclosure and reporting.

26) What factors are constraining the ability of EU banks to finance large-scale projects, including in the areas of digitalisation, climate transition and defence, compared to their international peers? In particular, to what extent do differences in profitability, cost structures, balance-sheet capacity, risk-appetite, scale, or regulatory and market conditions explain any observed gaps?

The ability of EU banks to finance large-scale projects, such as infrastructure, energy transition, defence and digital transformation, is shaped by several structural constraints, particularly when compared to international peers.

Key constraints include:

1 - Balance-sheet capacity and profitability: EU banks generally operate with lower average profitability and more limited capital generation capacity than some global peers. This constrains their ability to allocate capital to long-dated, capital-intensive and higher-risk activities such as project finance and market-risk businesses.

2 - Capital intensity of long-dated exposures: The prudential treatment of specialised lending, infrastructure finance and market-risk activities can be conservative in practice, increasing capital consumption and limiting risk appetite.

3 - Underdeveloped securitisation and risk-transfer markets: Limited depth in EU securitisation markets reduces opportunities for capital recycling and balance-sheet optimisation.

4 - Fragmented capital markets: The absence of a fully integrated Capital Markets Union limits syndication capacity, investor depth and cross-border risk-sharing.

5 - Higher cost base and slower productivity gains: Compared to some international competitors, EU banks face higher structural costs and slower productivity improvements, further reducing flexibility and risk-taking capacity.

6 - Regulatory complexity and uncertainty: Divergent supervisory expectations and procedural complexity increase transaction costs and lengthen execution timelines.

Policy implications:

Addressing these constraints does not require deregulation, but rather structural reforms aimed at strengthening the EU financial ecosystem:

- Deepening and accelerating the Capital Markets Union.
- Revitalising EU securitisation and risk-transfer markets.
- Enhancing cross-border banking integration.

Strengthening these foundations would enhance EU banks' capacity to support strategic investments and long-term growth while maintaining financial stability. The current EU regulatory framework is overly complex, fragmented, and insufficiently proportionate, which tends to favour large banks and concentrates risks among a limited number of actors. Introducing proportionality across supervisory rules is essential to enable broader participation of banks, especially in syndicated financing structures. Simplifying and making the regulatory framework more proportionate, alongside the digitalisation of market infrastructures, would enhance market functioning, reduce barriers, and strengthen the integration of European capital markets. Finally, while the sustainable finance framework is evolving towards integrating ESG risks into risk management, reduced disclosure requirements may limit banks' access to necessary data.

The ABBL shares the same view as the EBF.

1.6 – Digitalization

27) What are, in your view, the effects of digitalisation on the activities and business model of EU banks in the single market?

There are both opportunities and challenges brought about by digitalisation. Digitalisation is significantly reshaping the business models, operating structures and activities of European banks and has become a tool to enhance traditional and develop new services.

Digital elements are being incorporated into all front-to-back processes of core banking services (e.g., payments, deposits, lending, investments) through cloud computing, AI-driven analytics, ICT systems, and strategic partnerships with technology providers. This integration enables increased automation, enhanced personalisation of offerings and improved operational efficiency, while requiring growing investments in IT, AI and cybersecurity.

Digitalisation is significantly reshaping banks' business models and operating structures through

- i. broader digital distribution and remote servicing,
- ii. automation of middle- and back-office processes (including compliance and transaction processing),
- iii. expanded use of data analytics and AI to enhance customer service and risk detection, and
- iv. platformisation of banking services and making them interconnected with other external partners / solution providers.

These changes improve efficiency and client experience, but also increase exposure to cyber and fraud risks, third-party and cloud concentration risks, and complex ICT dependencies. Effective governance, sound risk management, and strong operational resilience across the supply chain are therefore essential, alongside continued investment in skills and change management.

Customer relationships are being redesigned around a digital-first experience, as customers expect seamless onboarding, real-time account access, frictionless payments, and greater flexibility in switching across service providers. In turn, these expectations are driving significant changes in front-office processes and service design.

Digitalisation is also improving SME financing and treasury services through instant payments, data-driven underwriting (subject to safeguards), and where appropriate, programmable finance. New product categories and operating models are also being introduced, including tokenisation of assets, DLT-enabled settlement, stablecoin/CBDC-related payment interfaces, and AI-enabled advisory and risk management.

Digitalisation is also reshaping the payment ecosystem and the future of payments, prompting banks to reassess their role therein and prepare for potential changes in deposit funding dynamics. This transformation requires major investment in common European digital infrastructures – such as instant payments - which directly affect payments, settlement, identity and intermediation functions within the Single Market. Ensuring interoperability between these initiatives and existing banking infrastructures is essential to avoid fragmentation and duplicative investments.

Market structure is also changing. The entry of new specialized (FinTech) or vertically integrated (BigTech) players - with rapid cross-border scale-up and/or operating outside the traditional EU supervisory perimeter – is increasing competitive pressures on traditional banks, particularly in key segments such as payments, consumer lending, SME finance and wealth services. In response, traditional banks are redesigning products, distribution channels, and cost structures, and integrating innovation (including AI-based innovation) across all levels of their value chain in order to remain competitive within the Single Market.

Competition is increasingly unfolding within digital ecosystems, particularly in the context of Open Finance and platform-based models. While data is becoming a strategic asset shaping credit decisions, fraud detection, personalisation, and risk management, asymmetries in access to data and control over digital interface creates structural advantages for large technology platforms.

Overall, while digitalisation is a vector of modernization, it is also a factor of competitive vulnerability if the European regulatory framework is not sufficiently proportionate and coherent.

Finally, the impact of digitalisation varies across banks depending on size and business model. Large systemic banks benefit from economies of scale in platform investments and cheaper capital market funding, but face challenges related to legacy IT complexity and high migration costs, and heightened cybersecurity exposure. Digital-native banks retain structural cost advantages and agility, enabling them to target high-margin niches and specific customer segments, but may face challenges with regulatory scaling costs and funding diversification in stressed markets. Mid-sized traditional banks face structural pressure, and may need consolidation to reach technological scale, though mergers themselves entail integration risks and additional IT complexity.

28) In the context of the increasing digitalisation of financial services, what do you consider could enhance confidence of clients in digitally provided investment products and services, thereby influencing the dynamic of new business models?

In the context of the increased digitalisation of financial services, enhancing client confidence in digitally provided investment products and services relies on a combination of technological efficiency, high standards of transparency, safety and service quality, and regulatory robustness and coherence.

User experience plays a key role. The speed, ease of use, personalization (e.g. customized portfolio reports and alerts of significant portfolio valuation changes) and 24/7 access offered by digital mechanisms reinforces clients' control over their investments.

Transparency remains a fundamental driver of clients' trust, particularly as regards costs, fees and risks. Confidence can be strengthened through clear and comparable disclosures, intuitive explanations of risks and costs, and easy access to human support when needed, especially for complex products.

Security is equally critical. Strong cybersecurity, visible safeguards for data protection, and reliable service continuity are critical, as trust can be rapidly undermined by outages, breaches or operational failures.

Closely linked is the growing importance of effective fraud prevention and detection. The rise of spoofing, deepfakes, and other forms of online fraud are increasing and calls for a comprehensive, cross-sector and multi-stakeholder approach. As fraud increasingly originates outside the strictly banking or payment layer, preventive obligations should be proportionately shared across all relevant actors in the digital value chain – from platforms to financial institutions. A balanced allocation of responsibilities would improve consumer protection and reinforce trust in digital investment channels.

Product personalization and quality of advice are also key enablers of confidence. Clients expect investment services and products to be aligned with their individual profiles, objectives and risk appetites. The integration of AI into customer service platforms can enhance this by enabling greater personalization and cost efficiency, although this requires robust governance of algorithms, including explainability, auditability and safeguards against bias.

Moreover, client confidence fundamentally depends on regulatory clarity and consistency across the Single Market. Divergent interpretations and overlaps between frameworks (e.g., between GDPR and the AI Act particularly regarding automated decision-making, transparency obligations and explainability requirements) can create legal uncertainty that undermines trust in digitally provided investment services. Greater alignment in supervisory practices and a more coherent implementation of regulatory frameworks would significantly strengthen client confidence.

Finally, customer trust and adoption depend on the existence of a genuine level playing field between financial institutions and other providers of digital investment products and services (e.g., FinTechs and BigTech). Regulatory asymmetries that structurally disadvantage supervised institutions may weaken trust by encouraging regulatory arbitrage and uneven consumer protection standards. Ensuring consistent supervisory standards across the single market - as promoted by authorities such as the European Central Bank - help by creating a level playing field and reassuring users that digital offerings meet the same prudential and conduct requirements as traditional ones.

29) Are EU banks investing enough in digitalisation of their operations and services, including in comparison with their international peers and with other EU business sectors? Please explain, in particular in case the answer is 'No'.

EU banks are investing significantly in digitalisation, and overall IT spending continues to rise. However, investment levels are often still not fully commensurate with the scale of transformation required. While EU banks devote substantial resources to IT, legacy architectures, fragmented national processes and duplicated systems reduce the return on investment and slow down productivity gains.

The capacity to invest in transformative change is further constrained by high “run-the-bank” costs linked to maintaining legacy systems, as well as significant resources devoted to regulatory compliance and reporting. These structural expenditures limit

the share of budgets available for large-scale modernisation initiatives such as cloud migration, data platforms and AI industrialisation. Beyond absolute spending levels, improving the scalability of digital investments across the Single Market would enhance their impact. Greater harmonisation, consistent supervisory expectations and reduced regulatory fragmentation would allow banks to deploy digital solutions more efficiently across borders, increasing productivity and economies of scale.

In addition, the prudential treatment of software investments remains a relevant factor influencing banks' digital investment capacity. While the EU framework has evolved from an upfront full CET1 deduction to a prudential amortisation approach for prudently valued software assets, the current calibration, including the maximum amortisation horizon, may not fully reflect the economic useful life of many strategic software assets and multi-year transformation programmes.

ABBL therefore encourages the Commission to review the calibration and eligibility criteria, consider a longer prudential amortisation horizon (e.g. five years), and promote supervisory convergence in its application. This would help avoid unintended disincentives to digital investment, ensure a level playing field with non-bank competitors, and maintain prudent capital standards.

30) Do you expect in the near future the emergence of significant new players in the provision of financial services within the EU, such as non-financial conglomerates, FinTechs, or BigTech companies? If yes, what would this mean for traditional banks? If yes, what would be the impact on households and businesses?

Yes. ABBL expects continued growth of FinTechs and platform-based players, including non-financial ecosystems embedding financial services. This trend will be amplified by cross-functional AI adoption.

All this will further intensify competition and accelerate value-chain unbundling, while also increasing the importance of partnerships between banks and technology providers (as today BigTech is mainly a service provider for banks but tomorrow they might as well service the bank's clients directly).

For households and businesses, this evolution can deliver benefits such as better user experience and more choice, but it also raises policy-relevant issues around data use and consumer protection, operational resilience, and systemic concentration risks in a limited number of infrastructures.

31) How should the bank regulatory framework and supervisory practice adapt to the changes in the banking sector triggered by digitalisation?

Regulation and supervision should adapt in a technology-neutral, risk-based and proportionate manner. ABBL supports:

- same activity / same risk / same rules to ensure equivalent requirements and effective supervision for banks and non-banks performing comparable activities;
- further harmonisation and supervisory convergence to reduce fragmentation and enable safe cross-border scaling of digital services.

Strengthen operational resilience and third-party risk oversight under DORA, while avoiding duplicative reporting and unnecessary administrative burdens. Supervisory frameworks should be updated to address emerging risks linked to AI models, advanced data governance and model risk management.

At the same time, implementation should avoid excessive complexity and duplication, while actively supporting innovation. This requires clear and consistent guidance, proportionate and workable requirements tailored to different sizes and business models, and the use of supervised testing or regulatory sandboxes where appropriate.

Section 2 – The single market and the banking union

2.1 – The impact of prudential requirements on market integration

32) What are the benefits and the limitations of the current regulatory framework in terms of capital and liquidity requirements allocation within a banking group? What are the main concerns with the possibility to manage capital and liquidity at group level?

Although the regulatory framework envisages consolidated supervision and group wide planning, in practice the presence of regulatory and supervisory discretions often results in de facto ring fencing.

The main example in this regard is the formal introduction the possibility of cross-border waivers and clarified certain coordination processes and the exemption from intragroup exposure regime, both preventing free circulation of capital and liquidity within a banking group. This was intended to better reflect the concept of the banking union—uniform supervision within the euro area.

Managing capital and liquidity at group level would improve resource allocation, support centralised funding models, and enhance financial stability through greater diversification. Compared to subsidiaries, a structure with headquarters and branches is advantageous. This allows privileges to be utilized that would otherwise not be available due to different risk domiciles.

33) What are your views regarding the most efficient way of applying prudential requirements within EU cross-border banking groups?

- a. Continue the current approach where prudential requirements are applied, as a rule, at both the consolidated level and at the level of every legal entity **Somewhat Disagree.**
- b. Prudential requirements should only be applied at highest EU consolidated level of the banking group **Somewhat Agree.**
- c. Ensure adequate prudential requirements at the level of legal entities, while ensuring more flexibility in centrally managing resources at group level, with commensurate safeguards for financial stability risks **Neutral.**
- d. Other (please indicate).

International Basel Committee (BCBS) standards are designed to apply only at the highest level of consolidation, ensuring that banking groups are supervised and capitalised on a group-wide basis without redundant intermediate layers.

By contrast, the EU framework multiplies prudential requirements across solo, sub-consolidated and consolidated levels, creating unnecessary operational complexity.

EU groups must simultaneously comply with capital, liquidity and MREL constraints at each level, generating duplicated buffers, inconsistent supervisory expectations, and significant trapped capital and liquidity—even though the Banking Union already has a Single Supervisory Mechanism (SSM) and a Single Resolution Board (SRB) acting as unified authorities.

This fragmentation prevents banks from optimising resources, reinforces ring-fencing by host regulators, increases compliance and reporting burdens, and undermines the logic of a harmonised prudential regime. It also weakens competitiveness and lending capacity, contradicting the objective of treating the Banking Union as a single jurisdiction for supervision and resolution.

The ABBL shares the same view as the EBF.

34) What regulatory measures could facilitate or improve efficiency for cross-border EU banking groups? What safeguards would be necessary to preserve resilience and resolvability, and provide reassurance to all relevant Member States in case of distress/failure?

Cross-border banking groups operating within the Banking Union would greatly benefit from a regulatory framework that enables the genuine functioning of a single jurisdiction for prudential purposes. Today, fragmentation persists because capital, liquidity, large exposures and MREL requirements continue to be applied at multiple levels (solo, sub-consolidated, consolidated), preventing banks from deploying resources efficiently across Member States.

Liquidity in resolution should be addressed, through the establishment of a liquidity backstop. From the point of view of banks, existing safeguards to preserve resilience and resolvability are more than sufficient.

Measure to facilitate:

- Harmonisation of Prudential requirements: streamlining and harmonising capital and liquidity requirements across Member States would reduce fragmentation and allow banking groups to allocate resources more efficiently at group level, rather than having to preposition capital and liquidity in each subsidiary. This could include more flexible waivers for intra-group transfers and a move towards applying requirements at consolidated group level, with appropriate safeguards.

Safeguards:

- Robust Resolution Planning: ensuring that credible and effective resolution plans are in place for cross-border groups, including clear rules for the

allocation of losses and access to financial resources in a crisis, is essential to maintain financial stability.

2.2 – Market consolidation

35) Do you consider that the EU economy benefits from the presence of large, cross-border banks active across the single market?

Yes - the EU economy benefits from the presence of large, cross-border banks active across the Single Market.

- Cross-border distribution through subsidiaries and branches: Large groups rely on subsidiaries or branches to distribute their products and services across Member States, facilitating broader market access while complying with local legal and supervisory frameworks.

- Consolidation and proportionality for Less Significant Institutions: Further consolidation should be accompanied by a proportionate supervisory approach, ensuring that scale and complexity are appropriately reflected in regulatory requirements without creating unnecessary duplication or excessive administrative burden.

Significant economies of scale are only possible cross-border and are required to enable and justify the necessary investments (risk mgt, ESG, digitalization, etc.) to compete internationally. In principle, the EU customer would benefit from better pricing, more stable financial institutions, state of the art technology, etc. However, it crucially depends on the removal of market fragmentation and national barriers to the development of the Single Market.

For this reason, the sequencing of measures is particularly important: first, barriers need to be dismantled; only then will economically viable cross-border banking offerings emerge.

36) The Draghi report argues that banks need scale to be competitive. Is market consolidation a good way forward to achieve scale in the banking industry? Which actions should be taken at EU level to facilitate EU banking groups wishing to operate cross-border to do so?

Yes: market consolidation can contribute to achieving scale and strengthening competitiveness. However, for consolidation to be successful, greater proportionality in regulatory requirements is essential

Regulatory frameworks should better reflect the size, complexity and risk profile of institutions, ensuring that increased scale does not automatically result in excessive administrative burden or duplication.

In addition, cross-border rules must be further harmonised and national gold-plating avoided. Strengthening supervisory convergence and reducing fragmentation would reinforce fair competition, facilitate cross-border operations and deepen EU financial markets both primary and secondary.

The ABBL shares the same view as the EBF.

2.3 – Non-prudential barriers to market integration

37) What are the main non-prudential barriers that impede cross-border activities?

Please explain which actions should be taken to overcome these non-prudential barriers and improve the integration of banking markets in the EU.

- Divergent national tax treatment attached to certain banking products (mortgages, savings accounts, deposits) or banking operations (Value Added Tax, corporate and personal income taxation): **Fully agree.**
- More generally, lack of unified banking product offering across EU or sub-regions, forcing product adaptation to each national market: **Fully agree.**
- Labour laws and contract laws hindering the servicing of EU bank clients in a Member State by a branch/entity located in another Member State: **Somewhat agree.**
- Preference by local customers of local bank brands: **Somewhat agree.**
- Divergent insolvency laws and collateral foreclosure rules: **Somewhat agree.**
- Consumer protection laws and client specific documentation: **Fully agree.**
- Divergent (non-prudential) reporting requirements: **Fully agree.**
- Language barriers: **Fully agree.**

National insolvency regimes create significant friction for cross-border activities by introducing procedural delays in recovery and resolution processes due to varying timelines, creditor priorities, and court systems across Member States; hindering efficient asset recovery and collateral enforcement, particularly for cross-border exposures where recognition of foreign proceedings remains inconsistent; and fragmenting risk management, as divergent rules on bank resolution such as bail-in tools or asset separation, discourage lending and investments across borders.

To overcome these non-prudential barriers and foster a more integrated EU banking market, a concerted policy response is required. We recommend:

- **Enforcement of single-market freedoms:** The European Commission should uphold EU treaty freedoms by identifying, challenging Member States positions and if need be launching infringement procedures against Member States that maintain unjustified barriers to cross-border banking. Ensuring that banks can exercise their EU passport rights without undue hindrance will help preserve a level playing field.
- **Maximum harmonisation in future legislation:** EU banking regulations and directives should strive for an enhanced harmonisation (rather than minimum standards) in areas affecting cross-border services. By reducing the scope for national gold-plating or divergent implementation of EU rules, future legislation can help simplify compliance for banks operating across the Union and eliminate many country-by-country inconsistencies.

- **Improved supervisory cooperation and transparency:** Home and host supervisors must enhance coordination and information-sharing when new national requirements affecting cross-border banks are being developed. Home regulators should be informed in advance (via supervisory colleges or the European Banking Authority) of host-country initiatives that will impact their banks, allowing for dialogue and preparation. Greater transparency and collaboration will ensure banks receive consistent regulatory messages and are not caught off guard by new local rules.
- **Transitional arrangements for new national measures:** When Member States introduce significant new rules impacting cross-border banking (for example, the launch of a local credit register, new reporting obligations, or unique consumer protection requirements), there should be appropriate transition periods or grandfathering for existing cross-border customers. Phased implementation and early communication of such changes would allow banks to adapt their systems and processes, and give customers time to adjust, thus preventing sudden service disruptions.

By implementing these measures, the EU can substantially reduce market fragmentation. This will enable banks to serve customers across Member States more efficiently and confidently, improving access to finance, encouraging healthy competition, and ultimately boosting the competitiveness and integration of Europe's banking sector.

2.4 – Protection of depositors

38) To what extent would further strengthening the protection of depositors provide reassurance on the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money and therefore support the competitiveness and integration of banking markets?

Please explain

No position.

39) Today, when a bank is in distress, deposit protection in the European Union is provided by:

- safeguarding depositors' access to their money if a bank is resolved with the use of banks own loss absorbing capacity, a resolution fund and/or a deposit guarantee fund, or;
- paying customers back with the use of deposit guarantee funds if a bank closes and is liquidated, or;
- safeguarding depositors' access to their money through financing of preventive and/or alternative measures by a DGS, where available.

In your view, could the system be simplified and made more effective by combining the deposit insurance and resolution functions within existing funds? Would there be any unintended consequences?

No position.

40) In your view, when considering the scope of banks to be included in a possible new banking union-wide deposit insurance system, should this scope include...

Please explain

No position.

41) In your view, a possible new banking union-wide deposit protection fund should...

Please explain

No position.

2.5 – Liquidity in resolution

42) In your view, would a more transparent and predictable European mechanism ensuring the provision of liquidity in resolution to large banks in distressed scenarios strengthen the effectiveness and credibility of the European crisis management framework? How could it affect the bank-sovereign nexus and the reliance on national taxpayer-funded resources in a crisis?

Please explain

The EU banking system lacks of a public liquidity backstop.

The ECB should formally take the role of providing a credible liquidity backstop, which remains the “missing piece” in the resolution framework. The introduction of instant payments has made it even more necessary to have a credible commitment mechanism at any given moment. Actually, the ECB has already stepped in when an unexpected crisis hits the economy providing liquidity to the system, as it happened after the upsurge of the COVID-19 pandemic with the extension of the TLTRO III program.

The combination of the sound recovery and resolution framework in the EU, including the privately funded Single Resolution Fund, with ECB backstop via Emergency Liquidity Lines, would confer the EU banking system further confidence which would be extended to the European economy. It would also bring about a unique opportunity to overcome the longstanding frustrated objectives of an integrated European banking system: it would tackle the resistance of host countries to the unfettered movement of capital and liquidity across national borders and it would justify a true simplification of the MREL framework.

Banks that have emerged from resolution are usually solvent, but are often temporarily illiquid due to having lost access to wholesale markets and facing deposit outflows. It is rarely realistic to expect private counterparties to rapidly resume lending to a recently resolved bank, particularly in an environment where confidence can deteriorate within hours. The relevant issues, the differences compared to other legal systems (in the UK, for instance, the Bank of England can provide liquidity directly to

a resolved entity, while in the US the FDIC has a comparable role through its funding mechanisms) and possible solutions have been discussed for years. The general consensus is that the EU framework still lacks a credible, operational solution to ensure liquidity for banks undergoing resolution. Raising the issue again in this consultation will not get us anywhere. It is time for action, not for repeated discussion of the problem.

The ABBL shares the same view as the EBF.

43) Do you consider that introducing a formal transparent mechanism to provide liquidity in resolution can provide reassurance on the stability and effectiveness of the crisis management framework and therefore support the integration of banking markets? If yes, what do you consider to be the desirable features of such mechanism?

An effective mechanism ensuring sufficient liquidity provision in resolution would effectively fill in the existing gap. It is necessary to reassure stakeholders and market participants, to restore confidence in the institution in resolution, and to stabilise the situation, as could be seen in the case of Credit Suisse. Such mechanism should also support the integration of banking markets since host authorities should be much less reluctant to grant cross-border liquidity waivers. Such mechanism should logically be granted by the ECB, it should be available to support institutions in resolution as well as their BU/EU subsidiary institutions and to support liquidity needs of DGSs.

The ABBL shares the same view as the EBF.

2.6 – Sovereign exposures and risk reduction

44) To what extent do you consider the following factors as significant drivers for the 'home-bias' (i.e. banks' disproportionate exposures to their home sovereign)?

Please explain

No position.

45) Do you consider that the EU framework on the regulatory treatment of sovereign exposure should be improved? If yes, how should this be done, and how would it affect the holdings of sovereign debt by banks?

No position.

46) Exposures to Member States' central governments, or third country jurisdictions assessed as equivalent, when denominated and funded in domestic currency, receive a 0% risk weight under the Capital Requirements Regulation, as provided for by the international standards. Such 0% risk weight applies regardless of credit rating, exempts the sovereign bonds from large exposure requirements, and classifies them as high-quality liquid assets. However, this treatment does not apply to sovereign

exposures denominated in Euro issued by non-Euro Area Member States. Should that treatment be expanded to sovereign exposures issued by non-Euro Area Member States and denominated in Euro and how would this affect the holdings of sovereign debt by banks? Please elaborate.

No position.

Section 3 – Complexity and effectiveness of the regulatory framework

3.1- General assessment

47) How would you evaluate the current regulatory framework for banking in terms of:

- **Effectiveness:** Medium (Partially too complicated, not "fit for purpose" for the end-client and should also consider practical circumstances)
- **Proportionality:** Somewhat low (Application of risk-based approach through proportionality is not given or well enough defined)
- **EU Added value:** high (esp. for a small country like Luxembourg, a certain Standard is on the one hand appreciated such as a) Standardisation of Tax Identification Numbers (TIN) for CRS reporting or b) Use of concatenated identifiers for all nationalities in MiFIR transaction reporting (instead of country-specific national identifiers for the citizens of certain countries), but on the other hand also limits as it does not consider country-specifies)
- **Relevance:** Medium
- **Coherence:** somewhat low (Issues are swift changes that provide uncertainty and focus should be on consolidation of already existing overlapping frameworks by:
 - Ensure alignment (and no contradiction) between related regulations; example: DORA incident reporting requirement overlap with existing regulation PSD2
 - Scope of Level 2/3 publications shall be not contradictory and/or exceed their mandate
 - When reviewing an existing regulation, or publication of a new regulation: Harmonization and/or simplification of existing regulation is key).

48) A certain degree of complexity is necessary to achieve the desired regulatory objectives, while recognising the degree of sophistication and diversity of the EU

banking sector. How do you rank the comparative level of undue complexity in the following parts of the framework?

Please explain

The framework is widely perceived as highly complex and burdensome to interpret, understand and implement. This complexity is largely consistent across different frameworks and stems from common underlying factors: the layering of multiple regulatory levels (including non-binding instruments such as supervisory expectations and Q&As), the involvement of numerous authorities, and the continuous accumulation of new requirements over time—often without sufficient consistency checks or impact assessments on their interaction with existing rules. In addition, the interconnections between frameworks and the overlapping requirements across Pillar 1, Pillar 2 (P2R/P2G), and macroprudential buffers further add to the overall complexity.

In the macroprudential area, complexity stems in particular from the coexistence of several buffers that may be applied differently across jurisdictions. This reflects, among other things, the discretion available to competent authorities, differences in calibration approaches, and the sometimes limited visibility for banks regarding activation, release and recalibration practices. As a result, the framework may be perceived as complex and less predictable

Supervisory measures (Pillar 2)

Within the SREP process, EU banks are subject to extensive supervisory data requests, which create a significant administrative burden and may hinder their competitiveness relative to non-European peers. This complexity—particularly the accumulation of incremental data requests linked to Pillar 2 requirements— extends beyond the minimum harmonisation of the Basel framework. It could be reduced if supervisors, notably the ECB, made greater use of existing data already submitted by banks. Streamlining Pillar 2 requirements and reducing overlaps would facilitate more efficient interaction between banks and supervisors without undermining resilience. Greater automation and standardisation in data collection would also enhance clarity, timeliness and data quality.

At present, there is limited transparency regarding supervisory methodologies for risk assessment, score calculation, and the derivation of Pillar 2 Requirements (P2R). While supervisory judgement remains essential, greater transparency around methodologies and outcomes would significantly improve the effectiveness of supervisory dialogue. Clearer and more predictable P2R requirements would help banks better understand supervisory expectations and appropriately prioritise risk management actions.

49) Which type of instrument adds the most undue complexity to these parts of the frameworks?

Please explain

- International Basel: **Medium**
- Level 1 EU: **Medium**
- Level 2 EU: **High**

- Level 3 EU: **High**
- Supervisory guidance/practices: **Somewhat low**
- Implementation differences of EU legislation at national level: **Somewhat high**
- Interaction with other national legislation: **Somewhat high**
- Interaction with other EU legislation: **Somewhat high**

The original objective of the European Commission was to transpose Basel III in a straightforward manner. However, the subsequent implementation through the Lamfalussy process has resulted in significant complexity and gold-plating beyond the Basel standards.

This complexity stems from the accumulation of multiple regulatory layers, where each additional layer reduces clarity and increases operational burden. Certain Level 1 provisions—such as the output floor, property value adjustments and the NPE backstop—illustrate this imbalance: they entail high implementation and monitoring costs while delivering only marginal gains in resilience.

At Level 2, technical standards often go beyond their intended role and introduce detailed, prescriptive requirements that effectively expand Level 1 legislation. Level 3 instruments, although formally non-binding, have de facto binding effects, increasing regulatory density without clear accountability. Their interpretation by authorities can also constrain business model flexibility and limit risk-based approaches.

Supervisory guidance further adds to this complexity. In practice, banks tend to adopt the most conservative interpretations to avoid supervisory challenges, reinforcing a tendency towards over-compliance and reducing flexibility. This is compounded by national gold-plating at implementation stage.

To address this, the EU should limit Level 2 measures to genuine technical specifications and conduct a comprehensive review of existing Level 2 and Level 3 frameworks to ensure necessity, consistency and proportionality. Going forward, proportionality and competitiveness should guide regulatory mandates, including those of the ESAs, while the scope and accountability of Level 3 tools should be clearly defined.

Finally, the interaction between EU rules and third-country frameworks adds further complexity, particularly in the absence of international alignment (e.g. on ESG). This undermines consistency and creates additional burdens for internationally active EU banks.

50) Would you support less complexity in the bank regulatory framework even if this means...

Please explain

We believe that the answers to this question fully depend on the details and trade-offs of the specific changes that will be made to the framework.

Simplification can be achieved without compromising risk sensitivity or financial stability. A well-designed banking framework should be simpler, risk-sensitive and capital-efficient at the same time.

- Overall cautious approach to further regulatory changes; priority should be given to consolidation and stabilisation of the existing framework as a form of simplification.
- Acknowledgement that capital requirements have increased (notably under CRR3); no support for further increases.
- Risk-weighted requirements are appropriate within capital rules, but greater consistency across regulatory frameworks could be considered.
- Support for maintaining EU specificities and strong support for preserving national specificities.

EU banks are already subject to high capital requirements, and further increases could constrain their ability to finance the real economy and weaken their global competitiveness. This would ultimately affect the EU's capacity to support key priorities such as the digital and green transitions and defence financing. Policymakers should therefore focus on simplifying the existing framework rather than adding new layers.

Importantly, simplification does not reduce risk sensitivity. The current highly prescriptive and standardised approach can in fact limit it. More streamlined rules would allow banks to apply more sophisticated, risk-sensitive approaches, particularly in the use of internal models.

51) The Single Rulebook for banking is based on both directives and regulations. Unlike regulations, directives must be transposed into national law, which can lead to different applicable legal framework applicable across Member States. In your view, which provisions currently set out in directives, such as the Capital Requirements Directive (CRD), the Bank Recovery and Resolution Directive (BRRD) or the Deposit Guarantee Scheme Directive (DGSD), would be more effectively established through directly applicable regulations, and for what reasons, if any?

In general, we consider that provisions in CRD, BRRD and DGSD that are most sensitive to cross-border consistency should be set out in directly applicable regulations in order to strengthen maximum harmonisation and reduce regulatory fragmentation. Unlike directives, which require national transposition and therefore depend on the timing, quality, and interpretation of domestic implementation measures, regulations ensure immediate legal certainty, consistency, and harmonization throughout the EU.

Moreover, the use of regulations rather than directives contributes significantly to the consolidation of the single market and to the competitiveness of European companies, which would not need to navigate differing national implementations of the same EU objective. This legal consistency enhances predictability, facilitates cross-border activity, and allows companies to scale more efficiently throughout the Union. By ensuring a level playing field and minimizing regulatory discrepancies, regulations create conditions that enable European firms to compete more effectively both within the EU and globally.

In particular:

- **CRD (Article 74 and related governance provisions):** Key internal governance requirements for institutions subject to consolidated supervision should allow explicit recognition of group-level solutions. Divergent national

implementation and additional local requirements create duplication and legal uncertainty for cross-border groups.

- **Fit and proper assessments and authorisation procedures (CRD):** Greater harmonisation, including presumption of mutual recognition based on the consolidating supervisor's assessment and aligned timelines, would reduce duplication and administrative burden.
- **BRRD core resolution triggers and cooperation mechanisms:** Further harmonisation through Regulation would enhance predictability and reduce divergent national practices affecting cross-border groups.

52) Do you have concrete examples of gold-plating of EU rules via transposition of EU directives, national options and discretions? If so, please list them here.

The most significant cases of gold plating occur at an EU level above the framework outlined by Basel.

For several examples, we refer to the EBF gold-plating case study paper: "Regulatory Efficiency for EU Competitiveness".

53) Do you have concrete examples of excessive government intervention in business decisions of banks? If so, please list them here.

No position.

54) How would you assess the level of enforcement of EU banking rules? How can this be improved?

Overall enforcement is strong, particularly within the SSM. Improvements could include:

- further harmonisation of supervisory practices across Members States,
- greater transparency around supervisory expectations,
- improved coordination between supervisory, macroprudential and resolution authorities.

55) How would you evaluate the various authorities responsible for banks in terms of: Please explain

- a. effectiveness (the extent to which authorities identify weaknesses and address them)
 - i. Supervisory authority
Fully agree: supervisors continuously identify weaknesses and set out plans to address them.
 - ii. Macroprudential authority
Fully disagree: The identification of weaknesses by NDAs does not follow any clear pattern and the magnitude of the measures is arbitrary. This is the result of huge granted powers in the legislation, complicated and overlapping tools and lack of coordination between authorities
 - iii. Resolution authority

- Neutral:** there is little experience to evaluate the effectiveness of resolution authorities to identify weaknesses
- b. ... risk-based (the extent to which authorities focus on the most material risks in a proportional way)
- i. Supervisory authority
Somewhat disagree: supervisors follow a procedural model whereby compliance with detailed rules prevail over risk-based assessment. Nevertheless, the SSM has published a program for Next Level Supervision which places more focus on material risks which looks promising. As changes are confirmed over time, the level of risk-based supervision shall improve.
 - ii. Macroprudential authority
Fully disagree: The use that macroprudential authorities make of the tools at hand does not seem to follow a proportionate scheme based on risk materiality
 - iii. Resolution authority
Neutral
- c. ... efficiency (extent to which authorities are reacting timely and are outcome focused)
- i. Supervisory authority
Somewhat disagree: the SSM has increased its cost 16% per annum from 2014 to 2024 or around 334% in total. At the same time, NCAs have increased their costs as well.
 - ii. Macroprudential authority
Fully disagree: the mere fact of having multiple NDAs across Europe with little coordination and disproportionate powers is not efficient at all.
 - iii. Resolution authority
Somewhat disagree: Resolution authorities are requesting growing reporting from banks and employ huge resources. Much of the plethora of details collected by the SRB and the NRAs will be useless even in the case of resolution of an institution. Experience tells that resolution cases are conducted without using the majority of the details that the SRB takes so much time to collect and the banks to provide. There is need to streamline the recovery and resolution reporting and the SRB resources

56) How would you rate the degree of accountability of various authorities responsible for banks?

No position.

57) Has your institution granted loans where intellectual property (IP) rights (patents, trademarks, designs) were accepted as: stand-alone collateral or collateral only in addition to tangible assets? Please indicate the approximate share of total SME/scale-up lending for each category.

No position.

57.1) If intellectual property rights are not used as stand-alone collateral, please indicate the main reasons. Please explain

No position.

58) Which of the following EU-level measures would materially increase your institution's willingness to lend against intellectual property assets? Please explain

No position.

3.2 – Prudential framework

59) What are the areas that create undue complexity in the prudential framework, if any? What are the ways to reduce undue complexity in the prudential framework without leading to deregulation and undermining financial stability?

1. Basel III requirements

- Excessive layering in EU prudential rules; gold-plating of Basel III implementation.
- Fragmented/delayed Basel III implementation (US, UK, etc.): divergence between major jurisdictions increases compliance costs for internationally active banks and risks of regulatory arbitrage.

Proposed solutions:

- Need to modernize and “right-size” banking regulatory framework through removal of excessively conservative or complex banking regulatory requirements: enough to provide resilience, but not choke off real economy and growth.
- Reduce number of capital stack elements in prudential framework.
- Make temporary Basel III transitional rules permanent: staggered phase-out of Basel III transitional rules will lead to increasing credit costs in strategically important areas, such as financing of unrated corporates / SME.
- Remove gold-plating regarding capital deductions.
- Fundamental Review of Trading Book (FRTB) rules: Introduction of new lists and complex exceptions with specific application and approval procedures.

2. Supervisory framework

- Inefficiencies and excessive focus on non-material issues, triggering need for more resources to meet supervisory requirements.
- Outcomes of supervisory reviews: some unpredictability in supervisory decision-making (unexpected, hard to understand or sometimes arbitrary decisions).

- Limited mechanisms to challenge or appeal supervisory decisions: compounds other problems with supervisory engagement.

Proposed solutions:

- Consistently adopt risk-based approach to supervision and focus on most material risks affecting banks.
- Introducing formal secondary objectives for prudential regulators and supervisors that include growth and competitiveness considerations in the mandates of European and national supervisors.

In summary, reducing undue complexity should aim at simplification, harmonisation and proportionality, not deregulation. A clearer, more coherent and risk-focused framework would strengthen competitiveness and scalability while maintaining high standards of financial stability:

- **Strengthen proportionality:** Better tailor requirements to size, systemic relevance and business model, while preserving core prudential safeguards.
- **Enhance harmonization and reduce national discretions:** Limit gold-plating and promote supervisory convergence to ensure consistent application of EU rules.
- **Streamline and rationalize reporting:** Remove duplications, align data definitions and promote “report once, use many times” approaches through data standardization.

Enhance transparency around supervisory methodologies and ensuring greater accountability both within the supervisory authority and externally to public and legislative oversight bodies.

60) Does the prudential framework balance sufficiently risk sensitivity and complexity? If not, how should this disequilibrium be addressed?

The current EU prudential framework does not sufficiently balance risk sensitivity and complexity.

In several areas, the framework combines high complexity with low or distorted risk sensitivity, resulting in capital inflation that does not reflect actual economic risks. This imbalance undermines financing capacity, competitiveness and coherence with international standards.

61) Does the prudential framework strike the right balance between risk-weighted requirements and backstops (output floor, leverage ratio) or Pillar 2 requirements?

Please explain

The EU framework does not strike the right balance between risk weighted requirements, the two backstops (output floor and leverage ratio), and Pillar 2. In practice, it over accumulates constraints that pursue similar prudential aims, eroding risk sensitivity, inflating capital, and adding operational complexity without commensurate stability benefits. Overlapping layers—Pillar 1 RWAs (already conservative), the simultaneous operation of the output floor and the leverage ratio,

and extensive Pillar 2 overlays—produce duplications and capital traps that reduce banks' capacity to finance Europe's priorities.

The ABBL shares the same view as the EBF.

62) Do you think that the leverage ratio framework would need improvement? If yes, do you have any suggestions as to how to improve the leverage ratio framework?

No position.

63) Do you think the Pillar 2 Requirement needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Requirement?

No position.

64) Do you think the Pillar 2 Guidance needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Guidance?

No position.

65) What determines the level of the management buffer? How much does the management buffer weigh in the overall capital set aside by banks? Do you think there are unwarranted pressures to set such a buffer, if yes do you have any suggestions that would help reduce undue external incentives to set management buffers?

The management buffer should be recognised as a necessary and integral component of the prudential framework, designed to capture model, operational and structural risks that cannot be fully quantified through existing regulatory metrics. It provides banks with an additional layer of resilience against uncertainties and limitations inherent in risk modelling and forward-looking assessments.

To ensure its effectiveness and credibility, the calibration of the management buffer should be transparent, proportionate and based on clearly defined principles. This would help avoid the perception or risk of arbitrary capital requirements and support a consistent supervisory approach across institutions and jurisdictions. A well-defined framework for the management buffer would also enhance predictability for banks, facilitate capital planning, and strengthen confidence in the overall prudential regime.

66) Are, in your view, the various elements of the framework aimed at reducing NPLs working as intended? If you answer 'No', please specify the potential areas of improvement

Please explain and, if deemed relevant, provide suggestions to improve the framework.

Since 2017, the EU regulatory framework governing default management has expanded significantly, in some respects going beyond the expectations of the Basel Committee. Regulators and supervisors have sought to promote a more proactive management of defaulted exposures and to accelerate the clean-up of bank balance sheets through a reduction in non-performing loans (NPLs).

These efforts have delivered tangible results: since 2015, the average NPL ratio of European banks has declined threefold and now stands below 2%. Against this backdrop, and in line with the growing focus on simplification, it is timely to assess the operational impact of the measures introduced and, where appropriate, consider targeted adjustments. In this context, two pieces of regulation deserve particular attention.

1. NPL backstop (CRR, Article 47c)

The prudential backstop requires full (100%) coverage of exposures after a defined period (“vintage”). Where accounting provisions are insufficient, the shortfall must be deducted from institutions’ own funds.

In the corporate segment, this requirement may adversely affect negotiations between borrowers and creditors, potentially constraining the search for optimal restructuring or exit solutions.

Moreover, the backstop appears misaligned with economic realities, particularly for mortgage-backed real estate exposures. By imposing accelerated capital deductions irrespective of collateral recoverability, it increases capital costs for secured portfolios and may discourage the use of forbearance measures that could restore loans to performing status. This runs counter to broader EU policy objectives, notably in housing and renovation. Evidence also suggests that overly conservative regulatory timelines may increase capital volatility and reduce banks’ willingness to support distressed but viable borrowers.

With IFRS 9 introducing a forward-looking expected credit loss framework, replacing the backward-looking IAS 39 model, the continued need for a Pillar 1 backstop is increasingly questionable. In the CRR3 context, it may even prove counterproductive. Removing it would preserve prudence through supervisory oversight while reducing overlaps and restoring proportionality. It would also enhance banks’ capacity to lend and support effective restructuring of distressed exposures.

Furthermore, the NPL backstop represents a clear case of EU “gold-plating”, as no equivalent exists under the Basel framework. The EU remains the only jurisdiction applying such a requirement, while the UK abolished it in 2024, creating a tangible competitive disadvantage for European banks.

2. EBA Guidelines on the management of non-performing and forborne exposures

Introduced as part of the IRB Repair programme, these Guidelines define the methodology for calculating historical loss rates.

First, loss given default (LGD) is calculated by discounting recovery cash flows back to the date of default using a rate set at “risk-free rate (Euribor) + 5%”. This level significantly exceeds typical lending rates, leading to a systematic overestimation of losses. The effect is particularly pronounced where borrowers continue servicing their

debt during default. More broadly, for real estate exposures and cases where restructuring is preferred over enforcement, this approach inflates historical loss estimates.

Second, where collateral is repossessed, particularly in corporate or specialised lending, the EBA requires its value to be recognised at the time of repossession only. Any subsequent gains from holding the asset (e.g. real estate) until market conditions improve are not taken into account. This may distort incentives by encouraging early disposal rather than value-maximising strategies.

Overall, these provisions tend to increase both actual and measured losses, resulting in higher capital requirements. It is therefore important for the EBA to assess their impact and consider targeted refinements where appropriate.

3. EBA Guidelines on the Definition of Default

The current 1% net present value (NPV) threshold appears disproportionately low, effectively requiring banks to classify as default even borrowers facing minor and temporary payment difficulties. This may trigger adverse second-round effects, as affected borrowers are recorded in credit registers and subsequently face reduced or restricted access to financing.

Allowing greater flexibility in the application of forbearance measures, within prudent limits, would help preserve relationships with otherwise viable clients and support sustainable, long-term banking relationships.

The ABBL shares the same view as the EBF.

67) Do you see any issues with the current rules on own funds instruments (CET1, AT1, Tier 2)?

No position.

67.1) If you see issues with AT1 instruments, what measures would you recommend for improving the functioning of AT1 instruments?

No position.

68) What are your views on the following considerations regarding the EU implementation of the output floor?

- a. The current rules introduced by CRR3 achieve the right balance - no need to revise the output floor framework Fully Disagree
- b. Some or all of the transitional derogations related to the output floor should be prolonged Fully Agree
- c. Some or all of the transitional derogations related to the output floor should be made permanent Somewhat Agree
- d. The output floor should only apply at consolidated level Fully Agree
- e. The calibration of the output floor (72.5%) should be increased Fully Disagree

- f. The calibration of the output floor (72.5%) should be made more risk-sensitive Fully Agree
- g. The calibration of the output floor (72.5%) should be reduced Fully Disagree
- h. Other (please specify) Fully Agree

The standardised approach output floor disproportionately affects European banks, which generally rely on on-balance-sheet lending rather than fee-based business models. This contrasts with the United States, where banks make greater use of fee-based strategies, resulting in a comparatively lower impact of the floor. Consequently, capital increases required under the output floor are higher in the EU.

To reduce the negative impacts of the output floor, the European Commission, after careful deliberation, introduced several arrangements that address European specificities. Making them permanent would be an easy and yet highly effective measure that comes at no significant cost.

The ABBL shares the same view as the EBF.

3.3 – Macroprudential framework

69) In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

Please explain

ABBL believes that the main issue is the number and scope of macroprudential buffers, some of which many potentially tackle similar risks.

The macroprudential framework indeed includes five risk-weighted capital buffers.

The addition of a Countercyclical Positive Neutral Buffer (PNB), the Systemic Risk Buffer (SyRB), and the widespread use of the O-SII buffer have introduced significant gold-plating in the EU beyond international standards (SyRB) or beyond other jurisdictions in the use of discretionary requirements¹, creating an uneven playing field and deterring investment (refer to Q64,65,80). An efficient and simpler macroprudential regime should eliminate unnecessary buffers and ensure coordination between micro and macro-prudential authorities, while simultaneously avoiding excessive or duplicative capital requirements.

70) How can the macroprudential buffer framework be streamlined, while at the same time preserving resilience and the ability of responsible authorities to address systemic risks? Which buffers could be merged and what should be their role?

No position.

¹ The O-SII buffer is required to more than 170 banks in the EU, none in the US, and less than 5 banks in the UK, Canada and Japan.

71) What are your views regarding the need for a buffer for tackling sectoral risks? Is there a need to maintain a sectoral buffer specifically for real-estate exposures to ensure a more targeted application?

Please explain

No position.

72) What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks?

Please explain

No position.

73) Is the current share of releasable buffers (countercyclical buffer and the systemic risk buffer) in the total combined buffer requirement adequate, so as to ensure that sufficient resources can be released in a downturn to support lending to the economy?

Please explain

No position.

74) How could the risk-weight toolkit under Article 458 CRR be fine-tuned? Would its role change in the context of a streamlined buffer framework?

No position.

3.4 – Crisis management framework

75) Are there areas that create undue complexity in the crisis management framework and if yes, how could this undue complexity be reduced without undermining financial stability?

Examples are plentiful, beginning with the number of authorities potentially intervening in crisis management with overlapping areas of responsibilities (national supervision and resolution authorities, SSM, SRB, EBA) and a multitude of level 1, 2 and 3 texts. As crisis management would require a global approach from supervision, to prevention, to recovery, and to possible resolution or liquidation, ideally one single authority should oversee a given bank or group, either at national level or at European one, subject to geographic footprint and relative systemic importance.

Texts should be thoroughly reviewed, fostering principle-based and risk-based approaches tailored to (type of) banks and their specific business model rather than prescriptive and utterly granular ones.

The recent flurry of new guidance's issued or being consulted by the SRB is a clear example of extreme complexity derived from level 1 and 2 texts.

The ABBL shares the same view as the EBF.

76) Are the current rules related to the determination of MREL targets effective, efficient, clear and predictable?

No position.

77) How can the determination of MREL targets be rendered less complex, while preserving the resilience of the system?

Please explain

No position.

78) Do you consider that the prior permission regimes for the redemption and replacement of MREL resources should be simplified?

Please explain

No position.

79) What is your view on the rules allowing to use resolution funds to support a resolution action, in particular the minimum bail-in of 8% of the total liabilities of own funds of the distressed bank? Are they proportionate and give sufficient flexibility to handle bank failures adequately? Do they create level playing field issues vis-à-vis other jurisdictions?

Please explain

No position.

3.5 – Interactions across parts of the framework

80) In your view, which of the areas below create inefficiencies and undue complexity in the interactions across the prudential, macroprudential and crisis management parts of the framework?

No position.

81) How could the governance in the macroprudential framework be improved to achieve a more consistent application of macroprudential tools across the EU?

No position.

82) What ways could be envisaged to reduce undue complexity in the interactions across the three parts of the framework, including in relation to the capital stack and governance arrangements between the authorities in charge of the prudential, macroprudential and crisis management rules, without undermining financial stability?

No position.

83) How could the governance arrangements across the three parts of the frameworks be improved, having in mind the objective of ensuring the adequacy of requirements applying to individual banks and avoiding overlaps

No position.

3.6 – Proportionality

84) Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks?

Please explain

Fully disagree

It is a fact that smaller banks face, compared to their size, an over-proportionate high amount of regulatory requirements resulting in proportionally higher compliance cost, whether they are direct costs (internal regulatory project costs or external consultancy) or indirect costs (staff involved in Internal Control Functions / total staff).

Nevertheless, we note that the question is formulated in a way to strictly link proportionality to the size of the banks, which we reject. Instead, we want to emphasize that proportionality is core to risk-based banking supervision and should be based to the nature, scale and complexity of institutions and their inherent risks.

We suggest the following approach:

1) Clarifying the concept of proportionality

We believe that to be competitive, Europe needs a new competitive regulatory approach through risk-benefit assessment and a better implementation of the proportionality principle as set in the EU Treaty Article 5(4). As clarified by the Commission itself, under this principle, EU measures:

- must be suitable to achieve the desired end;
- must be necessary to achieve the desired end; and
- must not impose a burden on the individual that is excessive in relation to the objective sought to be achieved.

The banking regulatory framework should be assessed against these criteria, verifying that measures in force/being drafted are actually needed and are appropriately calibrated not exceeding what is necessary to achieve the result. With regards to banking regulation, generally speaking, application of the proportionality principle would imply that rules are only introduced (and maintained) if necessary to achieve financial stability, and that their intensity is commensurate to the risks that they are intended to tackle. Appropriate graduation of rules and supervision is therefore

warranted to ensure that they do not pose a disproportionate burden on a bank in light of actual risk (either connected to its size and complexity, to its business model or to other idiosyncratic aspects relevant to that risk, which might also be the case for large banks).

2) Making use of the current legal and regulatory flexibilities

In our view, improving proportionality first means using all the flexibilities already embedded in the Level 1 text and in supervisory guidance, and hard-wiring them into processes, classifications and reporting so that “same rules” do not translate into “same burden” for very different institutions.

Examples:

- Map all CRR options where proportionality is explicitly referenced (e.g. reporting in Article 99, disclosure, use of simpler standardised approaches instead of models) and adopt them consistently for SNCIs.
- Where the EU legislator has introduced transitional or preferential treatments (real estate, output floor phase-in, some trading book elements), actively apply them to avoid cliff effects for smaller portfolios.

3) Embedding proportionality in new rulemaking and impact assessment

Examples:

- For each new CRR/CRR III mandate (e.g. ESG risk disclosures under Article 449a, new credit and operational risk rules), require an explicit “proportionality chapter” assessing effects on banks of different size, business models and relevant variables and proposing tailored solutions.
- Adjust the process to ensure – also by means of adequate time - active involvement of small and non-complex institutions in consultations and targeted hearings, so that technical standards and guidelines are informed by their operational realities.

4) Enhance risk-based approach in the supervisory culture

Examples:

- For each EU country, communicate on which proportionality options/waivers a country has activated, and how they have calibrated SREP categorisation and small-bank regimes.
- Train supervisors to apply proportionality consistently, avoiding gold plating, and ensuring that similar institutions receive similar treatment across jurisdictions.

This answer has been developed by the ABBL for the EBF.

85) Do you consider that the introduction of a dedicated regulatory and supervisory regime for small banks would be warranted in the EU? In your response, please assess in particular how such a regime could meaningfully improve proportionality and efficiency, without undermining financial stability, depositor protection, or the level playing field within the EU.

Small, regionally anchored institutions make an important contribution to financing SMEs and supporting local economy. Their business models are typically characterised by low-risk profiles, close customer relationships, and reliable lending practices. At the same time, experience shows that the EU regulatory framework - primarily designed for internationally active banks - often imposes disproportionate requirements on such institutions.

A regime specifically tailored to small and low risk institutions can offer a viable alternative. This would require clearly defined, narrowly framed and EU wide consistent access criteria to avoid competitive distortions. Only institutions with limited balance sheet size, low derivatives and trading book exposure, and predominantly regional business activities should be eligible.

In order to solve the issue of level playing field, the same proportionality rules should apply to all banks operating in the same country, irrespective of whether they are independent or belong to a foreign banking group.

Participation in such a regime should be voluntary (opt in). At the same time, it must be ensured that the supervisory authority has the final say on whether a bank meets the criteria and is suitable for inclusion. Ongoing supervisory assessments would ensure that only institutions with a consistently low risk profile are covered—and that institutions must exit the regime if their business model or risk profile changes. Overall, this framework would safeguard financial stability.

International examples, such as those in the UK, Switzerland or the United States, demonstrate that such an approach is workable. The core idea could be to grant targeted regulatory relief in return for higher capital requirements or other safeguards.

A dedicated regime for these institutions would strengthen the diversity of the European banking market and reduce regulatory burdens in a targeted manner - while maintaining robust safety standards. The key is careful design that enables proportionality, preserves competitive neutrality, and limits the risk profile of participating institutions.

This answer has been developed by the ABBL for the EBF.

86) Should there be, in your view, a more consistent and proportionate set of requirements across the prudential, macroprudential and crisis management rules for smaller banks?

If your reply is Yes, please explain how such set of requirements should be framed.

Yes, need for greater proportionality of EU financial regulation. We have identified the following level 1 area where proportionality references are existing but where a “one size fits all” still applies in many jurisdictions.

- **Reporting / data collections:** EBA and ECB acknowledge that differentiated reporting and materiality thresholds are legitimate ways to apply proportionality, especially for cooperative and smaller local banks, yet national implementations often remain quasi uniform. For qualifying smaller institutions reduced or streamlined reporting requirements, risk-based reduction of reporting frequency.

- **Governance and remuneration:** CRD level 1 language permits scaling of remuneration structures, committees, risk management and internal control architectures to the nature and complexity of the institution, but in practice LSIs frequently face “G SIB style” expectations (e.g. on committee structures, deferrals, malus) that go beyond what is strictly needed to meet the level 1 standard. We would recommend a systematic scaling of governance expectations (board committees, internal control functions) and remuneration rules to business model and size, making explicit use of the proportionality wording in CRD.
- **Apart from level 1 area, we have identified that the area of on-site inspections** (EU-level SSM/ECB inspections & national supervisory law) is improvable. We recommend enhancing the risk-based planning of the inspections, tailor frequency and intensity of the engagements, with better differentiation of scope and depth, and integration of ongoing supervision teams to avoid duplication of work on the same topic for the same bank (to be further reviewed and elaborated).

This answer has been developed by the ABBL for the EBF.

87) Should the definition of small and non-complex institutions be amended? If so, should the EUR 5 billion total assets size threshold be increased? By how much? Should size be the only relevant factor or which additional elements could be introduced to better tailor requirements to their risk profiles and operational realities?

We refer to our answers above. Nevertheless, the following points are worth to be discussed:

- **Increasing the size threshold:** Raise the size threshold from EUR 5 billion to around EUR 8–10 billion just to reflect balance-sheet inflation, nominal growth, and the regulatory layering that has occurred since the SNCI regime was introduced. Alternatively, introduce a dual test combining an absolute size threshold with a ratio of total assets to national GDP resp. in relation to the size of the national banking market, inspired by some of the SSM “significance” metrics, in order to better capture the institution’s relative importance for the local economy.
- **Relaxing certain exclusion criteria:** Clarify that belonging to a significant SSM group, in itself, should not automatically exclude a small subsidiary with a local business model and low complexity. Further differentiate the notion of “trading activities”: allow a certain volume of simple trading book, hedging or domestic market-making activities without losing SNCI status, provided that thresholds expressed as a percentage of total assets or own funds are respected. Introduce an explicit criterion related to the nature of risks and not only to their aggregate level, in line with proposals made in the debate on proportionality methodologies.
- **Appropriate consideration of specific situations in Member States:** When determining the SNCI criteria, the different situations of the Member States must be adequately considered, that is, in a risk-appropriate manner to better tailor requirements the risk profiles an operational reality of institutions from this Member States.

This answer has been developed by the ABBL for the EBF.

3.7 Corporate governance

88) Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks?

Please explain

- Requirement that the variable component shall not exceed 100% of the fixed component of the total remuneration for each individual ("bonus cap"): **Very negative.**
- Requirement that the variable remuneration shall consist of different types of instruments ("balancing requirement"): **Somewhat positive.**
- Requirement that a significant part of the remuneration is deferred and vest on a pro-rata basis ("Deferral"): **Somewhat positive.**
- Requirement that a significant part of the remuneration shall be subject to malus or clawback arrangements ("malus/clawback"): **Somewhat positive.**
- Bonus cap, assessment: **Very negative.**

The bonus cap increases fixed remuneration costs, reduces flexibility in downturns, and weakens EU banks' ability to compete for talents. Non-EU banks or EU other firms can offer higher variable components and maintain more efficient cost structures and stronger performance incentives.

- Requirement that the variable remuneration shall consist of different types of instruments, assessment: **somewhat positive.**

Aligning long term incentives on shareholder interest is positive as long as it is applied above a significant threshold of variable remuneration. In principle, the obligation to deliver complex instrument mixes generates legal, tax and system costs that are too burdensome for lower levels of variable remuneration.

Non-EU peers often use simpler deferred cash structures and reserve instruments for senior management /high earners.

- Deferral requirements; assessment: **somewhat positive.**

Deferral helps align incentives on medium term risk and is useful particularly for senior management and highest earners. However, the 4-year minimum deferral for CRDV MRTs is longer than the 3-year minimum period retained for other financial services and LTI in other types of firms.

This makes banking less attractive for talents. Using a harmonized 3 to 5 years deferral rule for MRTs would allow more competitiveness and simplification of administrative and operational workload.

- Malus and claw-back, assessment: **Somewhat positive.**

These mechanisms are useful tools for risk management and conduct policy but their implementation in particular for clawback is legally and operationally complex in

jurisdictions with restrictive labor laws. This creates operational uncertainty versus competitors with more straightforward legal frameworks.

89) Where do you see potential for simplification of the EU rules on internal governance and remuneration policies of financial institutions without undermining the institutions' sound and prudent management?

While pursuing legitimate prudential objectives, EU rules on internal governance and remuneration place EU banks at a competitive disadvantage relative to non-EU peers and EU and non-EU other firm types. Their cumulative prescriptiveness, granularity and frequent revisions create structural complexity, heavy administrative burdens, and slower decision-making. This reduces agility, increases structural costs and limits EU banks' ability to innovate, attract talent and expand internationally.

- a) Remove the bonus cap to ensure effective risk management and a sufficiently flexible cost base for financial institutions.
- b) Increase flexibility in the allocation of cash and equity across upfront and deferred variable remuneration.
- c) Assess the appropriateness of deferral periods and quantitative deferral thresholds.
- d) Revise the stricter bonus cap for control functions.
- e) Revise the severance requirements in a very pragmatic manner.
- f) Simplify the remuneration disclosure requirements.
- g) Revise the definition of fixed pay in the EBA Remuneration Guidelines.
- h) Simplify the criteria for identifying Material Risk Takers.
- i) Reduce reporting requirements to the necessary minimum.

90) In your view, which regulatory measures regarding the EU rules on internal governance and remuneration policies of financial institution could lead to improvements?

Removal of the cap on fixed-to-variable ratios:

- Since CRDV, variable compensation of material risk takers and control functions are capped to a maximum of respectively 100% (200% with approval of the Supervisory Board) and 50% of fixed pay.

This led to three unintended consequences:

- a. Higher fixed cost for the organizations, limiting their ability to absorb swings in profitability (which typically are absorbed through variable compensation adjustments), meaning that cost reduction very quickly require headcount reductions;
- b. Due to pay-mix adjustments led by the cap (higher fixed pay, lower variable), mandatory deferral lost its relevance as it now relates to a smaller portion of total compensation (e.g. if an employee with 200k salary and 500k variable is now paid (because of the cap) 500k salary and 200k variable, mandatory deferral only applies to 200k vs 500k previously);

- c. For the same reason, the pay element directly linked to performance has shrunk, making pay mostly driven by base salary (which shouldn't be the case if employers want to reward performance).
- d. Improvements to the EU rules on internal governance and remuneration policies should aim at simplification, proportionality and supervisory convergence, while fully preserving sound risk management and financial stability.

Key areas for improvement include:

- **Strengthening proportionality:** Better tailor governance and remuneration requirements to the size, complexity and risk profile of institutions, particularly for mid-sized and non-systemic banks (e.g. smaller banks should be allowed to apply proportionality and disapply most of CRD requirements considering their low risk-appetite and the nature of their activities).
- **Simplifying remuneration structures:** Review the calibration of bonus caps, deferral requirements and pay-out structures to ensure competitiveness in internationally mobile and specialised segments, while maintaining strong risk alignment.
- **Reducing duplicative reporting obligations:** Streamline governance and remuneration reporting at national and EU level to avoid overlap and excessive administrative burden.

3.8 - Reporting and Disclosures

91) Which of the implemented or planned EU or national measures have in your opinion the most impact on reducing undue complexity and burden as regards bank reporting requirements? Please rank the measures according to their impact and provide evidence.

Please explain

The most impactful path forward is a medium to long term transformation toward an Integrated Reporting System in which data attributes are defined once and reused by all relevant authorities.

This approach should be guided by key principles: define once, report once, data sharing, and enhanced governance.

92) What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs?

Please explain

- a. Number of data points *High Impact*.
- b. Frequency of changes of the reporting obligations *High Impact*.
- c. The difficulty of using regulatory reporting for internal risk management purpose *High Impact*.
- d. Ad hoc reporting requests from supervisory authorities *High Impact*.
- e. Frequency of submission of reporting obligations *Medium Impact*.
- f. Other:

- i. Data Quality and Data Governance Requirement *High Impact*.
- ii. Complexity of the Regulatory Framework *High Impact*.
- iii. IT Infrastructure *High Impact*.
- iv. Corrections and Resubmissions requests *High Impact*.
- v. Duplicative requirements in multiple directives *High Impact*.

Structural factors such as data granularity, scope and volume of data, regulatory changes, fragmented templates, and lack of harmonization and overlaps in reporting requirements drive most of the reporting burden.

Against this backdrop, any initiative aimed at simplifying reporting requirements should be guided by the principle that the greatest and most durable cost savings come from preventing the proliferation of new, misaligned data requests rather than trimming templates whose implementation costs are already sunk. New reporting requirements should avoid duplication or overlap with existing obligations; where overlaps exist, data collection should be eliminated, merged, or designed to reuse existing requests.

93) What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

Modernizing reporting and reducing the associated burden requires a combination of operational and legislative measures. Initiatives set in the EBA report on the efficiency of the regulatory and supervisory framework as well as the report prepared by the ECB's Governing Council High-Level Task Force on simplification, list a number of non-legislative and legislative-oriented recommendations and policy measures to modernize reporting and reduce the reporting burden on banks. Effective coordination among authorities will be essential to translate these elements into concrete, implementable measures that meaningfully reduce the reporting burden. Greater stability of reporting frameworks, including limiting the frequency of ITS and validation rule changes, will also be critical to ensure that such efforts deliver lasting benefits for the industry.

On the operational side, improving coordination between the ECB, EBA, national competent authorities (NCAs), and the Single Resolution Board (SRB) is essential to align reporting calendars, harmonise templates, and prevent duplicative requests. Enhanced coordination across EU and national authorities is also necessary to avoid overlapping data requests and ensure consistency in data collection. Establishing a transparent repository of reporting and ad-hoc data collections would enhance visibility and support more efficient interactions with supervised institutions.

Advancing an integrated reporting framework across prudential, statistical, and resolution reporting, underpinned by a common data dictionary, would substantially reduce redundancy and improve data quality. In parallel, standardised, centralised, and harmonised reporting templates would enable higher levels of automation, while maintaining reporting requirements as consistent as possible over time (recognising that some change is unavoidable) would further support efficient processes. Enhanced change management processes are equally important, including predictable release calendars, early stakeholder consultation, and targeted impact assessments, alongside the adoption of digital tools and RegTech solutions.

Additional operational improvement could further reduce unnecessary burden. The use of materiality thresholds and tolerance margins for immaterial discrepancies can further reduce unnecessary resubmissions, while supervisors should move towards facility-level information gathering rather than creating ever expanding report frameworks. At the same time, supervisors should be given a clear target to lower the amount of reporting, both in terms of reports and individual data points. The same information should be collected only once by supervisors, with supervisors exchanging that information efficiently among themselves.

94) Do you identify any instances where the reporting requirements for banks also lead to an undue burden for bank's clients? Please explain where this is the case and how this could be improved.

Growing volume and complexity of information requests directed at clients. As supervisory, disclosure and sustainability frameworks expand, banks are often required to collect increasingly granular and sometimes overlapping datasets. In practice, this can lead to repetitive or duplicative requests, particularly affecting smaller corporates that are not yet subject to equivalent reporting obligations.

- Growing volume and duplicity of information requested when new counterparty-level credit data are introduced in reporting frameworks. Banks are often required to obtain additional information directly from their clients or to source it through external data providers. In practice, collecting this information from clients can create additional administrative effort for them and may place strain on the client relationship. Relying on external data providers is an alternative, but it is frequently associated with significant costs, which may ultimately be passed on to clients. This is particularly evident in the context of sustainability and ESG-related disclosures, where evolving regulatory frameworks (e.g., CSRD, ESRS, Taxonomy and related initiatives) require banks to gather more granular and forward-looking information from their clients.
- Growing volume and complexity of AML and KYC requirements. Clients, specially SMEs, are often required to submit the same information repeatedly, such as personal information, financial data, ownership structures, or documents, even when there have been no material changes. One potential improvement would be the broader use of EU-level central registers such as TOED and PEP registers, containing reliable and verified information. If banks could access such data directly from the register, the need for repeated client outreach would be significantly reduced, streamlining processes for all parties involved.

95) In light of the ongoing revision of a number of pieces of EU legislation on sustainability (CSRD delegated acts, Taxonomy delegated acts, SFDR), do you see the need for amending any provision of the banking regulatory framework with a view to ensure achieving the objective of properly managing sustainability-related risks faced by banks?

The ongoing simplification process, notably through the "Omnibus I" Directive (EU) 2026/470 (amending the CSRD, CSDDD and the EU Taxonomy), the review of the SFDR, as well as developments in the prudential framework (e.g. EBA Guidelines

EBA/GL/2025/01 and EBA/GL/2025/04), is welcomed by the banking sector. These initiatives aim to streamline reporting obligations, reduce administrative burdens and allow banks to focus on their core role of financing the economy and supporting the transition.

However, challenges often arise during the implementation phase, particularly through the development of Level 2 and Level 3 measures, as well as through potential gold-plating at national level. In this regard, it is essential that the simplification effort also applies to Level 2 and Level 3 legislation. As such, Taxonomy-related disclosures should be removed from Pillar 3 ESG disclosures permanently, which are of little use in a risk management application and to avoid unnecessary duplications and inconsistencies with reporting under the Delegated Regulation (EU) 2021/2178. Similarly, a review of paragraph 28 of the EBA/GL/2025/01 should align its datapoints with those of the forthcoming voluntary sustainability reporting standards to be adopted by the European Commission.

Sustainable finance regulation should ultimately facilitate the mobilisation of capital towards the transition. A key enabling factor is therefore the rationalisation and simplification of regulatory requirements, ensuring that the framework remains operational, coherent and proportionate.

In this context, the European Commission's work on SFDR 2.0 is a positive step in the right direction. The revised framework should focus on most strategic priorities in order to strengthen the adoption and operationalisation of sustainable finance:

- **Introducing clear and understandable product classifications** to support the development of sustainable finance products.
- **Removing entity-level transparency obligations** related to adverse sustainability impacts.
- **Ensuring clear and understandable product communications** for retail investors, improving transparency and comparability.
- **Improving ESG data availability** and interoperability across regulatory frameworks, which remains a key challenge for financial institutions.
- **Clarifying and harmonising the definition of “sustainable investment”** and its interaction with the **MiFID framework**, in order to ensure legal certainty and consistent application.

Such an approach would contribute to a more effective, proportionate and operational sustainable finance framework, ultimately supporting the mobilisation of private capital towards the EU's transition objectives.

The reduction of disclosure requirements is also a positive step towards reducing the administrative burden for banks. At the same time, banks have progressively mainstreamed the integration of ESG risks into their overall risk management frameworks (e.g. EBA Guidelines). Sustainability considerations should primarily be addressed through a risk-based approach, and the effective assessment and management of these risks remain heavily dependent on the availability and quality of ESG data, as well as on the costs associated with data collection.

To alleviate the burden and avoid potential competitiveness concerns, the availability of harmonised and standardised public data, as well as reliable proxies, is essential to reduce costs and avoid bilateral data collection between banks and their clients.

In this regard:

- Member States should **facilitate access to existing public datasets**, establish accessible data platforms for authorised users and promote the reuse of already available public data.
- Public authorities and supervisors should **share benchmark datasets**, for example regarding energy and water consumption, to support consistent risk assessment and reporting.
- Authorities should also **provide proxies, reference data and publicly accessible databases**, including information on emissions, asset location and insurance coverage, in order to improve data availability and comparability.

Overall, ensuring a **simplified, coherent and proportionate sustainable finance framework** will be key to enabling banks to effectively support the transition. Regulatory clarity, consistent implementation across Member States and improved availability of ESG data will help reduce operational complexity while strengthening banks' ability to manage sustainability-related risks. **Such an approach will ultimately contribute to mobilising private capital at scale and supporting the EU's strategic transition objectives.**