

Briefing Note

Industry feedback to Bundesbank non-paper on Reducing regulatory complexity

November 2025

Executive Summary

AFME and its members have noted the non-paper from Bundesbank which was prepared with a view to reducing regulatory complexity and simplifying the capital stack. However, the ideas presented in the paper would increase CET1 requirements substantially, with negative consequences for profitability, lending, and European competitiveness; MREL costs would also rise, notably if non-subordinated instruments are excluded or if capital surpluses cannot be used to fulfil MREL requirements. In addition, there is no evidence of any improvement to the releasability of capital buffers and therefore the ability of the financial sector to support the economy through the cycle would remain constrained. In addition, the paper does not address the issue of overlaps between buffers.

The non-paper appears to have been prepared without reference to wider international arrangements and without consideration of the competitiveness of the European financial sector and economy at a time of substantial regulatory change. Any changes of the magnitude set out in the paper should be considered on an international basis with appropriate engagement and agreement through the BCBS. We would welcome a holistic review of the capital stack and buffer framework in its entirety – rather than a siloed component approach, which may not address the core issues in the framework today. AFME and its members will be undertaking more detailed work in the coming weeks which will lead to the development of further alternative suggestions around simplification which we look forward to sharing.

Overview

The Bundesbank non-paper sets out how banks now face multiple regulatory capital stacks and layers of requirements within these stacks. With a view of seeking to reduce the complexity the authors suggest recognising only Common Equity Tier 1 (CET1) in the capital framework and defining the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) in the resolution framework solely as an additional requirement to be met with instruments other than CET1. The authors consider that defining MREL solely as an additional non-CET1 recapitalisation requirement disentangles the capital and resolution frameworks. It is envisaged also that combining the P2R, P2G and CCoB, as well as the G-/O-SII buffer (if applicable) into a non-releasable buffer, and combining SyRB and CCyB into a releasable buffer, while converting all the risk-weighted buffer requirements into complementary leverage based buffers, reduces vertical layers.

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: c/o SPACES – Regus, First Floor Reception, Große Gallusstraße 16-18, 60312, Frankfurt am Main, Germany T: +49 (0)69 710 456 660

www.afme.eu

AFME's Position

- **In general, sufficiently considered proposals that seek to ambitiously simplify the capital and MREL framework would be welcome.** However, the approach set out in the non-paper does not present a reasoned or suitable way forward. As mentioned, it has been prepared without regard to the competitiveness of the European economy and would result in very significant consequences through increasing the existing stringent capital requirements for EU banks. Instead, it is important that any reform does not entail an increase in requirements, being capital-neutral for entities. Ultimately, the simplification and correlating elimination of overlaps should result in a reduction of requirements, in the interests of capital efficiency.
- **Reducing parallel stacks:** The paper proposes allowing only CET1 in the capital framework and phasing out AT1 and T2. This would simplify the framework and strengthen going-concern loss absorbency. However, we believe that this change would inevitably translate into substantially higher CET1 requirements reducing profitability, lending capacity, and creating level-playing-field issues with other major jurisdictions.

A thorough analysis of the possible advantages and disadvantages of making any changes to AT1 must be completed taking into account likely impacts on banks' funding both in terms of availability and cost of capital, as well as implications for lending. It would indeed be a paradox that simplification ultimately results in less competitiveness for the banking industry due to increased cost of capital. We would note that higher trigger points for coupons and capital conversion would likely increase the price of replacement AT1 and could reduce market access while changes in structure may also have implications for spreads on the current population of instruments. Furthermore, the elimination of AT1 or T2 as eligible instruments to cover capital requirements would reduce the investor base, increasing financing costs. A single prudential category for subordinated debt could be contemplated but banks should be able to issue any kind of debt within this category with respect to maturity, subordination, convertibility and payment suspension. This flexibility is important to optimise the overall cost of capital.

Given the perpetual nature of AT1 instruments, any changes would lead to long and complex grandfathering phasing period with inevitable side effects. Consideration should be given to legacy instruments and comparability with other markets, the impact on the competitiveness of EU banks across jurisdictions, and availability of funding to the real EU economy.

- **Simplification of Capital Buffers:** As it is described, the combination of the SyRB with the CCyB provides an insufficient answer to the many concerns posed by these macroprudential buffers. It does not address the issues of unpredictability, poor economic justifications, excessive national discretions and usability. The SyRB is a unique feature of the EU capital framework and has no equivalent either in the BCBS standards or in other major jurisdictions: we do not think that just combining it with the CCyB would make the combination more acceptable. In addition, the trade-off for this "combination" seems to be the ratification of the "positive neutral" buffer rate principle, with the recommendation setting it at a "significant" level. In other words, this would produce a structural increase of such a combined releasable buffer through the cycle and a clear deviation from its original purpose.

The elimination of the SyRB would certainly be a much more efficient simplification feature than any suggested "combination" with the CCyB.

- **The inclusion of the P2G in the non-releaseable buffer** making it de facto a hard requirement for banks, would imply a further increase in capital requirements for institutions and also in the MDA trigger level and would further remove flexibility in the system. As such it appears misguided and lacking justification.
- **Releasability of buffers:** The simplification proposed would not result in any improvement to the releasability of buffers. Buffer usability is often constrained through the MDA threshold rather than complexity. AFME has maintained for some time that there is the potential for a rebalancing of the CCoB and CCyB without increasing overall capital requirements to allow great and more timely responsiveness through the cycle.

To increase the releasability of buffers it would be beneficial to introduce clear and flexible enough rules for buffer replenishment after stress. Uncertainty in the market as well as an expectation of a too early or too aggressive restoration could slow down economic recovery and potentiate procyclicality.

- **Disentangling capital and resolution:** The paper suggests separating the capital and resolution frameworks by recognising only CET1 in capital requirements, and only AT1, T2, and subordinated eligible liabilities in MREL. It also suggests the exclusion of non-subordinated liabilities from MREL eligibility. However, CET1 is drawn capital available for loss absorption on a going concern, and drawn capital should be fully eligible to replace contingent capital, since by definition it is of better quality, especially when supervisors can directly control levels of capital reduction (through restriction of dividends, share buy-backs etc.). Excluding non-subordinated liabilities from MREL would make compliance significantly more costly for banks and the assets attractive to a smaller investor base. Indeed, dedicated MREL instrument issuances could have to replace a significant part of senior issuances, leading to an overall higher cost of funding.

Without the protecting layer of surplus capital instruments as AT1 and T2, the risk of investing in subordinated MREL instruments would increase since the holders of these instruments would bear losses first in a resolution. The price volatility would therefore increase, and the rating of the instruments would likely decrease, which would further reduce the investor base and increase the cost of the instruments. These proposed changes would therefore significantly reduce the flexibility in the system for both the banks in their ALM and capital management and the authorities in their intervention options.

Further complicating the requirements by creating two various capital stacks might not only be disadvantageous and risky but could also have unprecedented implications for the wider financial market.

- Ultimately, it is unclear if the proposed changes would effectively simplify the capital requirements for banks or, to the contrary, increase the burden on entities via higher capital requirements through increased required CET1 ratios, higher buffers and higher MDA trigger levels. The requirement to maintain only CET1 capital for going concern purposes would in effect lead to a lower capital threshold for the trigger of resolution action compared to the current levels where higher going concern capital levels may be reported owing to the inclusion of a broader capital base which is not restricted only to CET1. Moreover, due to lack of specificities in the MREL calculation changes, it is not possible to estimate the possible impact on already very high MREL requirements. Overall, lower and simpler MREL requirements, better aligned with the international TLAC standard, would benefit EU banks and make the real EU economy

more competitive and attractive, where banks would consider investing in the EU as a good use of capital resources.

In general, we welcome simplification efforts that increase the predictability and transparency, reduce administrative and regulatory burden and have no inflationary effects on the quantity of capital or MREL entities are required to hold. Consideration should thus be given to ensuring that any proposed “simplification” does not effectively introduce higher and more costly capital or MREL requirements negatively impacting availability of funding to the real economy and the competitiveness of the European banking sector. We are not convinced that the proposals of Bundesbank non-paper achieve this outcome.

AFME Contacts

Mark Bearman

mark.bearman@afme.eu

+44 (0)20 3828 2675

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