

PRIORITIES FOR THE EU BANKING SECTOR



JOSÉ MANUEL CAMPA

Chairperson – European Banking Authority (EBA)

Financial stability and regulatory efficiency at the core of the EBA's mission

The Global Financial Crisis and the European sovereign debt crisis triggered two waves of major regulatory and supervisory overhaul in the EU. Enhanced prudential and resolution standards were an essential part of the international response. In the EU we complemented these reforms with the establishment of a Banking Union. This has resulted in more regulation and more intrusive supervision. These were intended. However, it is also important to ensure that they are efficient in achieving its goals.

Finance and banking are often complex activities. And rules governing this sector often mirror the complexity. Rules in the financial sector are risk-based, they need to ensure that risks in financial institutions are properly managed and accounted for. They also need to deliver on their objective of financial stability. The goal should be to provide complex rules when addressing complex issues, and proportional rules to the risks addressed. The rules should ensure that the burden in complying with reporting and supervisory requirements are minimised.

Efficient and Integrated reporting

When it comes to the EBA reporting framework, proportionality has been a driver from its inception. Increased proportionality and support to institutions in understanding and managing changes, following the implementation of the recommendations included in the EBA cost of compliance study published in 2021, contribute to reduce compliance costs. Focus is put on the “need to have” versus the “nice to have” as guiding principle both in the new and existing requirements.

The objective of more integrated reporting requirements is a catalyst towards more efficiency and effectiveness and less costs for stakeholders. The core idea is that authorities should closely collaborate in defining their data requests, to avoid redundancies and ensure that once the information is requested, it is shared among all the authorities. At the EBA we have been working at defining a fully harmonised and integrated supervisory and resolution reporting framework since our inception and all authorities are expected to thoroughly and openly assess and identify the data covered by it and streamline overlaps in their own requests.

Beyond that, the EBA is also working with competent authorities (CAs) to ensure that the reporting burden is not increased by unjustified additional requests beyond regular reporting. These requests may arise in the context of ad hoc data requests

to address specific concerns at a point in time, or from complementary requests by CAs to the reporting requirements in a specific topic. Such requests may be justified in certain cases, but the case for their need should be well explained, only for exceptional circumstances, limited in scope and temporary in nature. The EBA is also working with competent authorities on the assessment of the stock of existing reporting requirements from the perspectives highlighted above.

Additionally, the EBA is working with the ECB, CAs, and the industry, to achieve reporting integration in the banking sector, covering also statistical reporting, focusing on the definition of a common dictionary and common definitions. Ultimately, a central data collection point would be the long-term vision of the integrated system, to facilitate data sharing among all authorities.

Efficiency provides simplification but regulation should remain effective.

The EBA contributes to regulatory efficiency

Beyond supervisory reporting, the EBA is also revisiting policies, products and its organisation more holistically in view to reduce administrative and undue burden and promote regulatory efficiency. The in-house Committee on Proportionality is advising the EBA since long on how to strike the right balance in delivering on its work programme.

It is important to scrutinise the framework at the end of a regulatory cycle and to revisit where policy products no longer deliver on intended outcomes. After fifteen years of the construction of the single rule book, and ten years of integrated supervision in the banking union, it is good to assess the relative performance of the rules and the role that supervisory convergence should play. We have made progress and with this progress things can be done differently, and the challenges differ. Yet, it is important that simplification and burden reduction equate by no means de-regulation. Financial stability relies on upholding our prior regulatory and supervisory efforts. Increasing certainty, simplicity and comparability of these existing rules may however strengthen the framework overall.



ANNELI TUOMINEN

Member of the Supervisory Board, ECB Representative –
Single Supervisory Mechanism (SSM)

Banks in a changing global landscape

While European banks have been resilient to large external shocks in recent years, there are unfortunately few signs of a “steady state” being within reach anytime soon in an environment marked by lingering uncertainty. At the global level, geopolitical risks remain high, shifts in macroeconomic policies by major players are possible, and regulatory uncertainties persist concerning the outlook for the full implementation of the Basel III reforms in key jurisdictions outside the EU. In Europe, the banking union remains incomplete as its third pillar of common deposit insurance is still missing, and progress on reinforcing our crisis management system (on the basis of proposals tabled by the Commission in 2023) has stalled. However, the recent strength that banks have shown in crisis episodes has led some commentators to question whether these improvements are really needed, instead arguing that capital requirements should be relaxed so that banks can be more competitive in financing the economy.

In the remainder of this contribution, I will outline how we can deal with these challenges and thereby reconcile policy objectives which may at first appear to conflict with each other.

Dealing with geopolitical risks and macroeconomic uncertainty

Geopolitical risks have the potential to affect both traditional and new risks in a multifaceted way that cuts across established categories. Potential changes in macroeconomic policies by large global actors could amplify such vulnerabilities, for example by compounding credit risks faced by banks in the context of a more sluggish economic growth outlook. Rising geopolitical risks in recent years have also been associated with an increase in reported cyber incidents. This has put banks’ operational resilience and risk management frameworks under the spotlight.

We are aware that geopolitical risks are difficult to measure, especially in an environment of uncertainty. But we are asking banks to make an effort to take such risks into account in their scenario planning through the channels which they consider most relevant for their own business, and to make contingency arrangements for their risk management and governance practices accordingly. This also suggests that the principle which has served banks well thus far, which is that robust capitalisation is the first line of defence to guard against unforeseen external shocks, will continue to remain valid going forward.

Fostering a more efficient supervisory and regulatory framework

Several efforts are underway to streamline parts of the overall supervisory and regulatory framework in order to reduce its complexity. Last year, we announced a number of reforms

to our annual bank health check to ensure that it is more risk-based. With this guiding principle in mind, we are now looking at which other supervisory processes could benefit from a similar approach to make them more effective. The European Commission recently put forward proposals to simplify corporate sustainability reporting amongst others (the “Omnibus” packages). The ECB is contributing with measures to harmonise banks’ statistical reporting. We have developed a database to keep track of ad hoc reporting requests to banks, and joint initiatives are underway with other European and national authorities as well as with the banking industry which should bear fruit in the medium term. The European Banking Authority is also looking to create a task force on simplification to carry out an overall review of the single rulebook.

Regulatory simplification should not come at the expense of banks’ overall resilience.

While there is scope for additional regulatory streamlining, this should not come at the expense of banks’ overall resilience. We should avoid repeating past mistakes where banks were often at the root of, or contributed to the amplification of, crisis episodes. Rather than debating the purported need to lower banks’ capital requirements, which I would not favour, we should instead focus on boosting competitiveness through a more integrated system with harmonised requirements. This is also why it is important to complete the banking union as originally envisaged.

Conclusion

In a changing global landscape, the current debate on how to improve the growth and competitiveness of the European economy is welcome. Recent developments suggest that increased spending in defence will be needed going forward, which will come on top of the large financing needs related to the green transition. There are clear limitations as to what banks can reasonably be asked to do in these domains, which is why it remains critical to advance plans to establish a capital markets union. It is a good time for all stakeholders concerned to further buttress the resilience of the European financial sector.



MICHAEL THEURER

Member of the Executive Board – Deutsche Bundesbank

To implement, or not to implement: Geopolitics and Basel III

To implement, or not to implement Basel III? That seems to be the question on everybody's mind.

The new US administration's debate about if and how to implement the Basel III Endgame has sparked debate in the EU as well: Is European banks' competitiveness at risk due to a possible rollback of US regulations?

The evidence tells a different story. Inadequate (global) regulation and soft supervision made the 2008 financial crisis possible.

In contrast, the Basel III regulations already implemented have strengthened financial stability. Thanks to these rules, Europe's financial system withstood the turbulence of the Corona pandemic and the banking turmoil stirred by the failures of SVB, Credit Suisse and others.

At the same time, empirical studies find that the Basel III regulations did not have a significant negative impact on economic growth or lending activity. If we factor in the positive effects of regulation, like reduced volatility, the net effects on GDP tend to be positive.

Moreover, independent research shows that banks with higher capital levels tend to be more resilient and supply credit to the real economy more reliably, especially during times of crisis.

To be clear, bureaucratic red tape is a significant issue in every modern society, and it is something that the EU must address – and this concerns banking as well. But it takes a smart approach that reconciles financial stability with international competitiveness. How do we achieve that when finalising Basel III?

First, we remain focused on solid regulations to support sustainable credit supply for our real economies. If other jurisdictions were to dial down safety standards, turbulence from abroad might become more likely, making solid regulations at home even more useful. Will financial institutions then offshore? No, since many markets are rather local in nature and we expect institutions to have an EU license for the business they are undertaking on the continent. This concerns the overwhelming majority of banking.

However, second, with a view to international competitiveness and the level playing field, it is sensible to look into trading book activities, since these tend to be carried out in a truly global market – meaning that it is possible to offer them from anywhere to anywhere.

That is why the European Commission (EC) has a mandate, according to Article 461a of the CRR, to monitor the implementation of the fundamental review of the trading book

(FRTB) in third countries, and, “where significant differences are observed”, could amend the regulation; accordingly, the EC is monitoring international implementation progress and has already postponed the EU's FRTB-implementation by one year, to the beginning of 2026.

What are our next steps? Implementing FRTB-reforms on 1 January 2026 would allow to stop running old and new systems in parallel and could be accompanied by transitional relief measures. This approach seems practical. Since 2021, banks under the Single Supervisory Mechanism (SSM) have been using Basel III rules for market risk reporting. Supervisors have already conducted several inspections on this matter, and more are planned for this year. A significant portion of the EU's transition to these rules has been completed. The parallel use of Basel II.5 and Basel III systems is costly and it means that banks have to split their resources on two systems, where they should strengthen the new, the FRTB-approach.

At the same time, given the complexities and challenges associated with FRTB, it could be sensible to consider the above mentioned transitional relief measures to mitigate cliff effects. However, like we learned with the securitisation debacle during the 2008 financial crisis, trading activities can have significant externalities. Therefore, any of the potential relief measures have to be evaluated carefully – and should not be introduced if they lead to regulatory loopholes that could facilitate the build-up of bubbles or systemic threats.

**Basel III is and will continue to
be a solid and balanced basis
for sustainable progress.**

This very careful approach towards relief measures should also be applied, if the EC – rather than implementing the FRTB on 1 January 2026 – would understandably choose to delay implementation: The time gained should be used wisely to refine requirements where necessary, without compromising regulatory effectiveness.

We need financial markets that sustainably support the real economy. Thus, there is a genuine EU interest in sound regulation. A resilient banking system strengthens trust in stable economies, which is crucial in times of rising political and economic challenges. Therefore, while looking for sensible regulatory simplification, we should keep our regulation aligned with Basel III.



FERNANDO VICARIO

Chief Executive Officer – Bank of America Europe DAC
& Country Head, Ireland

European Banks - Key for EU competitiveness

EU banks stand at a crossroads, with a key role to play in the emerging Savings and Investments Union (SIU), while simultaneously facing challenges in a global landscape where European competitiveness slows. As the Draghi Report highlights, this requires considered thought and collective action.

Reflection is warranted on several fronts, including where investors are putting their money to work, and why historically we have seen a flow of EU capital to US markets, as investors seek superior returns. Higher US annualised returns have created a self-reinforcing cycle; stronger returns attract more capital and strengthened market depth, therefore widening the performance gap.

There is also evidence of US banks consistently investing in information technology. While not guaranteeing greater returns, this correlates with medium-term efficiency. Meanwhile, EU banks often face challenges upgrading systems, managing regulatory costs, and transitioning to cloud computing while developing digital solutions. Managing technology budgets and marrying maintenance with innovation is key. Scale matters as global banks leverage digital platforms to enter new markets. This is a competitive advantage EU banks must not lose sight of.

The EU has a real opportunity to collaborate and enable banks operating in the region to contribute to competitiveness through three key roles:

First, mobilising household savings currently in deposits, requiring harmonisation of investment products across EU markets and integration of financial infrastructures.

Second, increasing securitisation to transform EU capital markets, broadening investable assets while releasing banks' balance sheet capacity for further loans.

Third, enhancing EU capital markets by increasing secondary liquidity for EU assets through market making, a capital-intensive activity requiring larger international players.

However, progress in completing the Capital Markets Union and Banking Union remains a fundamental hurdle. Key obstacles include:

- A working EU Deposit Insurance Scheme
- Limited resolution mechanisms for small/mid-sized banks
- Siloed banking sector and lack of cross-border consolidation
- Varied legal and tax frameworks

This is a pivotal moment for EU based banks, that presents real opportunity. The EU could benefit from deeper capital

markets with more private sector financing and banking disintermediation, combined with expanded securitisation. The EU securitisation market has real room to grow. Securitisation offers well known benefits: risk transfer out of banks' balance sheets; increased lending without requiring more expensive capital; simultaneous financing for numerous SMEs; support for ECB policy, corporates and sovereigns during times of economic challenges.

This is a pivotal moment for EU based banks, that presents real opportunity.

EU authorities could also consider to review the prudential framework for banks. Capital requirements for equity, project and infrastructure finance exposures may be conservative, impacting banks' ability to support sectors necessary for an accelerated EU integration and competitiveness.

The approaching end of transitional arrangements for loans to unrated corporate clients could challenge SME financing without a pivot toward a more market-based economy.

Greater political and financial integration with a common fiscal capacity could also help enable EU based banks to compete globally.

The EU has a significant opportunity to truly deliver and now is the time to act decisively and empower its banking sector as a driver of competitiveness and growth.



BERNHARD SPALT

Chief Risk Officer – Commerzbank AG

Bridging the EU's funding gaps through the Savings and Investments Union

Mobilising private capital is crucial to bridge the Europe's funding. The Draghi Report underscores the critical need for private sector investment to complement public funding for sustainable economic growth, infrastructure development, and innovation in the EU. Given the financial challenges and ambitious targets set forth by the EU, public resources alone are insufficient to meet these goals. Recent statistics highlight significant funding shortfalls across various sectors. According to the European Commission, the EU needs to increase its annual investments in energy, industrial innovation and scale up and transport system by around EUR 480 billion compared to the previous decade – just for the clean transition – and the Savings and Investments Union can play an important role in this. According to Mario Draghi, EU household savings in 2022 were EUR 1,390 billion compared to EUR 840 billion in the US. Our own study from 2024 shows that 70 per cent of Germans focus on saving rather than investing.

But, despite higher savings, EU households have considerably lower wealth than their US counterparts, largely because of the lower returns they receive on their asset holdings. All of Europe stands to benefit from stronger capital markets, and banks are part of the solution – if they are enabled to do so.

Small and Medium-sized Enterprises Financing

Through specialised loan programs, credit facilities, and venture capital support, banks provide the financial resources that SMEs need to innovate, grow, and create jobs. This is particularly important as SMEs are the backbone of the European economy. Strengthening the securitisation market is one important short-term measure to free up capital for bank financing: The annual issuance of securitisations of GDP in the US was 4 per cent of GDP in 2022, while it was just 0.3 per cent of GDP in the EU. SRTs are the most powerful tool available to banks for managing risk in the portfolio while freeing up capital. Public recognition of securitisations as a driver of capital markets is a first step, but regulation must follow. For this, there is no silver bullet: a variety of technical changes regarding due diligence, transparency, capital and approval processes on EU and national level are needed to unlock the untapped potential.

Support retail investors

Turning savers into investors requires multiple things, including affordable advice for those that lack trust and experience in capital markets. Making investment advice affordable for everyone according to their needs, requires a mix of commissions and fees-based services. In addition, investors must receive clear and concise information and go through simple processes that do not create artificial barriers for them to enter capital markets. Increasingly complex questionnaires

and documentation during the advisory processes do not increase investor trust. What is also clear: No single product will be able to offer everything: high return, low risk, diversification and regional localisation. It will be key that investors remain in a position to make an investment decision that fits their intended purpose in terms of risk, return, objective and more. Investment must also become part of our financial culture, e.g. through incentives for the inclusion of capital-markets products in pension-planning. Creating eligibility for a wide range of retirement savings products will cater to diverse investor needs. Coupled with tax advantages and simple, diversification-focused regulations, this will facilitate direct investments in various assets.

Set the right incentives

Infrastructure projects take a long time to complete, yet long-term financing is subject to higher capital requirements under Basel. Additionally, the requirements for internal rating models have recently increased, which will likely lead to higher capital costs for long-term project financing business. RWA relief measures are an effective instrument to direct more external capital towards desired investment fields as long as they do not undermine the resilience of the banking sector. An infrastructure factor could be a helpful step. The review of the Green Asset Ratio is also important to incentivise transition financing.

Risk must be understood and managed but can and should not be completely avoided.

Perfection is the enemy of the good

Europe tends to strive for 100 per cent solutions and our regulatory framework becomes more and more complex, as we try to cover every possible scenario. But truth is: Risk must be understood and managed, but can and should not be completely avoided. This requires flexibility and judgement on what risk is acceptable. We need to focus on what's necessary for a good outcome and not paralyse ourselves trying to achieve all goals at once.