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Competitiveness of the EU Banking Sector Commission Consultation

General comments

BusinessEurope is pleased that the Commission firmly acknowledges the important role of banks in providing finance to companies. European businesses need to rely on robust, trustworthy, agile financial partners in times of high uncertainties, as those that we are currently facing, and value their long-term relationships with banks to support them through uncharted waters. An efficient and competitive EU banking sector which can support the development of European companies of all sizes, providing funding at competitive prices, is essential for the EU's competitiveness considering that EU companies will continue to rely on bank debt financing for the foreseeable future. While the development of EU capital markets is an essential piece of the Savings and Investment Union, its impact will take time to materialize and banks will also remain essential intermediaries enabling access to those markets.

This is also recognised in the [19 March](#) European Council conclusions where it is stated that a fundamental precondition for sustainable growth is a true Savings and Investments Union with a fully integrated and efficient capital market that effectively channels savings into productive investments in the EU. This is key to providing European businesses, including in strategic sectors, with the equity and debt capital they need to innovate and grow, and to create quality jobs in the EU.

As mentioned, the banking sector is an integral part of this financing effort, hence Business Europe welcomes that the Council also called on the Commission to include in its upcoming report on bank competitiveness, targeted amendments to the prudential framework in order to enhance the capacity of the banking sector to finance the European economy, while safeguarding financial stability, and with a view to fully preserving a global level playing field. BusinessEurope fully agrees; one-and-a-half year after Draghi, and considering the current geopolitical situation, we need concrete legislative proposals to be implemented urgently. Competitiveness cannot only be achieved with simplification; it also requires more substantive proposals to increase risk sensitivity and remove unnecessary conservatism. We therefore call for EU policy makers to recognise the necessary urgency and need for reform and to act without delay.

Beyond equity and debt financing, European companies also depend on banks for access to risk-mitigating derivatives on competitive terms, as these are of strategic importance for the risk management of non-financial companies, stabilising cash flows and enhancing creditworthiness. A strong EU banking sector will enable banks to give access to these and other types of financial market instruments and services, being part of a strong European financial ecosystem, and being enablers of EU integrated capital markets.

As per the unanimous assessment from regulators and supervisors, the EU banking sector is strong and stable, with high levels of capitalisation and liquidity, following considerable regulatory reforms since the financial crisis and still ongoing. Credit conditions have improved since the Global Financial crisis and remained satisfactory even in other crisis episodes such as the COVID crisis. European businesses are broadly



satisfied with banking support even though the resulting pressure on risk appetite has prevented banks to provide sufficient financing for innovation and long-term growth, as set out in the [BusinessEurope 2026 Reform Barometer](#).

However, these finance conditions were accompanied by a rather low investment flow by businesses, far from the amounts expected in the Draghi report. Financing conditions could therefore prove insufficient if and when the EU's significant investment needs materialize, to finance the green and digital transitions (including the decarbonisation of the building stock and housing) and also defence and security needs, involving strategic industries which are often disproportionately classified as “high risk” by financial institutions and, in some cases, regulators and supervisors. These investment needs will become increasingly relevant and there is a real risk that the existing bank balance sheets will not be able to deliver if we do not address potential constraints in an urgent manner.

Prudential regulation

The regulatory climate affects the competitiveness of the banking sector, determining its ability to provide necessary services to companies. The EU has put in place a far-reaching reform of the financial regulatory framework to ensure risk reduction, financial stability and market confidence. This is important as non-financial companies suffer directly from financial instability. However, the increase in banks' capital and liquidity ratios has affected the ability to finance EU companies, directing a high proportion of their retained earnings to satisfying ever increasing regulatory and supervisory requirements, and leaving only a small proportion (10%, according to a recent [study](#)) available to finance growth.

It is important that the current implementation of rules and guidance, following the Basel III finalisation agreement, transposed as CRR3/CRD6 in the EU, should support companies' need for capital for investment and trade (bank loans, equity investment, trade finance, as well as specialised lending and market activities). It should also ensure access to risk management products at competitive terms, whereas, according to the EBA's latest impact study¹, the ramp up of implementation would translate into a further significant increase in capital requirements, reaching +14.8% for EU G-SIBs, and 9.7% for all “Group 1 banks”². Such further pressure on banks' capital appears unjustified, given the current high level of shock absorption capacity, putting at risk the capacity of the EU to finance its ambitions. This in stark contrast to recent proposals from the US Federal Reserve that will overall reduce the impact on US banks with -4.8%, while making the approach to credit risk more risk-sensitive allowing for better service to US corporates in the US.

It is therefore important, as set out further below, that the Standardised Approach for credit risk is recalibrated to be sufficiently risk-sensitive — particularly regarding real estate exposures, unrated corporates and counterparty risk on derivatives, for output floor and non-output floor purposes — while remaining simple and proportionate for smaller institutions to avoid unnecessary administrative burdens.

¹ Source : [EBA Basel III Monitoring exercise - Oct 2024 - data as of 31 dec 2023](#) – See Table 1 copied in Appendix 1

² Group 1 banks, as defined by the EBA, include 60 large and internationally active banks.



More dynamic financing of business needs will also depend on a successful outcome of the discussion on the securitisation package. Freeing up capacity by developing bank access to securitisation at scale is an important lever, and the opportunity to decisively unlock current impediments should not be missed. Securitisation is also an important access to funding for corporates through the financing of trade receivables in ABCP programs/term facilities and other bank warehousing facilities.

Strengthening the competitiveness of European banking players should also become a priority for the European supervisory and regulatory authorities, whose production of standards has continued to increase (for example, following the CRR3 banking package, the EBA received 130 mandates for technical standards to be established). In very practical terms, this would mean introducing a secondary objective - the competitiveness of the European economy - including the financial sector - into the objectives of the single supervisor as well as those of other supervisory authorities such as the EBA and ESMA.

Against this background, BusinessEurope proposes a few clear and targeted amendments, which should enhance the financing capacity of EU banks while at the same time safeguarding financial stability.

Treatment of unrated companies

BusinessEurope supports maintaining the current treatment for unrated corporates, keeping it until a viable and capital neutral solution has been found for corporates that do not have an external rating. Such treatment for unrated corporates should be introduced in the standardized approach, given that the problem with the lack of ratings is common for all EU banks. It would not be in the interest of the EU to force thousands of European corporates to obtain external ratings. EU legislators should primarily propose EU-based solutions making good use of the existing information about the creditworthiness of European corporates in Europe, potentially leveraging the ESAP project. This is especially relevant in view of the fact that the US has suggested to maintain a risk weight of 65% for similar corporates (to be noted that the US is not implementing the output floor so this RW of 65% will apply to all banks in categories I and II).

SME financing measures

The provision of funding to SMEs could be facilitated with the exclusion of the financing to SMEs with a financial sponsor from the ECB Guidance on leverage transactions. Another important measure is the introduction of greater flexibility in the application of the SME supporting factor, by requiring the validation of the eligibility criteria (turnover) only at the time of origination of the transaction and by exempting self-employees from such requirement.

Mortgage treatment

In addition to unrated corporates, it is essential to also make permanent the transitional arrangements for mortgages, which have been introduced to mitigate the immediate effect of the reforms following the Basel agreement, and to be consistent with the European Commission's Plan on affordable housing. Such treatment should be introduced in the standardized approach, given that the housing problem should be addressed by all EU banks.



Support market-making by EU banks

Following the recent publication of the US revised Notice of Proposed Regulation on the “Basel endgame”, the EU should also align, in timing and substance, the fundamental review of the trading book (FRTB) framework with the implementation in the US to ensure that international competitiveness is considered, given the impact on the costs of capital of (global) businesses and the hedging of financial instruments, such as foreign exchange and commodities. This means a postponement *sine die* of the FRTB start date, maintaining a real level playing field for European banks operating these market activities, or a full neutralisation of the impact if a delegated act is adopted, followed by a review of the divergences in implementation.

In the same vein, the transitional measure to reduce impact on counterparty risk for derivatives (SA-CCR) should be made permanent and introduced in the standardized approach. The CVA/PVA framework should also be reviewed to avoid divergences with other major jurisdictions in the capital markets segment where bank competition is global. The market share of non-EU banks in the EU capital market activities is now more than 50%. Further widening of the competitiveness gap would accelerate this trend, at the expense of European financial sovereignty, which would be detrimental for EU businesses, whose access to finance could be more vulnerable in difficult times, but also for the financing of sovereign debt, and the economy as a whole. The very volatile geopolitical climate of today and resulting fluctuations in energy prices, has significantly increased the need for corporates to protect themselves from unwanted price impacts.

Trade finance

Certain adjustments are needed in the case of unconditionally cancellable commitments (UCCs), that provide businesses with crucial, flexible liquidity providing a safety net that encourages business operations, investment and trade. The EU should make permanent the transitional arrangements of UCCs so that the current CCFs of 0% for this type of instrument is maintained, while set at 10% where any factor that may constrain the ability of the bank to cancel the UCC has been observed. In this regard, the EU should delay changes proposed by the EBA to the capital requirements for unused credit lines as these would raise the credit conversion factor (CCF) affecting banks’ capacity to provide credit to EU companies while the CRR is reviewed. Analogously, the definition of trade finance should be reviewed, to adjust it to current market practice and avoid that some trade finance instruments may be subject to higher CCFs, leading to higher capital requirements undermining the competitiveness of EU banks and corporates vis-à-vis international competitors.

Guarantees

Prudential regulations impose a punitive approach on all guarantees exceeding one year. Many public procurement initiatives, such as those in defence, demand open-ended guarantees from the producer, which are subject to this punitive treatment, even though these projects typically do not extend beyond one year in practice. The prudential treatment results in a 300% increase in the fee banks charge clients to provide them with these guarantees, thus increasing the cost of financing for companies and governments. The definition of a guarantee should cater for instances where the guarantee is requested to be open-ended for public procurement purposes. Also, the current capital regulation disproportionately penalizes the use of credit insurance in general, and in particular for trade finance purposes. It is necessary that the regulation recalibrates the



applicable LGD in the foundation approach so that the risk mitigation of credit insurance is acknowledged.

Specialised lending

The prudential treatment applicable to specialised lending and ADC (Acquisition, Development and Construction) should be revised. Specialised lending plays a crucial role in supporting strategic industries such as transport, infrastructure, energy transition, logistics, and export-oriented manufacturing. The prudential framework applies excessively penalising methodologies, poorly calibrated compared to observed losses³, to specialised financing activities, including the slotting approach, which lead to a reduction of lending volumes by European banks to finance important infrastructure projects and residential construction, affecting for example projects that improve energy supply and security, both in the EU and in EMDEs⁴. Furthermore, the permanence of preferential risk weights for low-risk residential real estate markets should be ensured to provide the long-term planning certainty required for the real economy. Another area of particular importance is shipping finance. European companies have become increasingly dependent on non-EU financiers due to unintended consequences of how collateral for this particular economic activity is taken into account.

Software deductions

Additional funding for corporates could also be unlocked with reduced capital requirements for banks with the removal of software deductions from capital requirements. The current regulatory framework makes the necessary investments in software for banks excessively expensive, which compromises banks' capacity to offer cutting edge financial services leveraging new technology such as blockchain, AI, quantum etc. This issue is also of utmost importance for the competitiveness of EU businesses and for EU strategic autonomy.

Default definition

The EU should adopt a more flexible approach in the context of the "new definition of default" and the application of the Net Present Value variation criterion, particularly for sound companies affected by temporary crises or catastrophic events. One of the new elements introduced by the European Banking Authority in the so-called "new definition of default" is the application of the Net Present Value variation criterion to decide whether a forbearance measure results in a diminished financial obligation that triggers the classification of the obligor as defaulted. When a bank extends a forbearance measure towards a debtor, facing or about to face difficulties in meeting its financial commitments, the Net Present Value of the cash flows according to the new schedule shall be compared with the Net Present Value of the cash flows according to the original contract. If the Net Present Value is reduced by more than 1%, this is considered a diminished financial obligation that triggers the default of the obligor. The 1% threshold is excessively strict and limits the opportunity for banks to work with a solvent business without marking it as forborne, with severe accounting and prudential consequences. Default status triggers severe consequences for the business concerned with heightened

³ See [Global Credit Data](#) analysis for reports on observed losses in project finance, aircraft finance and shipping

⁴ See [Global Emerging Markets](#) Risk Database for 30 years of credit risk statistics on public and private projects in EMDEs



cost of credit, immediate fall of rating/scoring, appearance in bad files and curtailing access to credit from other institutions. In addition, the threshold should be adjusted in the case of EU companies and EU banks operating in third countries with different market practices.

Banking Union

Banks compete not only regarding prices and interest rates but also as regards service quality, digitalization, product structuring, client relationship management, and their international network. Competitiveness of the banking sector depends thus also on innovation within the sector itself, such as investment in the digitalisation of payment systems and other banking services, which is essential for future-proofing the industry. It is thus important that EU banks can actually compete, both inside as well as outside of the EU to provide better services. This requires sufficient economies of scale to remain competitive in a global playing field.

Such economies of scale require to unlock more cross-border consolidation which is overall positive, provided mergers and acquisitions do not solely prioritise shareholder interests — such as cost reductions and higher profitability — but also preserve essential client-oriented functions, such as trade finance, which are crucial for the real economy but structurally less profitable. Increased competition between banks should be the objective enabling banks to benefit of the economies of scale to compete more easily on the global stage. It is essential to maintain a diverse ecosystem of both large international and smaller regional banks to ensure stable credit supply across all European territories and across all business segments. This requires that banks' liquidity and capital is not ring-fenced in specific Member States allowing liquidity to flow freely between Member States.
