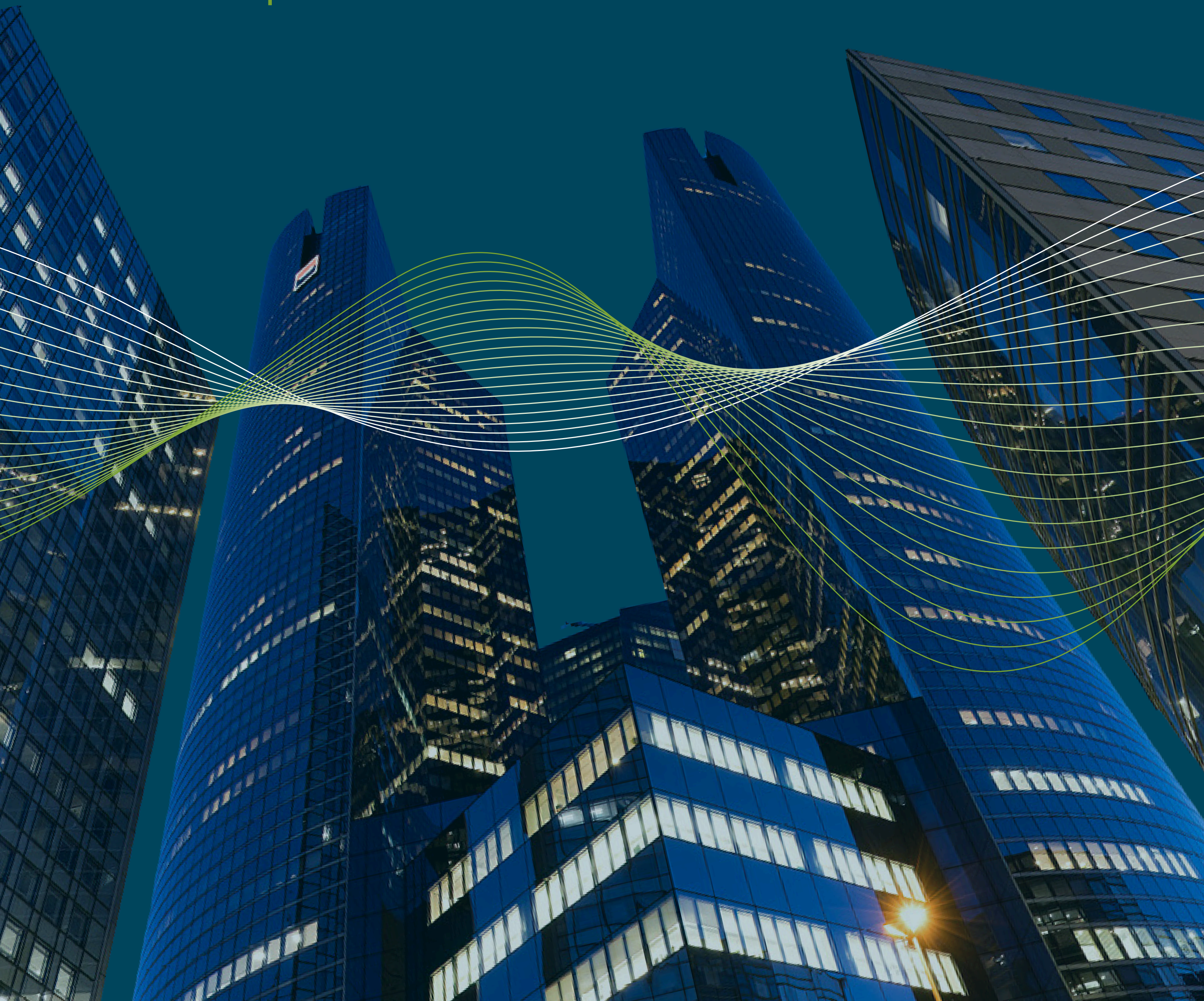
Position on the EC's report on Competitiveness of the Banking Sector and the Single Market in Banking

September 2026



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Executive Summary

The European Commission's report seeks to enhance the **competitiveness of the EU banking sector** in response to a rapidly evolving financial landscape characterised by globalisation, digital transformation, and increasing competition from non-traditional financial service providers. As customer expectations shift toward faster, more accessible, and digitally integrated financial services, traditional banking institutions must adapt in order to remain competitive and relevant. Strategic and structural policy reforms are central to addressing challenges the banking sector is facing, such as declining efficiency, reduced market share, and limited capacity to support broader economic development.

AFME strongly believes that a simplification and targeted amendments of the regulatory and supervisory framework can have a positive effect on market integration and – as a consequence – global competitiveness of the EU banking sector. These include outdated or unfitting regulation, overlapping and unclear institutional responsibilities, barriers to innovation, and skewed prudential scrutiny between traditional banks and non-bank financial service providers. Additionally, many institutions face operational inefficiencies and constraints in deploying capital for technological upgrades and service expansion.

To address these challenges, we support the Commission taking swift action to put forward reforms aimed at modernising financial sector regulation. Key policy actions we think are necessary as next steps include advancing the banking union and free flow of capital and liquidity, updating prudential frameworks to support lending and innovation while maintaining financial stability, promoting the digital transformation of banking services, encouraging greater collaboration between banks and the real economy, and revising the resolution framework. This response to the Commission report also calls for strengthening banking regulation to ensure a level playing field between established banks and non-banks.

If the Commission takes this forward, the reforms are expected to simplify the EU's regulatory and supervisory landscape, leading to more integration and efficiency. This in turn releases, innovation capacity and makes the EU banking sector more globally competitive. These changes will enable financial institutions to better meet the needs of corporates, consumers and capital markets and expands access to financial services. As a result, a more competitive and dynamic banking sector will support economic growth, enhance financial inclusion, and strengthen the overall stability of the financial system.

Overall, our policy response intends to provide a balanced and forward-looking framework that aligns regulatory modernisation, technological advancement, and market competition by fostering an environment that supports innovation while safeguarding financial stability.

Introduction

Europe cannot achieve its competitiveness ambitions without a banking sector that can deploy capital efficiently across borders and support businesses at scale. The Commission's report rightly recognises that while European banks are resilient, profitable and well-capitalised, fragmentation, trapped capital and liquidity, and regulatory complexity continue to limit their ability to support growth and investment across the Single Market.

We welcome the Commission's readiness to examine a number of long-standing concerns for the banking industry. Its commitment to simplify the complexity of the capital stack, including by reducing the number of buffers and removing the Pillar 2 requirements linked to leverage, is a positive and encouraging signal. We also welcome the firm commitments to review the transitional arrangements for the output floor and the treatment of software assets. Reforms in these areas have the potential to strengthen the competitiveness of the EU banking sector while helping banks channel more financing to households, businesses and strategic European priorities.

The focus must now shift from diagnosis to delivery. Legislative proposals, expected in early 2027, represent a critical opportunity to move the dial on the competitiveness of the EU banking sector. The Commission should take an ambitious approach to remove unnecessary barriers, improve the efficiency of capital allocation across Europe and ensure the banking sector can play its full role in financing growth, innovation and the green and digital transitions.

What matters now is pace. The One Europe, One Market roadmap sets a clear expectation that meaningful results should be delivered by the end of 2027. Europe cannot afford to lose momentum. In an increasingly competitive global environment, there is no time to waste, and businesses across the EU will rightly expect rapid progress from political ambition to real-world outcomes.

Among the potential reforms under consideration by the Commission, AFME welcomes the following positive developments which are set out in further detail in this paper:

1. Capital stack reform – This reflects long-standing industry concerns that the current framework has become overly complex, fragmented and difficult to predict. The Commission should ensure its proposals genuinely simplify the EU's capital stacks by removing EU gold-plating, reducing the number of buffers, improving buffer usability and strengthening accountability in the framework by establishing a body to oversee the overall levels of capital in the system. If designed effectively, AFME estimates a comprehensive streamlining could unlock up to EUR 2.8 trillion in additional lending to households and businesses (see AFME Capital Stack report here).

2. Capital and liquidity allocation – AFME welcomes the Commission's positive direction of travel on prudential waivers and intragroup exposures. The key issue however will be the conditions attached to making these more widely applicable. The current lack of widespread cross-border waivers – even within the Eurozone – traps significant amounts of capital and liquidity (estimated at over EUR 250 billion in liquidity and EUR 225 billion in capital). A broader, more automatically applicable framework for waivers covering capital, liquidity and internal MREL should apply in the Banking Union and banking groups across the EU, rather than being restricted to entities within a single Member State, reflecting the reality of the Single Market.

3. Supervisory accountability and proportionate, risk-based supervision – AFME welcomes the Commission's recognition that competitiveness is shaped not only by regulation, but also by supervisory practice. The proposed focus on more targeted Pillar 2 Guidance, clearer separation between binding requirements and non-binding guidance, and stronger coordination between

authorities are important steps towards more predictable, proportionate and risk-based supervision. Meaningful change will require stronger accountability for supervisory practice at EU level. The Commission, Council and European Parliament should each play a more active role in assessing the cumulative impact of supervisory requirements, scrutinising whether supervisory expectations remain firmly anchored in EU law and ensuring that ECB commitments on simplification translate into tangible burden reduction for supervised institutions. With respect to Level 2 and Level 3 rule-making, AFME also supports stronger discipline over the volume, design and sequencing of Level 2 and Level 3 measures. EBA technical standards, guidelines and Q&As should remain within their Level 1 mandates, be subject to proportionate impact assessment and competitiveness scrutiny from the design stage, and be reviewed regularly to remove obsolete, duplicative or unnecessarily burdensome requirements.

4. Output floor transitional arrangements – AFME welcomes the Commission's recognition of the structural challenge posed by the output floor for unrated corporates and low-risk mortgages, particularly given the European economy's reliance on bank financing. The Commission should embed these arrangements permanently in a more-risk based standardised approach, ensuring prudential requirements remain proportionate and more aligned with actual risk profiles. For unrated corporates specifically we support permanent SA RWs of 65% for investment grade corporates and 100% for non-investment grade corporates, with some AFME members preferring Basel aligned approaches.[1] While not explicitly mentioned in the Commission's final report, a similar approach should also be considered with respect to the transitional arrangement for counterparty credit risk. Over the coming months AFME looks forward to engaging constructively with the European Commission, Member States, the European Parliament and supervisory authorities to help shape the legislative proposals expected in Q1 2027.

5. Prudential treatment of software assets – The Commission rightly recognises the penalising treatment of software assets in the EU which requires banks to partially deduct software investments from core capital, unlike in other major jurisdictions. Software has become a critical driver of innovation and operational efficiency, and the prudential framework should reflect this reality. AFME supports treating software assets as tangible assets with the appropriate risk weighting (100%).

6. The prudential treatment of trade finance and specialised lending - The framework should be made more risk-sensitive for both trade finance and specialised lending. For trade finance instruments this should include updating the definition of trade finance to remove any reference to maturity to reflect market developments and legal requirements associated with such products and applying a 20% credit conversion factor to all guarantees. For specialised lending current input floors should be embedded permanently following the ongoing EBA review as well as reconsider the treatment of physical collateral eligibility. These changes would support the provision of vital financing to the real economy while maintaining sound risk management standards.

7. Remuneration rules – The Report represents a meaningful recognition of the link between competitiveness and the ability to attract and retain talent in the highly competitive global market in which banks operate. AFME fully supports the Commission's initiative to review remuneration rules in a way that preserves effective risk management, while addressing unintended consequences, including broader impacts on pay structures, particularly the upward pressure on fixed pay. We encourage the co-legislators to engage actively in the upcoming discussion on how current EU-specific requirements can be evolved into a more fit-for-purpose framework.

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[1] Please see full position and footnote under section 3a.

AFME also believes the Commission should prioritise further consideration to the following issues as part of its future legislative proposals, including:

1. The treatment of the non-performing loan backstop – The NPL backstop remains another example of EU gold-plating. If removed from Pillar 1, this could alleviate CET1 capital consumption equal to EUR 20 billion for significant institutions. AFME believes the Commission should consider its full removal or alternatively a review of the framework to assess whether the backstop should apply only where a bank's NPL ratio exceeds an appropriate threshold, such as 7%, thereby maintaining prudential safeguards while reducing unnecessary capital constraints.

2. Prudential Valuation – The current requirements should be removed from the Capital Requirements Regulation (CRR) to support the competitiveness of banks operating in the EU and to ensure alignment with many other jurisdictions.

3. Leverage ratio constraints – The leverage ratio framework should be recalibrated to ensure it remains a credible non-risk-based backstop while avoiding unintended constraints on low-risk activities such as market making and client clearing, both of which are essential to the development and integration of EU capital markets.

Over the coming months AFME looks forward to engaging constructively with the European Commission, Member States, the European Parliament and supervisory authorities to help shape the legislative proposals expected in Q1 2027.

	Topic	Commission recommendations	AFME view	Potential impact of AFME recommendations
Simplification	Macroprudential rules	Simplify the macropru framework and reduce the number of buffers and improve their calibration. Harmonise the framework for O-SIIs. Improve P2G guidance to make more targeted.	Strong support for recalibration and removal of buffers. Retain CCyB at zero, remove the SyRB. Abolish O-SII requirements for all entities under a G-SII group.	Frees up circa EUR 280 billion of CET1 capital (cost of capital reduced by 28 bp for G-SIIs, 51 bp for O-SIIs and 132 bps for LSIs). (AFME capital stack report).
	Microprudential rules	Remove P2 requirements for the Leverage Ratio.	Support removal of P2 leverage ratio but needs to go much further in addressing gold plating of P2 and removing double count between P2R, P2G and CCoB and greater reform of the leverage ratio.	International alignment and burden reduction.
	Resolution framework	Revise the MREL framework by eliminating unnecessary discrepancies with the TLAC standard and improve predictability/ automaticity of application. A streamlined process for granting permissions to banks in a sound financial position to speed up authorisation of buybacks and liability management, reduce compliance costs and increase flexibility, while maintaining resolvability and adherence to the TLAC standards. Proportionality of resolution planning assessments.	Support but go further and remove MREL, instead we recommend using TLAC only for the risk-based perspective and TLOF for the assets-based perspective (replacing the leverage based one) as the only resolution stacks applicable to all non-liquidation banks operating in the EU subject to possible flexibility regarding the subordination requirements. Remove MDA triggers in the gone concern capital stack. Strong support for more proportionate assessments in the resolution planning phase.	Burden reduction.
	Supervisory Accountability	Propose coordination mechanisms for competent authorities, review procedures for changing level 2 texts and EBA accountability, move some prudential rules into regulation (as opposed to directives). Make clearer the distinction between requirements and guidance. EBA and ESRB t do reports on adequacy of bank capital. Ensure bank model neutrality. Regular SRB and SSM discussions.	Support - in particular a more principles based approach and clear delineation between binding and non-binding requirements. Important to improve SSM and SRB accountability. Role for EBA to have an objective to support proportionality, competitiveness and the efficient functioning of the Single Market.	Burden reduction, avoids SSM/SRB overstep and greater public accountability.
	Reporting	Transition current reporting into a more integrated reporting framework. Explore updating the EBA mandate to make reporting more proportionate and automated. Limit additional national reporting.	Support, however, some of the perceived simplification to date comes from transferring requirements from one reporting set to another, which does not lead to effective burden reduction for banks. Would welcome changes to make the EBA framework more proportionate.	Cost reduction; cost of compliance for EBA reporting alone was estimated to be EUR 13.6 bn in 2021 which will have increased since then (EBA estimates).
	Anti Money Laundering	Work with AMLA to support implementation of the AML rulebook	EC should go further to address potential areas of the level 1 text and interaction with Level 2 and 3 measures which could lead to a disproportionate, top-down application of the rules.	Reduce implementation burden.

	Topic	Commission recommendations	AFME view	Potential impact of AFME recommendations
Market integration	Barriers to prudential integration	Measures to allow cross border groups to allocate capital and liquidity more efficiently including powers for group-wide supervisors with 'safeguards'. Measures for intragroup exposure at local and EU level. Address risk of excessive concentration of sovereign risk.	Support direction of Commission recommendations which should focus on measures specifically to automatically grant capital and liquidity waivers upon request and for internal MREL for those banks subject to SRB oversight. Harmonise the intragroup exposure framework, with more automatic application and limited Member state discretion. Consider reforming the IFSA framework as proposed by the E3.	Frees up € 475bn in trapped capital and liquidity. (AFME Banking Union report).
	Resolution safeguards	Replace EDIS with a new proposal to simplify the deposit insurance framework to better align the responsibilities for and financing of crisis management and deposit insurance measures, within the existing safety nets of the Banking Union, both at central and national levels. The proposal will also address the remaining vulnerabilities of DGSs to liquidity shortfalls. Improve the predictability of group resolution strategies and to support a more integrated allocation of funds within cross-border groups. Support efforts to strengthen credible and predictable backstop funding mechanisms for the provision of liquidity in resolution with safeguards.	Welcome the intention to develop a new proposal to replace EDIS but more clarity is needed on the measures envisaged. Enhancements should include ensuring the portability of funds between national DGSs. We also support an initial scheme focused on mutual liquidity support between national DGSs. More ambition is needed to deliver a credible, clear and transparent European mechanism for liquidity in resolution. In addition to the Commission's proposals, we recommend a review of the SRF (including to consider a new reserves-based mechanism).	Minimises trapped resources, supports market integration and simplification, enables banks to manage debt stock more efficiently. Ensures fairness and encourages market discipline.
	Mergers and Acquisitions (M&A)	Use enforcement toolkit regarding member state interventions in M&A.	Support but could go further in terms of streamlining processes to reduce the time to complete a banking M&A.	Streamlining approval procedures can reduce the time it takes to complete an M&A, currently at c285 days in the BU vs 144 days in the US, 187 in China, 173 in the UK, 115 in Japan, and 85 in Switzerland. Consolidation can help banks make use of the scale benefits of the single market, realise cost and revenue synergies, in turn improving profitability ratios at levels closer to those of global competitors (see AFME M&A report). Reducing uncertainty regarding the post-merger eligibility of MREL instruments can bring sizeable balance sheet clarity as MREL targets stand at 27.8% of banks' RWAs (SRB).

	Topic	Commission recommendations	AFME view	Potential impact of AFME recommendations
Competition	Output Floor	Make proposals on the Output floor transitional arrangements.	Support. The Commission should embed the transitional arrangements in Article 465 permanently in a more-risk based standardised approach. For unrated corporates specifically we support permanent SA RWs of 65% for investment grade corporates and 100% for non-investment grade corporates, with some AFME members preferring Basel aligned approaches*. *(see full position under section 3a).	If transitionals were to be made permanent, banks would save: EUR 300bn on Unrated Corps RWAs for large EU banks; EUR 140bn on CCR RWAs for large EU banks; A large savings amount is also expected on mortgages exposures). Basel 3 implementation in the EU estimated at c187bps impact for G-SIB CET1 ratio, o/w 85% related to OF phased in by 2030 (A&M report).
	Trade Finance, specialised lending and credit insurance	Evaluate strategic investments made through specialised lending and regulatory treatment of trade finance. No recommendation on credit insurance risk.	Support. Update definition of trade finance to remove reference to 'maturity' and review treatment of all performance and technical guarantees with a view to ensuring they attract a 20% CCF. Permanent adjustment to the input floors for specialised lending to maintain 50% multiplier. Review recognition of physical collateral for specialised lending under FIRB in line with Basel. Review and lower credit insurance LGD under FIRB.	This will achieve greater risk sensitivity of trade finance capital requirements, in line with PRA approach. The World Trade Organization (WTO) estimates that over 80% of international trade relies on some form of trade finance. The trade finance market in Europe is expected to reach a projected revenue of €13.53bn by 2030. Increases risk sensitivity for specialised lending and credit insurance.
	Non-performing loans	*No recommendation*	End application of the backstop, failing this review the current calibration and only apply when a bank's NPL ratio exceeds 7%, removing competent authorities' scope to apply additional provisioning. Review 1% NPV threshold and consider capping at 5%.	Removes EU gold-plating. CET1 capital consumption from the NPE backstop equals EUR 20.3bn for SIs (ECB).
	Market risk (FRTB)	Monitor international implementation of FRTB and implement a strategic EU approach to capital requirements.	Strong support - need an FRTB solution that is internationally consistent, operationally workable and preserves the competitiveness of EU capital markets while maintaining robust market risk standards.	International consistency.
	Remuneration	Review potentially adjusting the remuneration framework for material-risk takers.	Support Commission review of competitiveness impact, which should also consider how such rules could be further harmonised throughout the EU. Top priority is removal of the bonus cap.	Ability to compete for talent on level playing field (across geographies and sectors), plus cost savings / removal of administrative burden

	Topic	Commission recommendations	AFME view	Potential impact of AFME recommendations
Competition	Software	Revise prudential treatment of banks investments in software.	Support - Software should be treated as an asset subject to appropriate risk weighting (100% under article 113(5) CRR).	Capital saving in comparison to current EU hybrid approach (split capital deduction & risk weighting approach), more closely aligned with treatment under US GAAP. EU banks average a deduction of c16 bps on CET1 ratio (A&M report).
	Crypto Assets	*No recommendation*	EU interim treatment should be made less punitive and incorporate targeted revisions of the Basel standard. MiCAR to be adapted along side this.	International consistency.
	Prudent Valuation	*No recommendation*	Remove prudent valuation rules from the CRR, which is EU gold-plating.	Removes double counting of risk and ensures relative alignment with US framework. Frees up trapped capital, reduces operational burden. CET1 capital consumption from PruVal adjustments equals EUR 28.4bn for SIs (ECB).
	Market access (Article 21c CRD)	*No recommendation*	Amend the scope of CRD6 Article 21c to define “core banking activities” as retail deposit-taking and retail lending, in order to preserve the ability of EU corporates and financial sector entities to more easily access international sources of funding, as well as operational banking services. However, a notable number of our members do not support this request.	Provides clarity on scope, avoids re-org costs for banks.
	Leverage ratio (LR) calibration (not regarding P2)	*No recommendation*	Exclude central bank deposits and certain sovereign bonds held in liquidity buffers from the leverage exposure measure, amend Article 429 (derivative treatment), address shortcomings with SA CCR, apply LR at consolidated level.	Leverage ratio less binding - for example, the exclusion of central bank deposits from euro area LR exposure measure would equal EUR 2.4tn (57bps increase in LR) (ECB).
	ESG considerations	*No recommendation*	Review the ESG provisions in CRR3/CRD6 and (and ask the EBA to review its related guidelines) to ensure coherence with the Omnibus I package on Sustainability.	Remove EU gold-plating.
	Investment firms	Propose targeted changes to the prudential framework for investment firms, including in the threshold structure, governance and remuneration requirements, and review the calibration of capital and liquidity requirements.	Support - investment firms engaging in activities which are considered to be bank-like, should in principle be subject to the same prudential and supervisory requirements as those which are applied to banks.	Recognises diversity of investment firms and their activities while ensuring comparable prudential requirements.
	Operational risk	*No recommendation*	Take account of the changes proposed in the US and to make necessary adaptions to the EU framework for the management of operational risk to ensure the maintenance of a ‘level-playing field’.	International consistency.

1. Simplification

a. Macroprudential rules

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

AFME strongly welcomes the Commission's recognition that the EU macroprudential framework requires simplification and greater convergence. EU banks currently face a stack of seven capital buffer layers, three of which (CCyB, SyRB, and the O-SII buffers) are calibrated at national discretion. As a result, a cross-border banking group operating across all EU Member States could potentially be subject to as many as 86 distinct buffer layer requirements (including 27 national CCyB, SyRB, and O-SII calibrations).

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- **Retain the CCyB at zero,** reflecting supervisory experience that Pillar 2 and CCoB already provide additional capital capacity above Pillar 1 requirements, which should be considered when assessing the need for additional macroprudential buffers, thereby avoiding multiple counting of risks and unnecessarily increasing the overall capital stack. In any case, it should be clarified that national authorities are not entitled to setting of a "positive neutral CCyB" as such a feature is not contemplated in the original CCyB tool and constitutes a case of gold-plating.
- **Removal of the SyRB**, due to substantial overlap with existing prudential and macroprudential tools, including G-SII/O-SII buffers and the CCyB, and its status as non-Basel "gold-plating" and the absolute discretion it offers to national authorities.
- **Address systemic risk** through the G-SII/O-SII buffer but **abolish O-SII requirements for all entities under a G-SII group** as unnecessary layering, where G-SII would only be subject to the G-SII buffer and not both. Set the O-SII buffer in reference to the EU Banking Union and not on the national economy and cap the **O-SII buffer rate at 0.75%**, i.e. below lowest level of the G-SII buffer as per FSB rules to ensure effectively distinguishing between G-SII and O-SII buffers.

AFME therefore supports a simplification of the EU macroprudential framework via removal and recalibration of buffers. We also support the harmonisation of the O-SII framework in particular where they overlap with G-SII buffers.

b. Microprudential Rules

Commission recommendation: Propose measures to enhance the functioning of Pillar 2 guidance to ensure its targeted application and propose to remove Pillar 2 capital requirements related to the leverage ratio.

AFME strongly welcomes the Commission's recognition of concerns raised regarding the Pillar 2 (P2) requirements and guidance, but notes that the Commission falls significantly short of AFME recommendations. AFME has consistently highlighted the unnecessary complexity and untransparent use of P2R and P2G particularly in the Euro area as a major source of concern for banks. While the EC's intention to the remove the P2 requirement on the leverage ratio is welcome, it is not considered a major step in removing supervisory gold-plating. We also welcome the intention to enhance the functioning of the P2G, however AFME recommends that more ambitious proposals are also made in relation to P2R.

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- **Calibrate P2R, P2G and the CCoB holistically** to avoid overlaps and double counting, particularly by ensuring that P2G reflects the countercyclical nature of adverse stress-test scenarios and takes into account capital already provided through the CCoB and other macroprudential buffers. We support simplified calibration - ideally transparently prescribed in the level 1 text - that is predictable and harmonised across jurisdictions in order to provide a more horizontal approach in the EU and allow for more stable capital planning. **Increase regulatory transparency to support draw down of supervisory buffers** with a clear market signal that doing so does not imply weakness. Supervisors should implement clear communication plans that set out expectations that banks' draw downs, subject to oversight, are desirable in stress conditions. Usability could further be improved by providing ex-ante expectations for re-instating the drawn down buffer, e.g. a suitable timeline for the build-up.

- **Increase flexibility, predictability and simplification in the capital** framework by the removal of the compounding MDA triggers across the prudential framework, namely from the leverage stack and from the TLAC / MREL stack.
- **Put the internationally agreed leverage ratio** at the sole centre of non-risk weighted measures.
- **Review the scope of the leverage ratio** and exclude central bank deposits from the exposure measure in the view of international alignment and well-functioning monetary policy transmission. It should be ensured that the review of the scope of the leverage ratio will not, in any way, give rise to a higher leverage ratio requirement (see section 3. j on competitiveness measures for the leverage ratio).

AFME therefore supports the proposals for microprudential rules but recommends higher ambition levels with respect to P2R transparency and coherence of all microprudential rules, including MDA triggers and draw down guidance.

c. Simplification of the Resolution framework

Commission recommendations:

- Propose to revise the MREL framework, bringing it closer to international standards by eliminating unnecessary discrepancies with the TLAC standard and by introducing a simpler, more automatic and predictable calibration. The revised framework will preserve the resilience of the resolution framework, retain incentives for resolvability, and ensure that requirements are proportionate, in particular for smaller banks.
- Propose a streamlined process for granting permissions to banks in a sound financial position to speed up authorisation of buybacks and liability management, reduce compliance costs and increase flexibility, while maintaining resolvability and adherence to the TLAC standards.
- Propose that certain assessments in the resolution planning phase – including those on frequency of resolution planning cycles or the related adoption procedures – are made more proportionate to reflect the fact that resolution planning activities have matured since the crisis management framework was introduced.

AFME strongly welcomes the Commission's recognition that the resolution rules in the EU are overly complex but further ambition is needed. In particular we support the proposal of bringing MREL requirements closer to TLAC, where AFME suggests using TLAC only for the risk-based perspective and TLOF for the assets-based perspective (replacing the leverage-based one) as the only resolution stacks applicable to all non-liquidation banks operating in the EU subject to possible flexibility regarding the subordination requirements. We also welcome the simplification of buybacks and liability management as well as supervisory driven resolution planning cycles.

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- For the risk-based requirements, **remove the MREL framework and focus on TLAC only.** Focus on TLAC would repair the current calibration mechanic whereby any increase in the going-concern stack automatically ends up almost doubled in the gone-concern one via the automatic calibration of Recapitalisation Amount (RCA): as it stands, post resolution considerations are not reflected automatically in RCA calibration leading to banks holding significantly higher contingent capital than actually required in practice. Lastly, the proposal removes conceptual misalignment in MREL, i.e. the market confidence charge: market confidence cannot be rebuilt via a buffer. The revised framework must remain firmly anchored in and consistent with the internationally agreed standards. Moreover, we recommend removing duplicative definitions of eligible resources via alignment of MREL and TLAC eligible liabilities criteria, ensuring that only one gone concern liabilities stack remains. The alignment should ensure that the type of liabilities available to meet MREL today remain available, particularly for institutions that are not currently subject to TLAC. In this regard, the existing TLAC allowances should be preserved and made available within the aligned framework, avoiding an unwarranted increase in funding needs.

- From a non-risk based (asset-based) perspective, **keep TLOF as a mainly subordinated** (subject to allowance foreseen in Art. 72b (3) CRR) requirement for all firms currently under MREL requirements. This proposal would significantly increase transparency and predictability for firms and all their stakeholders.
- Similarly to recent CMDI reforms, **introduce a floor for banks with sale of business and market exit as preferred resolution strategy** (linked to the possible use of DGS funds to access the SRF).
- **Remove MDA triggers currently embedded in the gone concern capital stack.** This is conceptually desirable because it avoids perceptions of stress and hence instability risks without actual cause for concern and would make the concept simpler, more transparent and easier to understand for investors.
- Streamline the process for **granting permissions to speed up authorisation of buybacks and liability management**: Article 78a CRR applies a broad prior-permission framework to eligible liabilities, including Senior Non-Preferred and Senior Preferred debt. This implies requiring approval for routine calls, redemptions, repayments or repurchases even where the bank remains comfortably above MREL/TLAC requirements. Simplifying Article 78a CRR by limiting mandatory resolution-authority approval to cases where the reduction would result in, or risk causing, a breach of MREL or TLAC is mandated. This would allow EU banks to manage their debt stock more efficiently, including through liability-management exercises combined with new issuance, while preserving resolvability.
- **Make certain assessments in the resolution planning phase more proportionate**, in particular to reduce the frequency of reviews of resolution plans. In our view, material changes should still require updates to be made. We note that the SRB has recommended similar legislative changes in this respect[2] and this would align with developments in other jurisdictions[3,4]. However, after more than 10 years of the Single Resolution Mechanism (SRM), we encourage a holistic and wide-ranging review of the SRM and BRRD to identify other simplifications, as set out later in this section on simplification. In addition, more proportionality in the resolution planning phase should aim to improve comparability and apply to the setting of internal MREL requirements. For hosted subsidiaries of EU and non-EU banks, the SRB should place greater weight on resolvability capabilities at parent level when determining local requirements. This would be consistent with the global preference for Single Point of Entry (SPE) bail-in resolution strategies for G-SIBs and would support stronger regulatory coordination with international counterparts. For subsidiaries of non-EU banks, improvements to the calibration of internal MREL should be achieved through an internal MREL scalar, as envisaged by the FSB and as implemented by other jurisdictions. For Banking Union subsidiaries of Banking Union resolution entities, waivers should be made available to remove the requirement for internal MREL.

AFME therefore supports the proposals for resolution rules but recommends higher ambition levels with respect to MREL simplification and MDA triggers embedded in the gone concern capital stack, as well as for simplifications to the SRM and BRRD.

d. Shared responsibility and interaction of rules

Commission recommendations:

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

[2] https://www.srb.europa.eu/system/files/media/document/The%20SRB%27s%20approach%20to%20simplification.pdf
[3] https://www.occ.treas.gov/news-issuances/speeches/2026/pub-speech-2026-4.pdf
[4] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/2026/uk-deposit-takers-2026-priorities.pdf

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

AFME fully supports the EC's proposals in shared responsibilities and the Commission's proposal for stronger coordination between authorities and has detailed recommendations to support this initiative. The industry will work to further fulfil the needs for a more principle-based approach to regulatory and supervisory compliance. In particular we support a clear delineation between binding and non-binding requirements – e.g. between level 2 and level 3 regulation from their inception. Assessing the impact of supervisory and resolution actions on banks and the system is also considered a positive development. We further strongly support the EC's intention to ensure neutral supervisory practices and encourage free provision of banking services across the EU. However, reporting mandates without teeth will not change supervisory behaviour. AFME's position is unambiguous: any EBA or ESRB reporting mandate must be paired with precise, binding follow-up obligations otherwise it is a box-ticking exercise, not a reform.

To address fragmented domestic practices and overlapping requirements, AFME supports stronger accountability, clearer control mechanisms and regular reviews of regulatory standards, including Q&As, to ensure the framework remains coherent, proportionate and effective. Where appropriate, more directly applicable regulation could also improve harmonisation and reduce implementation delays.

AFME calls on the Commission to use the Q1 2027 Banking Package to deliver the concrete, enforceable reforms as follows:

- **Ensure genuine supervisory objectivity and that supervisory practices are neutral with respect to banks' organisational models and do not impede cross-border banking activity.** AFME strongly supports the Commission's proposal to work with EU and national authorities to ensure that supervisory bias is eliminated. Supervisory practices should not create unjustified barriers to the efficient allocation of capital, liquidity and other resources within banking groups.
- **Ensure that the distinction between binding requirements and non-binding supervisory guidance is respected in substance as well as in form.** Reclassification or clearer labelling alone is insufficient where formally non-binding expectations are prescriptive, applied as benchmarks through the SSM's assessments or enforced through supervisory escalation. Supervisory guidance should remain firmly anchored in and framed by existing Union law, focus on prudential outcomes, reflect the proportionality requirement enshrined in the EU Treaty and allow institutions to demonstrate alternative approaches that achieve those outcomes. Where authorities consider the existing binding framework inadequate, changes should be pursued through the appropriate legislative or EBA rule-making process. Maintaining this distinction is essential to preserve the hierarchy of norms, ensure legal certainty and maintain clear institutional accountability. Supervisory authorities should support the consistent application of the framework, not operate in practice as substitutes for legislative or regulatory requirements. The SSM is to apply and operationalise the framework established by co-legislators and technical standard-setters, rather than to introduce new material requirements through supervisory expectations, guidance, Q&As or supervisory practices. Policy change should therefore be subject to the appropriate legislative or regulatory process, including consultation, impact assessment and scrutiny by the relevant institutions.
- **Establish structured EU-level oversight of supervisory practice.** The Commission, Council and European Parliament should each play a more active and clearly defined role in scrutinising whether supervisory expectations remain within the applicable legal framework, are proportionate and risk-based, and support the objectives of the Single Market. This should include regular Council-level review of supervisory practice, stronger parliamentary

scrutiny of new and materially amended expectations, and a more frequent, transparent and evidence-based Commission review of the exercise of SSM powers.

- Give the proposed Commission-SSM-SRB dialogue a clear mandate and measurable outputs. The discussions should systematically assess the cumulative effect, proportionality and Single Market impact of supervisory and resolution practices, drawing on structured evidence from supervised institutions. They should result in published conclusions, identifiable follow-up actions and periodic assessment of whether simplification initiatives have delivered tangible reductions in unnecessary burden, duplication and cross-border friction.
- Strengthen supervisory transparency by incentivising the SSM to contribute to competitiveness through proportionate, transparent and predictable supervision, firmly anchored in Union law, with clear expectations around materiality, mandate discipline and accountability.
- Establish an EU-wide banking forum for microprudential, macroprudential and resolution authorities, as well as relevant national bodies. No authority currently assesses cumulative impacts consistently across microprudential, macroprudential, resolution and supervisory layers. A central forum would be charged with assessing capital impacts, reducing overlaps and improving consistency across jurisdictions. Irrespective of its final design, the mechanism should treat competitiveness as a central consideration and assess both aggregate capital levels and the cumulative requirements imposed on individual institutions. It should also be operational and outcome-oriented, rather than becoming another high-level forum without concrete results. Recognising that the legal prerogatives of the different authorities cannot be overridden, a comply-or-explain approach could provide an effective accountability mechanism. Where a recommendation of the forum is not followed by the relevant authority, including the SSM or the SRB, the reasons should be reflected in the relevant formal decision, such as a SREP or MREL decision. This would strengthen accountability and provide institutions with an additional basis on which to challenge or appeal such decisions. The forum should review Level 1 legislation, technical standards, Q&As, supervisory guidance and other expectations to identify obsolete, duplicative, disproportionate or anti-competitive requirements, including non-binding instruments applied as de facto binding standards. AFME is neutral on the forum's location or governance, provided it enables a holistic EU-wide assessment and supports common methodologies, including for stress testing.
- Strengthen regulatory stock-takes, including RTS and Q&As, through a regular Commission-led process that identifies obsolete, duplicative, anti-competitive or unfit rules and interpretations and assesses whether the framework remains coherent, proportionate and supportive of EU competitiveness. The Commission should also enhance monitoring of how mandates are developed and applied, with impact assessments considering interactions between new or amended instruments and existing microprudential, macroprudential, resolution and supervisory requirements. Likewise, the ESAs should be required to undertake an assessment in the design phase of new level 2 regulation to consider aspects such as duplication and costs to implement.
- Address transposition challenges by moving suitable requirements into directly applicable EU regulations, where this would improve harmonisation and reduce gold-plating. SREP and stress-testing requirements currently set out in the CRD could benefit from this approach, while other areas should remain sensitive to national implementation needs and may require a less prescriptive, more principles-based Level 1 framework.
- Improve the interaction between Level 1, Level 2 and Level 3 measures. AFME notes that complexity is not only generated by the content of individual requirements but also by the interaction of regulatory layers over time. Sequencing failures, where Level 1 obligations apply before the corresponding Level 2 standards are finalised, frequently give rise to duplicative implementation, inconsistent supervisory expectations and avoidable operational costs. The Commission should therefore establish a clearer framework governing the interaction between Level 1 legislation, technical standards, guidance and Q&As, including a general principle that obligations dependent on Level 2 measures should not apply before those measures are finalised and institutions have been granted an adequate implementation period.
- Enhance consistency of Level 1 across Member States by making greater use of Regulations going forward instead of Directives where appropriate – for instance with appropriate safeguards to mitigate the risks that a Regulation is designed without due regard to the impact that it will have on individual Member States markets (given maximum harmonisation and the loss of ability for Member States to address calibrations through transposition).

AFME therefore recommends enforceable rules and controls that translate authorities' accountability, interaction and coordination into measurable outcomes. Within its existing mandate, the EBA could be given a clear objective to support proportionality, competitiveness and the efficient functioning of the Single Market.

i) Single Supervisory Mechanism

As regards the accountability of the **Single Supervisory Mechanism** in particular, AFME welcomes the Commission's recognition that the competitiveness of the European banking sector is shaped not only by regulation, but also by supervisory practice. AFME also welcomes the Commission's recognition that increasing reliance on soft-law instruments can contribute to complexity and fragmentation, as well as the Commission's call for a broader cultural shift towards more principles-, risk- and outcome-based supervision and the recognition that accountability mechanisms should be reinforced where appropriate and that greater scrutiny should be given to the cumulative impact of supervisory requirement.

Successful supervision relies on legal certainty, predictability, proportionality, accountability and a clear focus on material risks. Where those conditions are absent(i.e. where requirements emerge outside the legislative process) or are applied uniformly regardless of a bank's risk profile and risk management, or cannot effectively be reviewed, then the costs are tangible. Resources are diverted away from financing the economy and towards the implementation of increasingly detailed supervisory expectations, while the cumulative burden that the EU's simplification and competitiveness agenda seeks to reduce continues to grow.

Banks have long called for greater transparency and clarity regarding supervisory approaches, and constructive dialogue with supervisors is both necessary and welcome. However, requests for clarity do not require, and should not automatically translate into, exhaustive and prescriptive expectations. Prescriptiveness and volume do not deliver predictability, certainty and clarity; they entrench a one-size-fits-all approach, particularly where departure carries supervisory consequences. This risks displacing an institution's own risk management, eroding the diversity of business models and risk profiles which contribute to a resilient and diverse European banking landscape.

The cumulative impact of requirements also deserves some attention. As mentioned above, new requirements are frequently layered on top of existing obligations without removal or reprioritisation of earlier expectations.

In light of the Q1 2027 banking package, **AFME therefore recommends the following**:

1. **A more frequent and outcome-focused SSM review:** The Commission's review of the SSM Regulation should become more frequent and go beyond a procedural stock-take to a comprehensive, transparent and independent evaluation of how supervisory powers have been exercised. It should cover:

   - the development and application of supervisory expectations against the ECB's supervisory mandate and the hierarchy of norms;
   - the use and impact of supervisory activities and escalation measures;
   - the delivery of the SSM simplification objective; and how supervisory practices affect the legal certainty, proportionality, competitiveness and functioning of the EU banking sector.

   The review should be supported by a formalised consultation process to gather stakeholder evidence and should be capable of generating specific recommendations for adjustment.

2. **Ensure simplification agenda delivers meaningful burden reduction:** The Commission should also take a more active role in monitoring whether the SSM's simplification commitments deliver tangible burden reduction for supervised institutions. This should recognise that the stock and application of supervisory expectations can itself be an important source of complexity. Progress should be measured by outcomes observed by supervised institutions, including the removal, consolidation or de-prioritisation of legacy expectations, rather than by the completion of internal process reforms alone.

   AFME recognises that many of the aspects discussed in this paper concern supervisory processes that ultimately fall within the ECB's remit and cannot be addressed through legislative action alone. Nevertheless, this should not prevent the Commission, the Council and the European Parliament from considering how accountability, oversight and review arrangements can be strengthened within the existing institutional framework. The forthcoming review of the SSM framework and preparation of the Q1 2027 banking package provide a timely opportunity to consider how these objectives can best be achieved.

As part of this process, the European Commission should:

3. **Enhance safeguards for supervisory expectations:**

- Assess whether ECB Banking Supervision has established a robust process for testing the legal basis, proportionality and consistency of significant supervisory expectations before adoption and periodically thereafter. Meaningful consultation, proportionate ex-ante cost-benefit analysis and periodic ex-post evaluation should become standard for significant new or amended expectations, methodological changes and major supervisory exercises. The safeguards should reflect practical effects rather than formal designation.
- Assess whether supervisory expectations remain anchored in the legal framework in force and do not anticipate choices still before the co-legislators or measures for which the EBA has received a mandate. Where the legislative or EBA framework has subsequently developed, existing expectations should be reviewed and aligned, or any divergence should be clearly explained within the applicable institutional framework.

4. **Assess competitiveness impacts of supervisory practices:** Consider how the impact of supervisory practice on competitiveness and long-term growth can be assessed and reported transparently. This should include effects on banks' business models, investment capacity, cross-border activity and ability to finance the European economy. This perspective should complement financial stability: where several prudentially sound approaches are available, supervisors should avoid unnecessarily burdensome options.

5. **Stronger institutional accountability and review**

The Commission should also consider how the wider EU institutional framework can support more effective scrutiny of ECB supervisory practice:

- Work with the Council to examine options for regular and structured scrutiny of significant ECB supervisory expectations and practices. This should consider whether expectations remain within Union law, are proportionate and risk-based, and are consistent with wider Union policy objectives. Scrutiny should include periodic stock-taking and the possibility of examining significant new or materially amended expectations.
- European Parliament engagement with the Chair of the Supervisory Board should give structured attention to how expectations are set and applied. Parliament should have access to the expertise and information required to assess the objective, legal basis, proportionality and practical effect of significant supervisory instruments, including through a dedicated banking-supervision scrutiny capability. Prior to adoption of a significant instrument, the ECB should provide its objective, legal basis and the Union-law provisions it is intended to specify.
- Examine how the effectiveness, transparency and independence of the Administrative board of review (ABoR) can be strengthened. This should include publication of opinions and procedures on an anonymised basis where necessary, reasons where the Supervisory Board departs from an opinion, adequate resourcing, and consideration of whether review should extend to informal measures that produce material practical effects. The appointment and reporting arrangements should reinforce confidence in the Board's independence.
- Assess whether the current framework provides effective judicial protection where formally non-binding expectations or informal supervisory communications produce material practical effects for supervised institutions, and whether clarification or legislative change is required. Review should be capable of addressing compliance with Union law, procedural safeguards and general principles, including proportionality.

ii) Single Resolution Mechanism (SRM)

We support the European Commission's conclusion that certain aspects of the regulatory framework are unduly complex and burdensome and should be simplified. AFME highlights the SRM as a particular area where review and reform are needed.

However, after more than 10 years of the SRM, we encourage a holistic and wide-ranging review of the SRM and BRRD to identify other simplifications. This should be supported by a robust cost-benefit analysis and include consideration of the role played by the expectations of resolution authorities and the interplay between those and Level 1 requirements.

In light of the Q1 2027 banking package, **AFME therefore recommends the following:**

2. Beyond reducing the frequency of reviews of resolution plans and ensuring consistency with global preferences for SPE strategies, we recommend reviewing the scope of Articles 11, 55 and 71a of the BRRD, including ensuring that the accompanying Level 2 requirements and guidance from resolution authorities remain proportionate. Currently, data requests from the SRB (under Article 11) are not required to be limited to what is necessary, considering the resolution strategy of the institution. We recommend that this be addressed as part of the European Commission's proposals to ensure authorities adopt a holistic approach to setting requirements. Some items listed in Sections B and C of the Annex to the BRRD are too generic to determine whether they are relevant to a given resolution strategy and whether they could create impediments to resolvability, resulting in requests for unnecessary analysis. Requests from resolution authorities are also often redundant due to relevant information already being provided to supervisors and resolution authorities, so we welcome the European Commission's proposal for stronger coordination mechanisms between authorities. As a specific example, we note that valuation requirements have led to disproportionate expectations from resolution authorities for banks to produce data ex ante and to maintain access to a broad volume of data which is unlikely to be useful for real time valuation in the event of resolution, considering that, as mentioned in Article 36(9) of the BRRD, any provisional valuation shall include a buffer for additional losses. In addition, the requirements on record-keeping and the breadth of contracts in scope of Articles 55 (notwithstanding the amendments made as part of the CMDI review) and 71a are unduly onerous.

3. A review should also give consideration to other Level 1 changes to ensure the expectations of resolution authorities remain proportionate. This could include:

- Requiring the SRB to accompany consultations on guidance and expectations with a thorough cost-benefit analysis, and to review guidance and expectations periodically to assess their continued relevance, effectiveness and proportionality from a cost-benefit perspective.

- Requiring the SRB to clarify the types of institution for which its guidance and expectations apply.

- Targeted changes to the requirements applicable to banks according to their resolution strategy and recognising global resolution strategies and global frameworks. This would support global cooperation and remove unnecessary local requirements for institutions.

- Requiring clear justification for the need for a Variant Resolution Strategy (VRS) to ensure a VRS is not a default requirement.

e. Supervisory reporting

Commission recommendations:

- Support the transition from the current reporting approach to more integrated prudential, statistical, and resolution reporting, with robust governance arrangements and a common data dictionary as cornerstones and incentivise the relevant authorities, advised by the Joint Bank Reporting Committee, to proceed with the technical work and deliver tangible improvements.
- Considering all options available to improve the competitiveness of the EU banking sector including potentially reviewing the mandate of the EBA, propose targeted legislative changes, where needed, to mandate the EBA to deliver further proportionality, simplification and automation of reporting on a technical level, including as regards materiality thresholds for minor reporting errors and other aspects that unduly increase the reporting burden.

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

Overall AFME supports the Commission's intentions and proposed ways of reducing reporting complexity, however, some of the perceived simplification to date comes from transferring requirements from one reporting set to another, which does not lead to effective burden reduction for banks. We welcome changes to make the EBA framework more proportionate.

AFME and its members agree that reporting and disclosure requirements can be a source of complexity. The industry observes that banks are required to report a very high number of data points under the current reporting standards. While broad reporting requirements can be seen to improve risk identification by supervisors and comparability across banks, their downside are increased compliance costs and administrative burden for banks which calls for a substantial rationalisation of requirements.

We recognise that the Commission summarises that reporting burden stems from the frequent changes of reporting requirements, unnecessary complexity, the lack of clarity and consistency, and duplication of reporting stemming from the limited data sharing among authorities.

The Commission notes also that significant steps have been taken to simplify and streamline reporting requirements and that the EBA has already implemented substantive measures to reduce the reporting burden for banks. The EBA's draft ITS does streamline and simplify reporting for banks in several aspects, however, some of the perceived simplification comes from transferring requirements from one reporting set to another, which does not lead to effective burden reduction for banks. The industry further notes that the package also includes new reporting requirements with additional implementation effort by banks and, in several cases, removes materiality thresholds that were previously in place. AFME notes that the burden of implementing a new requirement on banks is significantly larger than the relief coming from discontinuing reporting. In addition to new reporting requirements, simplification should not become a hidden cost: Changes to reporting requirements can necessitate significant data infrastructure uplifts. These are burdensome in nature and, rather than delivering genuine simplification for banks, can require additional investment while rendering existing data infrastructures obsolete.

In the meantime, the EBA's current errors and resubmissions framework is not proportionate in practice. The EUR 10,000 absolute threshold captures many reporting adjustments that are immaterial from both a risk and supervisory perspective, resulting in costly and resource-intensive resubmissions with little prudential value. The framework should be revised to introduce transparent risk-based materiality thresholds that focus on the impact of an error on firms' regulatory capital, leverage, liquidity and other key prudential metrics. Furthermore, adjustments stemming from evolving methodologies, regulatory changes, or interpretative developments should be expressly excluded from resubmission requirements. Pending implementation of a revised framework, firms should be granted interim relief from the obligation to resubmit historical data for immaterial reporting differences.

f. Establishing and maintaining a simple and proportionate Anti Money Laundering (AML) framework

Commission Recommendation: Work with the AMLA in implementing the EU's single AML rulebook, which will apply directly in Member States from 10 July 2027 and will harmonise Know Your Customer requirements and Suspicious Activity Reporting across the Union.

AFME welcomes that the Commission has used the opportunity of the competitiveness report to take account of forthcoming implementation of the new AML rulebook, nonetheless we think a more ambitious approach should be taken to ensure a proportionate approach, which is risk based and supports competitiveness at all levels of the legislative framework.

Level 1 clarification and structural issues

Key Level 1 provisions require clarification to support competitiveness, proportionality and effective cross-border business models. Early and sustained private-sector engagement will be essential to ensure the framework is workable and implemented effectively.

Preserving the risk-based approach

The new framework must preserve a genuinely risk-based approach. Legislation, technical standards and supervisory expectations should allow firms to calibrate controls to financial-crime risk and ensure effectiveness, rather than apply uniform treatment across customers, products and exposures. This is essential to establish an effective, proportionate and internationally competitive AML/CFT framework.

Priority issues include:

- **Group-wide requirements, the parent undertaking in the Union framework and information sharing (Article 16 AMLR)** where uncertainty over governance, cross-border information sharing and application across international groups may necessitate significant changes to operating models and compliance frameworks which do not appropriately cohere with established legal entity structures compliant with EU law (i.e. Capital Requirements Directive), the Commission and AMLA should provide early clarification on the operation of the EU Parent Undertaking framework, governance expectations and information-sharing requirements. This should ensure that implementation does not require unnecessary restructuring of operating models and compliance frameworks.
- **The treatment of foreign legal entities and arrangements (Article 67 AMLR)** where uncertainty over scope, limited data availability and duplication of existing requirements could impose substantial costs, especially on cross-border firms. The Commission should define the entities captured, align requirements with information reasonably available in practice and avoid duplication where equivalent information is already collected under existing AML/CFT requirements;
- **Alignment of high-risk third-country requirements (Articles 29 and 35 AMLR) with international standards.** Requirements should align with international standards to limit complexity and avoid unnecessary compliance burdens for firms operating across multiple jurisdictions.
- **Avoiding divergent implementation of related requirements such as bank account reporting under AMLD6 (Article 16),** where inconsistent national approaches, differing definitions and data-model inconsistencies between AMLR CDD requirements and national Central Account Registers may create data gaps, require additional data collection and system changes, and undermine the benefits of the Single Rulebook while increasing operational and technology costs for cross-border institutions.
- **Record retention requirements (Article 77)** where a five-year rule for AML-specific records may still create operational complexity when the same data supports overlapping AML, sanctions, tax, commercial recordkeeping and transactional obligations. To support legal certainty and reduce operational complexity, the Commission should clarify how Article 77 applies where the same records are subject to overlapping AML, sanctions, tax, commercial recordkeeping and other retention requirements, including obligations that extend beyond five years.
- **Outsourcing AML/CFT activities (Article 18)** where restrictions on delegating functions such as customer risk profiling and control approvals, alongside detailed responsibility-allocation rules, may constrain centralised models, shared-service centers and specialist expertise, increasing costs for obliged entities. The Regulation should support proportionate, risk-based outsourcing with clear accountability safeguards rather than broad prohibitions.

Level 2 and 3 measures must remain within the Level 1 mandate

Level 2 and 3 measures should remain within the objectives and mandate of Level 1. Doing so would increase compliance burdens, reduce legal certainty and erode the competitiveness and simplification benefits of the Single Rulebook.

Pragmatic implementation and supervisory flexibility

AMLA should take a pragmatic, proportionate and risk-based approach during the transition. Because key requirements will be clarified only through technical standards, guidelines and supervisory expectations, firms need sufficient time after final measures are published to design, test and implement systems, controls, governance and remediation programmes. They should not be penalised for gaps caused by regulatory uncertainty or evolving requirements. Transitional arrangements and supervisory flexibility will be essential where material systems, data, governance or operational changes are required.

Timelines should also account for customer and market impacts as compressed periods could trigger simultaneous remediation across the sector, causing disruption and customer friction without improving AML/CFT outcomes.

Transparency, sequencing and sufficient implementation periods

AMLA should provide regular updates on consultation and finalisation timelines for RTSs, ITSs and guidance. Greater transparency would help firms allocate resources, engage effectively and plan implementation. Adequate periods after final Level 2 and 3 measures are published are also necessary to avoid duplicative work and the cost of revising changes made on the basis of Level 1 alone.

Harmonisation, supervisory convergence and prevention of gold-plating

AMLA standards and guidance should not become a baseline upon which Member States routinely impose additional requirements. The Commission, AMLA and national competent authorities should work closely together to ensure consistent implementation and supervision across Member States and to prevent unnecessary gold-plating. Divergent national approaches risk undermining the objectives of the Single Rulebook, increasing costs and operational complexity for firms operating across the EU. Consistent supervisory expectations, effective coordination between AMLA and NCAs, and supervisory convergence will be critical to delivering the harmonisation and competitiveness benefits that the AML package is intended to achieve.

2. Market Integration

a. Removing barriers to prudential integration

Commission recommendations:

- Propose measures to allow cross-border groups to enhance efficiency in the allocation of capital and liquidity. Group-wide supervisors should have the power to ensure that requirements are met at the level of the parent entity and to require that the parent allocates resources to its subsidiaries in going concern and in crises situation. The exercise of those powers should consider the diversity of cross-border banking groups, including the nature of the subsidiaries within the group, their resilience, as well as the level of integration and commitments made within groups.
- Propose measures to apply a similar regulatory treatment of intragroup exposures at both domestic and EU levels.
- Propose further measures to address the risk of excessive concentration of sovereign exposures and further encourage the diversification of sovereign bond portfolios by banks.

AFME welcomes the Commission's strong willingness to address the barriers to the free flow of capital and liquidity through a range of potential measures to improve prudential waivers and intragroup exposures and recognition of the significant positive impact this could have for liquidity. We also note members of the E3 (France, Italy and Spain) have put forward an ambitious proposal for a voluntary 28th regime to address these barriers – while not all the technical details are yet available. **We welcome all viable solutions that could facilitate deeper banking market integration, while preserving financial stability and supervisory confidence.**

The current lack of cross-border waivers – even within the Eurozone – traps significant amounts of capital and liquidity (estimated at over €250 billion in liquidity alone[5]) within EU banking groups, creating an inefficient allocation of resources and a competitive disadvantage compared to global peers, which do not face the same barriers along national lines. Hence, in the long term **AFME recommends a framework in which prudential waivers are granted automatically upon request by the institution for cross-border banking groups. In recognition of the single market, this should apply for capital, liquidity and internal MREL in the Banking Union and banking groups across the EU (i.e. not limited to within a member state). We also support addressing the limited application of intragroup and large exposure requirements, which should apply EU-wide where conditions are met.**

We urge the Commission and co-legislators to take a cautious approach with regard to linking this topic to other areas of the wider package of competitiveness package. While it is important that progress is made on all areas of Banking Union, one should also recall the distinct functions of different safeguards. Liquidity and capital waivers and intragroup exposure exemptions have been embedded within the CRR since its first iteration in 2014 and should continue to be viewed as an independent measure which can support the integration of the single market for financial services – albeit pending significant improvements to their application which we set out in detail below. Requiring further conditionality for their use linked to other areas of the framework would undermine this.

That said, reconciling the objective of increasing efficiency within cross-border banking groups with the need to safeguard financial stability at the local level has proven challenging for the co-legislators. Should enabling the free flow of capital and liquidity continue to prove politically unattainable, policymakers should carefully consider targeted reforms that strengthen safeguards for local financial stability to break the current deadlock. In parallel, further work should be undertaken to reinforce the European liquidity framework in resolution so that it can more effectively address liquidity shortfalls across groups in times of stress. This is addressed further in the next section of this paper (2.b).

We note that the E3 proposals refer to intragroup financial support agreements (IFSAs) as a mechanism to support home-host cooperation and facilitate support from parent institutions to distressed subsidiaries. While this could be a useful

[5] Banking Union: Measuring Progress and Identifying Implementation Gaps

concept, the current BRRD framework for IFSAs has seen virtually no practical uptake. The framework is hindered by complex approval and execution requirements such as requiring a Joint Decision involving the relevant competent authorities, followed by shareholder approval at each participating entity. Alongside this there are challenges in IFSA take up related to the uncertainty regarding the prudential treatment and pricing of guarantees and a lack of meaningful benefits for participating groups. In particular, IFSAs do not provide assured capital, liquidity or internal MREL relief and are not necessary to facilitate intragroup support. We therefore recommend simplifying the BRRD approval framework, clarifying the regulatory treatment of guarantees, and ensuring that any future IFSA regime delivers tangible prudential benefits.

Finally, in respect of the Commission's intention to explore further measures aimed at reducing excessive concentrations of sovereign exposures and encouraging portfolio diversification, we consider any future initiative should be carefully calibrated and consider both the recent evolution of banks' sovereign exposures and Europe's broader investment needs. Banks' exposure to their domestic sovereign has already declined significantly in recent years, from 8.44% of total Banking Union assets in 2020 to 6.86% in 2024, reflecting a consistent reduction in concentration risk. At the same time, Europe has a critical need for substantial public investment to close the competitiveness gap. Looking ahead, sovereign bond issuance across Europe is likely to increase materially as governments increase spending on defence and security and support the digital and energy transitions. For example, EU Member States' defense expenditure alone is expected to rise from €418 billion in 2025 to approximately €454 billion in 2026, continuing a multi-year upward trend.[6] In this context, European banks will remain critical investors in sovereign debt markets, helping to channel funding towards strategic public investments and supporting the financing capacity of European governments.

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- Automatic granting of cross-border capital waivers upon an institution's request within the Eurozone by adapting the CRR to support the full implementation of the SSM in the application of waivers. In so doing, remove the current limitation to only applying this to banking groups operating within a Member State. This could be achieved by amending Article 7 so that banking groups are granted cross-border capital waivers for their Banking Union subsidiaries. Specifically, substantially simplify conditions under Article 7 (a) and (b) by i) eliminating the very vague and broad references to foreseen and practical impediments which give supervisors excessive discretion; and ii) simplifying the requirement for a formal and unconditional parental commitment, which could be satisfied by the demonstration from the parent undertaking that it maintains robust group-wide capital and liquidity planning under its approved ICAAP/ILAAP framework.
- While these waivers should apply to entities within the Banking Union automatically and as a matter of routine (i.e. without a discretionary component if the relevant conditions are fulfilled), we consider that similar waivers should also be made available (possibly on a discretionary basis) to banking groups operating across the European Union more generally in recognition of the EU Single Market.
- As with the waivers in Article 7, groups meeting the requirements detailed in Article 8 should be granted a liquidity waiver on an automatic basis (i.e. by removing Competent Authorities' discretion in the conditions in Article 8) for the Banking Union and also for groups in the wider EU too, where appropriate. The scope of the liquidity requirements (LCR and NSFR) – for those entities that manage centrally for efficiency - should ***only*** be on a consolidated basis within the Banking Union when the relevant conditions are fulfilled, with a similar provision being made available, possibly on a discretionary basis, to banking groups operating across the European Union.
- Failing automatic application of waivers cross border, there should at a minimum be greater flexibility for the Single Supervisory Mechanism (SSM) to grant these waivers across borders without needing a complex joint decision procedure for every case.
- CRR Articles 81-88a (covering minority interests) should be amended to allow for the full recognition of qualifying own funds and eligible liabilities (without requiring the discretion of national competent authorities) based on the group's capital requirements. This should also be taken account of in the current demanding requirements of the ECB's option and discretion guide.
- Support further consideration of reforming the IFSA framework, including simplifying the complex approval process and conditionality for IFSAs and providing guidance on their pricing and regulatory treatment of the guarantees provided under IFSAs.
- National implementation of intragroup exposure limits has led to some Member States imposing stringent limits on intra-group exposures within banking groups while other Member States maintain a more flexible approach. The

[6] See EU defence in numbers.

lack of harmonization creates inefficiencies in capital allocation for cross-border banking groups and introduces an uneven playing field where banking groups face different constraints based solely on the location of their subsidiary exposure. Consequently, the intragroup exemptions under Article 113(6) CRR should apply automatically whenever the conditions in letters (a), (b), (c) and (e) [7] are objectively met (i.e. set the RW to 0%). Likewise, Member States discretionary powers should be limited, preventing them from imposing additional or divergent limits on exposures between cross-border entities which are subject to the exemption from the 25% large exposures limit set in Article 395 for intragroup exposures. This would prevent trapped liquidity and internal MREL being captured in institutions where it is not needed.[8] This should take account of the interaction with the transitional arrangements (for which Member States can grant exemptions to specific large exposures) in Article 493 in December 2028, to ensure a timely and consistent application by competent authorities.
- Where a bank is subject to the SRB oversight, the requirement for internal MREL requirements should not have to apply at the level of all subsidiaries within the SRB remit and cross border waivers should be automatically granted, with similar waivers being made available, possibly on a discretionary basis, to banking groups operating across the European Union. BRRD Article 45f should be amended accordingly.

b. Safeguards for Market Integration – deposit insurance, liquidity in resolution and other resolution issues

Commission recommendations:

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

AFME broadly welcomes the next steps identified by the European Commission to ensure appropriate safeguards and to build trust among authorities. However, more detail is needed on the deposit insurance measures envisaged and much more ambition is required to establish a predictable, centralised and scalable European mechanism for liquidity in resolution. We also encourage increased ambition on issues which the Commission's recommendations do not address. In particular, we propose a comprehensive review of the Single Resolution Fund.

Deposit insurance measures

[7] Condition (e) requires that no legal or practical impediments exist that could restrict the prompt transfer of funds or the provision of intragroup financial support. Supervisors interpret this condition broadly to include routine host country prudential measures or hypothetical constraints that do not constitute genuine barriers to intragroup support. Thus, condition (e) should be constrained so that ordinary prudential requirements, domestic buffers or generic supervisory expectations do not disqualify intragroup exemptions.

[8] When a parent company provides capital to a BU subsidiary to satisfy internal MREL, this liquidity becomes locked-in due to the large exposure limits; these limits prevent the parent from recovering, re-routing or redeploying these funds (even when other entities may need additional resources). For purposes of resolution planning, in countries that apply intra-group exposure limits, banking groups must therefore treat their subsidiaries effectively as external counterparties: the circumstance that these subsidiaries belong to the same group is void of any relevance.

We welcome the European Commission's intention to develop a new proposal to review and simplify the structure of the deposit insurance framework. We agree that enhancements should be made, but more clarity is needed on the measures envisaged. For example, we note the Commission's intention to reduce complexity deriving from the current delineation between deposit guarantee schemes (DGSs) and resolution funds and we reiterate the concerns previously raised by industry regarding the appropriateness and feasibility of combining deposit insurance and resolution functions within existing funds[9].

We recommend below two areas that should be addressed by the Commission's upcoming proposal. As an over-arching principle, any amendments should be cost-neutral for industry. Contributions to deposit insurance should be risk-based and calibrated to institutions' risk profiles to preserve market discipline and mitigate moral hazard.

National Deposit Guarantee Schemes

Significant improvements can be made to the existing framework. In particular, ensuring the portability of funds between national Deposit Guarantee Schemes (DGSs) is a priority for the industry. Currently, when a bank changes its affiliation from a Member State's DGS to another Member State's DGS, or if some of the bank's activities are transferred to the DGS of another Member State, the DGS of origin shall transfer only the contributions paid in the previous 12 months. This means the bank could pay twice for insuring the same deposits. This barrier has been recognised by the ECB[10,], the European Parliament[11] and the Commission Staff Working Document accompanying the Commission's report[12]. More generally, DGSs lead to a significant amount of capital being trapped.

AFME proposes an overhaul of the mechanism for DGS contributions, in line with the proposal we have set out separately for SRF contributions. DGS contributions would continue to be made ex ante and based on a bank's risk-weighted covered deposits. If an institution were to change its DGS affiliation, their unused reserves would be redeemed. This would enable a 'stock-based' approach and address the portability of funds between DGSs.

While recognising that DGSs are principally used to protect depositors, in the event that the reserves in a DGS are used to support a failing bank, the portion of the reserves that are used would be transferred to a separate dedicated compartment in the DGS. The DGS would retain responsibility for managing the support provided to the failing bank. However, the risks and benefits of the instruments used (i.e. the reserves transferred to a dedicated compartment) would be fully assigned to the institutions whose reserves have been used, establishing silent participation. This would mean that if loans are extended to the failing bank, repayments (including interest) would be made to the participating institutions whose contributions to the DGS were used to fund the loans.

This proposal would ensure fairness and encourage market discipline as new contributors to the DGS would be placed on the same footing as existing contributors. New participants would not unfairly benefit from others' contributions, while changes in a bank's deposits would be accounted for. Crucially, this approach supports the portability of funds between DGSs. Reserves redeemed to a bank that changes its DGS affiliation could be called by the bank's new DGS.

If the mechanism for DGS contributions is not considered a viable option, we would encourage the European Commission to consider alternative solutions. This could include:

- Amending Article 14(3) of the DGSD to specify that the DGS of origin shall transfer to the receiving DGS an amount that reflects the accumulated value of contributions paid by the exiting institution, net of possible uses.

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[9] See p.55 of AFME's response to the Commission's consultation on the competitiveness of the EU banking sector, available at: https://www.afme.eu/media/t15ajcs2/afme-response-to-ec-consultation-on-competitiveness-of-eu-banking-sector_final-version.pdf

[10] ECB Committee on Financial Integration, Financial Integration and Structure in the Euro Area (June 2024), available at: https://www.ecb.europa.eu/press/fie/pdf/ecb.fie202406~c4ca413e65.en.pdf

[11] European Parliament legislative resolution of 24 April 2024 on the proposal for a directive of the European Parliament and of the Council amending Directive 2014/49/EU as regards the scope of deposit protection, use of deposit guarantee schemes funds, cross-border cooperation, and transparency, available at: https://www.europarl.europa.eu/doceo/document/TA-9-2024-0328_EN.pdf

[12] Commission Staff Working Document, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026SC0615

- Providing the EBA with a mandate to develop a methodology for risk-based transfers and to permit such transfers.

In addition, we encourage the European Commission to address the current lack of harmonisation regarding the use of IPCs, and to design a mechanism ensuring that the banks most likely to ever require using DGS funds, i.e. those earmarked for liquidation, bear the bulk of contributions.

Banking Union wide deposit insurance scheme

While not explicitly referenced in the European Commission's communication, the option of a Banking Union wide deposit insurance scheme has received significant attention in the context of the Commission's work on competitiveness, for example in proposals put forward by some Member States. A competitive banking landscape, first and foremost, should rely on banks having business models that inspire confidence and trust from clients and markets on their own merit, rather than on reliance on external support. However, the absence of a common deposit insurance scheme remains a gap in the Banking Union. Consistent depositor protection is essential to prevent market fragmentation and ensure that confidence in deposits does not depend on national borders. Moreover, the lack of a Banking Union wide depositor protection scheme is cited by several host-country authorities as an argument to deny capital and liquidity waivers for cross-border groups.

AFME supports an initial scheme focused on mutual liquidity support between national DGSs. In this model, if a national DGS faced a temporary liquidity shortfall, other DGSs would provide support through loans. This would be a step in the right direction and one of the few pragmatic pathways to break the current political stalemate.

AFME acknowledges that such a scheme would shift liquidity within the system in case of need, rather than increase the system's aggregate loss-absorbing capacity. This means it may not fully resolve market-confidence concerns, particularly in Member States with more limited fiscal capacity. Ultimately, a carefully designed Banking Union level deposit insurance scheme – with objective triggers and risk-based contributions – is the most credible way to deliver uniform confidence. Its design should ensure risk discipline is duly preserved across the whole Banking Union, and moral hazard risks are avoided.

A Banking Union-wide scheme should not address existing vulnerabilities by calling for new contributions from banks, but rather by allowing the pooling and disciplined reallocation of the resources that are already accumulated within national DGSs. It is important that the scheme remains cost-neutral for industry while simultaneously enhancing the resilience and consistency of depositor protection across the Banking Union. In a Banking Union-wide scheme, contributions should be risk-based and calibrated to institutions' risk profiles, considering notably their resolution strategy and MREL levels, to preserve market discipline and thereby mitigate moral hazard.

Predictability of group resolution strategies and more integrated allocation of funds within cross-border groups

As noted elsewhere in our response, AFME welcomes the Commission's strong willingness to address the barriers to the free flow of capital and liquidity through a range of potential measures to improve prudential waivers and intragroup exposures and recognition of the significant positive impact this could have for liquidity. Please refer to our position on the Commission's proposals to address barriers to the free flow of capital and liquidity, and to improve proportionality (including assessments in the resolution planning phase), for further detail.

Liquidity in resolution

We welcome the European Commission's recognition that more progress is needed to ensure liquidity in resolution, but far more ambition is needed from the Commission to deliver a credible, clear and transparent European mechanism. This remains a key unresolved gap in the crisis management framework. As the Commission Staff Working Document accompanying the Commission's report highlights, the vast majority of respondents to the Commission's consultation would support this tool[13]. We agree with the conclusion in the Commission Staff Working Document that progress in this area will contribute greatly to market integration and simplification.

[13] Commission Staff Working Document, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52026SC0615

AFME recommends that the Commission progress work to establish an EU wide mechanism to contain contagion and preserve market confidence by ensuring that liquidity remains available across groups and national borders during resolution. This will help to contain stress within the failing institution. Clear rules on access, triggers and governance would reduce uncertainty at the very moment when market confidence is most fragile, limiting the risk that a liquidity shock escalates into a broader systemic crisis affecting funding markets, sovereign spreads and ultimately the real economy.

Justification for a liquidity mechanism:

- A liquidity mechanism will complement loss absorbing capacity requirements to ensure resolution is operationally feasible. For example, while MREL ensures that sufficient bail-inable resources are available to absorb losses and re-capitalise a bank in resolution, it does not by itself guarantee that the institution will retain access to funding during the transition phase. A credible liquidity backstop would make resolution operationally feasible, bridging the gap between solvency restoration and market re-entry, and reinforcing the credibility of bail-in and market confidence. Overall, it would reduce systemic risk, which is particularly relevant for cross-border banking groups.

- A mechanism at Banking Union level would contribute to weakening the bank–sovereign nexus (as it could encourage authorities to grant cross-border liquidity waivers, enabling liquidity surpluses to be deployed and support the EU economy) and reduce reliance on national taxpayer-funded resources. This would help prevent situations in which banking sector stress translates into sovereign stress, and vice versa, reducing fragmentation risks within the Banking Union.

- Existing EU instruments, the SRF and the limited, not yet fully operational common backstop from the ESM, are inadequate. Actual liquidity needs observed in recent bank crises have been multiple times larger than the volumes currently available under EU arrangements, even when institutions were fundamentally viable. Furthermore, with SRF contributions being deducted from capital, the mechanism is not suitable for liquidity provision. Other major jurisdictions already operate centralized, sizeable and flexible liquidity in resolution mechanisms, such as the United States14 and Switzerland[15].

Establishing a predictable, centralised and scalable EU liquidity in resolution mechanism is therefore essential. Because the support would be temporary and fully repayable, it would not constitute a return to bailouts (i.e. it would not foster moral hazard or distort competition); rather, it would provide the financial stability backstop necessary for genuine resolvability, stronger market confidence and a true level playing field across the EU. However, we also emphasise the importance of ensuring appropriate safeguards and clear conditionality.

It is important to ensure that a consistent approach is applied to all banks, regardless of size, and that the mechanism is clearly defined to ensure predictability and confidence in the resolution process. AFME's response to the European Commission's consultation on the competitiveness of the banking sector set out in detail our recommendations on the key features of a liquidity mechanism[16].

Issues not addressed in the European Commission's report: the Single Resolution Fund

The European Commission's communication acknowledges the role the Single Resolution Fund (SRF) plays in helping to safeguard financial stability, but it is silent on changes that could free trapped capital and improve transparency. This is an

[14] In the United States, under Title II of the Dodd Frank Act, the FDIC can access the Orderly Liquidation Fund (OLF), financed via U.S. Treasury borrowing authority, enabling very large (potentially hundreds of billions of dollars) in temporary liquidity to a failing systemic institution, with ex post industry assessments to repay Treasury.

[15] In Switzerland, during the failure of Credit Suisse in March 2023, authorities made available up to CHF 200 bn in liquidity support (two tranches of up to CHF 100 bn each, including a Public Liquidity Backstop guaranteed by the Confederation). Only part of this capacity was drawn during the acute phase, and the extraordinary guarantees were subsequently repaid/terminated once stability was restored.

[16] See pp.60-62 of AFME's response to the Commission consultation, available at: https://www.afme.eu/media/t15ajcs2/afme-response-to-ec-consultation-on-competitiveness-of-eu-banking-sector_final-version.pdf

important omission given the SRF was designed at a time when banks did not have the comprehensive loss absorbing capacity they do now. **A comprehensive review of the SRF is therefore warranted.**

Contributions to the SRF have diverted over €81 billion. Minimising trapped capital should be a key objective for a review of the SRF.

AFME recommends a new reserves-based mechanism for SRF contributions. This proposal aligns with our recommendation to overall the mechanism for DGS contributions. SRF contributions would continue to be defined based on the balance sheet size and risk profile of each contributing institution, with an annual review to ensure that any change in an institution's size is accounted for. If an institution were to exit the scope of the SRMR, its unused reserves would be redeemed.

When the SRF is used to support a failing bank, the portion of the reserves used would be transferred to a separate dedicated compartment in the SRF. We propose that the SRB retains responsibility for managing the support provided to the failing bank. However, the risks and benefits of the instruments used to fund the resolution would be fully assigned to the institutions whose reserves have been used, establishing silent participation. If loans are extended to the failing bank, repayments (including interest) would be made to the participating institutions whose contributions to the SRF were used to fund the loans. Reserves used to cover ultimate losses would be written off. Contrary to the general pool of reserves in the SRF, reserves moved to the separate compartment would not be adjusted to account for changes in the size or risk profile of the institutions who made those reserves.

The general pool of reserves would be replenished over the required period in line with the stock-based approach previously mentioned.

If an overhaul of the mechanism for contributions is not achievable, we recommend that a review seeks to address other longstanding industry concerns, including:

- The calculation methodology for contributions to the SRF
- The share of IPCs that can make up contributions and a lack of harmonization on the use of IPCs
- The SRF target level

Ex ante contributions should be paused during the review, reflecting that the current SRF target level has been reached, that banks are well capitalized and have accumulated significant MREL capacity, and significant improvements have been made to the resolution framework.

c. Banking consolidation: Mergers and Acquisitions (M&A)

Commission recommendation: Use its enforcement toolkit where it identifies breaches of Union law by Member States, notably regarding interventions in mergers and acquisitions which risk undermining the free movement of services and capital, as well as the freedom of establishment set out in the Treaty on the Functioning of the European Union. The new draft merger guidelines also give Member States clearer guidance on the circumstances under which they may intervene in transactions subject to merger control at EU level.

AFME strongly welcomes the Commission's commitment to use its enforcement toolkit where Member States' interventions in mergers and acquisitions risk undermining the Single Market freedoms. However, AFME considers that further action is needed and therefore puts forward a series of ambitious proposals for the Commission.

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- **Apply enforcement powers proactively and on a timely basis and establish a harmonised EU-level merger control process** in order to ensure consistent assessments and limit national interference.
- **Strengthen EU-level oversight of national FDI decisions and improve alignment across merger control, prudential assessments and FDI screening** to reduce fragmentation.

- **Promote greater cooperation among national antitrust authorities and ensure that competition assessments reflect wider Single Market integration benefits** beyond national market concentration.
- **Establish clear and harmonised approval procedures**, including fixed timelines, sunset clauses and mechanisms such as *lex silencio positivo,* to ensure timely outcomes, and **develop a coordinated prudential assessment framework** based on a single lead authority to reduce duplication and execution complexity.
- **Reduce regulatory ring-fencing by enabling cross-border capital and liquidity waivers** to improve resource allocation and support cross-border integration.
- **Facilitate post-merger integration by providing greater certainty on MREL eligibility and requirements, IRB model integration and O-SII buffer expectations, and by improving the transferability of ex-ante DGS contributions.**
- **More broadly, complete the Banking Union and reduce regulatory and supervisory fragmentation** to support cross-border consolidation.

Removing barriers to bank consolidation is essential to unlocking the full benefits of the Single Market. Continued fragmentation limits the ability of European banks to expand across borders and operate at the scale of the European economy. At the same time, rising technology, digitalisation and regulatory compliance costs increase the importance of scale. Larger scale also allows banks to offer a wider range of products and services, support capital markets activities and better compete with global peers.

Lengthy and complex M&A processes continue to impede consolidation. Streamlining approval procedures can reduce the time it takes to complete an M&A, currently at c285 days in the BU vs 144 days in the US, 187 in China, 173 in the UK, 115 in Japan, and 85 in Switzerland.

Reducing uncertainty regarding the post-merger eligibility of MREL instruments can bring sizeable balance sheet clarity as MREL targets stand at 27.8% of banks' RWAs (SRB).

Without further action, the **EU risks falling behind global competitors and reducing the banking sector's ability to support investment, innovation and long-term economic growth**.

AFME therefore supports the Commission's proposed use of its enforcement toolkit, while recommending a number of additional measures to facilitate bank consolidation and enhance the competitiveness of the EU banking sector.

3. Competitiveness

a. Output Floor

Commission recommendation: Make clear proposals regarding the output floor and its transitional arrangements on unrated corporates and mortgage lending on the competitiveness of EU banks, as well as its interaction with the other parts of the framework, including measures to properly balance resilience and the broader financing of the economy.

AFME welcomes the firm commitment of the Commission to make proposals with respect to the transitional arrangements in CRR3. In terms of enhancing competitiveness and growth and avoiding a reduction in lending to households and corporates**, AFME recommends these should focus on bringing forward the assessment of all three transitional arrangements embedded in Article 465 of CRR (for unrated corporates, low risk mortgages and SA CCR) and making them a permanent feature of a more risk sensitive Standardised Approach (SA) – with adaptations – as soon as possible.** This would then mean all institutions (both SA and IRB) should be able to apply such regulatory treatment. In addition, we welcome the detailed analysis and acknowledgement in the Commission's staff working paper that the EU has in effect gold-plated the output floor through implementation at the solo level and would welcome a review of this.

With regard to the transitional arrangements, as part of the Q1 2027 banking package, **AFME recommends:**

1. **Unrated Corporates (UCs): We support permanent SA RWs of 65% for investment grade corporates and 100% for non-investment grade corporates, with some AFME members preferring Basel aligned approaches as detailed below.**[17]

   We do not agree with the EC assessment that maintaining the transitional arrangements for unrated corporates would disincentivise companies from seeking a credit rating, to the detriment of transparency and the long-term growth of a deeper equity and corporate bond market in the EU. We would highlight the following concerns with presenting the unrated corporate issue as a trade-off between bank and market-based finance:
   - The lack of ratings is not specific to IRB banks, but also extends to SA banks, especially with regard to investment grade corporates, which all banks are able to identify.
   - Getting a rating is often not an alternative for corporates: it is costly and does not fit their funding patterns. Even when issuers seek the most competitively priced recognised rating provider, obtaining and maintaining an external credit rating can involve costs running into tens of thousands of euros per year. Fitch's publicly available pricing shows issuer-rating fees of €60,000 and annual surveillance fees starting at €69,500.[18] Even if ratings costs are significantly reduced, they would constitute a substantial chunk of the actual financing needs of an SME.
   - The current rating process is not adapted to the funding needs of an SME or mid-caps. Ratings are typically issued and then maintained annually (for a similar minimum price). This set-up works well for very large corporates that issue bonds regularly. However, this does not work at all for smaller companies that have much smaller funding needs or may not have a clear funding plan given uncertain growth prospects.
   - Many other unrated corporate clients will never access capital markets, either because they are a pension or mutual fund, or a subsidiary whose parent will do any bond issuance. For instance, AFME conducted a recent study with Global Credit Data of 13 EU banks which assessed their exposures to in excess of 41,000 funds[19]. It determined the average annual internal IRB RW across all fund exposures to be 22% (3 times lower than the 65% RW for investment grade corporates under the output floor transitional). These fund exposures will never get a rating as they do not issue debt. Furthermore, the majority of the exposures were mutual funds (~33k) and pension funds (~800) – the backbone to the future SIU.

[17] The minority AFME members note the fact that in other jurisdictions, for instance the US system, does not permit the use of external ratings for risk weight purposes, effectively flooring all corporates at 65%, whereas the EU allows for lower risk weights for rated corporates. These members support permanently aligning the prudential treatment for unrated corporates with the risk-based approach as set out in international standards when the current transitionals come to an end in 2032 (e.g. a flat 100% RW or, as the UK has done, introducing an approach using 65% for investment grade corporates and 135% for non-investment grade corporates, subject to PRA permission).

[18] See FS_EMEA_CORPS_INT_EUR_2024_V1.pdf

[19] https://www.afme.eu/media/pginmmjh/afme-gcd-funds-benchmarking-report-2026.pdf

2. **Low-risk mortgages: make the transitional measures for the output floor to account for the low risk of residential real estate exposures in the EU a permanent feature of the SA.** This could be achieved via the creation of a specific subset of low-risk mortgages in the SA that meet the criteria in CRR3 i.e. this preferential treatment would be subject to the same conditions as those introduced in Article 465(8) for the output floor.

   Housing finance has become a structural challenge across the EU, with residential property prices rising steadily since 2010 and consistently outpacing consumer inflation. This trend reflects a persistent shortage of housing rather than speculative market excess. While tight supervisory monitoring of potential imbalances is appropriate, increasing risk weights would further raise mortgage costs and aggravate affordability pressures. As the ECB and national authorities already possess targeted macroprudential tools to address emerging risks more precisely, making the CRR3 transitional measures permanent is the most proportionate and effective solution. Furthermore, early regulatory clarity on the permanent treatment of low-risk mortgages is therefore essential to ensure stable and predictable financing conditions for households. Finally, lower risk weights for these low-risk exposures should be applied on an EU wide basis to avoid fragmentation of the Single Market and preserve the integrity of the Banking Union. Maintaining the national discretion would undermine harmonisation of micro-prudential standards—particularly as Article 124 already gives Member States the ability to increase risk weights where warranted.

3. **SA CCR:** The EC's transitional arrangement to mitigate the impact of SA-CCR on the OF RWAs by resetting the alpha factor to 1 in Article 465 (4), does not fully address calibration issues when SA-CCR is applied under the Standardised Approach (SA), the Leverage ratio or the Large Exposures framework. **There is a need for global coordination to revisit SA-CCR at the Basel level with a view to set the Alpha factor to 1 for all SA-CCR applications. Until such a global review is undertaken, the Commission should consider permanently embedding the current transitional for SA CCR , thereby setting the Alpha factor to 1 in Article 274(2) on a permanent basis in relation to exposures to commercial end-users** (as has been done in the US and the UK).

   SA-CCR was introduced as part of CRR 2 in June 2021, which has led to disproportionate increases in capital requirements for banks under the SA and significantly increased hedging costs for end-users, mainly due to the alpha factor applied in the SA-CCR formula. The importance of SA-CCR is not only in calculating capital requirements for CCR RWA – SA-CCR is used in many areas across the prudential framework, such as the Large Exposures framework and the Leverage Ratio(which further impacts upon Single Resolution Fund (SRF) contributions, Global Systemically Important Banks ("GSIB") surcharges and MREL/TLAC requirements). It affects all banks and users of derivatives, and the impact is not restricted to those that apply standardized methodologies only. Given banks using internal models for CCR represent the bulk of the EU derivatives market, SA-CCR (when the OF is fully phased in) will severely impact on the availability and pricing of hedging products for end users, notably corporates, pension funds and sovereigns. This impact will become even more pronounced if the transitional arrangement to mitigate the contribution of SA-CCR towards the calculation of the Output floor is not mitigated.

b. Trade Finance, Specialised lending and Credit Insurance risk

Commission recommendation: Evaluate the regulatory treatment of strategic investments through specialised lending, including project finance for infrastructures and the energy transition, as well as the regulatory treatment of trade finance with a view to ensuring that European banks can support European companies and strengthen supply-chain security.

Trade Finance

AFME strongly welcomes the commitment by the Commission to review the regulatory treatment of trade finance, which should be translated into concrete legislative changes. Specifically, AFME proposes **the Commission should update the definition of trade finance in CRR to remove any reference to maturity** to reflect market developments and legal requirements associated with such products as follows:

''trade finance' means a financial service facilitating the real economy, enabling businesses to finance, monetise, risk mitigate and settle trade flows, thus supporting the movement of goods and/or the performance of services regardless of maturity, both internationally and domestically'.

Further, given that the PRA has extended the application of the 20% to a broad scope of guarantees, the European Commission should consider adopting a similar approach which would also better reflect market and bank practices and legal provisions for trade finance products which have evolved considerably since the original CRR. Political decisions in the short term are urgently needed to maintain a fair level playing field for EU banks and enable them to support European Trade policy and European Corporates. In line with the risk assessment taken by the UK[20] and as part of the Q1 2027 banking package, **AFME recommends that the Commission review the treatment of all performance and technical guarantees, including those related to trade finance, and ensure these fall under bucket 4 in Annex 1 of the CRR (attracting a 20% CCF).**

Specialised Lending

We welcome the recognition of Specialised lending as a strategic EU asset class, which supports infrastructure and the energy transition. European banks hold a specific expertise in the origination of such financing. Nonetheless, these activities could potentially be at risk due to overly conservative non-risk sensitive approaches being introduced in CRR3 such as minimum values ("input floors") for parameters derived from internal credit risk models on a transitional basis.

We recommend that once the ongoing assessment of the input floors by the EBA is completed (which should be before the end of the first transitional (set to 50%) in 2027), the input floors for specialized lending should be permanently adjusted to maintain the 50% multiplier, as supported by historical data. In this respect we note the overriding purpose of the LGD input floor should be to avoid outliers in modelled LGDs, and consequently this should be set lower than average or median of LGDs otherwise it would fail the objective of just addressing outliers.

More generally, Internal Ratings Based (IRB) models have historically been essential for capturing the asset-specific nature of specialised lending. However, several recent regulatory and supervisory developments have weakened their effective use for specialised lending portfolios. Taken together, these developments have significantly reduced risk sensitivity because of a lack of modelling flexibility. Therefore, we urge the EC to restore a workable IRB framework, which is essential to maintaining appropriate risk differentiation and ensuring long-term financing capacity.

We also support a review of the applicable risk weights for the Slotting approach (Article 153(5)) to enhance its granularity by fully implementing the Basel discretion in CRE 33.4, which allows for the application of preferential risk weights for stronger exposures. Additionally, the industry welcomed the clarifications introduced in CRR3 regarding the treatment of unfunded credit protection for this type of exposure (i.e. articles 236 and 236a CRR3). Similar clarifications regarding recognition of the risk mitigation effect of third-party financial collateral would be welcomed to ensure a consistent treatment across prudential approaches.

Alongside the Commission's commitment to review the specialised lending exposure class they should also reconsider the **current regime to recognise physical collateral for specialised lending (Article 199(6)(d) of CRR) in F-IRB.** This CRR condition is not imposed by the Basel text, which simply states that "Banks must also demonstrate that the amount they receive when collateral is realised does not deviate significantly from these market prices.". **AFME's membership views the CRR approach as unworkable for asset-based specialised lending and corporate exposures with underlying physical collateral in F-IRB.**

Furthermore, realised liquidations do not fully capture the range of recovery strategies applied by banks resulting in a structurally limited data set of collateral liquidations. Also, all cases of emergence from default, including restructurings, could be considered since the sale of the collateral is generally not the preferred option to emerge from default.

AFME therefore recommends the European Commission should consider alternative approaches that are better aligned with the Basel text, such as removing the existing strict quantitative test in this article and replacing it with a comparison between market prices and sale price when a sale has taken place (without preventing institutions from recognising the collateral in case no internal observation is available).

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[20] The PRA has considered under its new framework other technical guarantees not related to trade finance and not being credit substitutes should have a 20% CCF, based on the rationale that the Basel 50% CCF "would result in capital requirements that are overly conservative" compared to the actual risk of these exposures and as it "may have some positive implications from a competitiveness perspective".

Credit Insurance

In addition to our views on trade finance and specialised lending, **we strongly regret the Commission has not taken account of our concerns with the treatment of credit insurance put forward as part of the AFME consultation response.** We urge the Commission to also take this into account in proposed legislative changes, which are complementary to the measures for trade finance and specialised lending. Indeed, The CRR3 unduly penalizes credit insurance, which supports the financing of ca. EUR 350bn of activities in the EU economy including for infrastructure finance, SME and corporate lending as well as trade finance (roughly 25% of insured assets).[21]+[22] Further, while CRR3 mandated the EBA to assess the treatment of credit insurance under Article 506 (published in 2024[23]), the analysis required under paragraphs (b) and (c) to assess the consistency of current capital requirements with observed riskiness of insured exposures was not undertaken and is therefore considered incomplete.

This analysis has now been provided in the "ITFA Additional Report", by ITFA (International Trade and Forfaiting Association), supported by Deloitte for quantitative analysis, taking into account all Margins of Conservatism and downturn analysis. [24] Specifically, this report shows that current capital requirement is twice higher than observed riskiness and thus the 45% prescribed downturn LGD level for credit insurance products is too conservative. **We recommend a review of the treatment of credit insurance LGD under Foundation IRB approach (notably for high-quality insurance mechanisms used for various specialized lending segments such as aviation) and calibrating a level of LGD that reflects the observed level of risks on insured exposures. Based on the ITFA Additional Report, the capital required should be two times lower. Therefore, an acceptable level for an F-LGD policy holder should be set at 22.5%**.

c. Non-Performing loans

Commission's competitiveness staff working paper position (n.b. this topic is not mentioned in the EC's competitiveness report itself): While it has proved instrumental to reduce the stock of NPLs in the EU from dangerously high levels to historical lows, questions on the forward-looking nature of the NPLs framework across cycles are legitimate. In particular, it is worth considering whether the current calibration of the NPL backstop and the definition of default excessively reduce the ability of banks to proactively engage with clients at an early stage even if there are grounded prospects of recovery, including in the presence of legislative moratoria.

While the Commission did not go as far to propose to amend the Pillar 1 backstop in its Competitiveness report, we welcome the acknowledgment in the accompanying staff working paper to reconsider the NPL calibration. AFME strongly supports such a review. The backstop was designed as an exceptional measure to address historically high NPL ratios following the asset quality review undertaken by the SSM yet now remains as another example of EU gold-plating. The removal of the backstop – or its revision so it only applies when NPLs exceed a certain ratio on banks' balance sheets – , could alleviate CET1 capital consumption equal to EUR 20 billion for significant institutions[25].

The NPL landscape has fundamentally changed since the backstop was first introduced in 2019: banks have significantly reduced NPL stocks, strengthened credit risk management, and implemented Basel 3 standards, resulting in an average NPL ratio of around 1.9% today - the lowest in decades taking down the volume of NPLs from EUR1 trillion NPLs in 2014 to EUR 350 billion in 2025. Furthermore, many other prudential measures have been introduced to the credit risk framework which address the underlying causes of the high NPL ratio, not least guidelines on loan origination and the definition of default, as well as CRR3 implementation includes the output floor backstop and measures to support banks disposing of NPLs (so called "massive disposals").

[21] See ITFA-IACPM bank survey 2023 showing volumes of lending facilitated by credit insurance (survey takes place every 2 years and will be redone this year).
[22] Credit insurance mitigates credit risk by allowing banks to partly insure itself against a default of a specific counterparty, which frees up risk capital for other lending
[23] https://www.eba.europa.eu/sites/default/files/2024-10/4f392d3d-289b-4286-aa78-d3ea2aca1744/Report%20on%20credit%20insurance.pdf
[24] ITFA_Additional_Report_506-vf.pdf
[25] Understanding the EU banking sector's capital framework, Figure 2, page 18

No other major jurisdiction applies a similar P1 backstop, including the US, while the UK recently decided to remove this measure from its framework. Its continued application imposes unnecessary rigidity and capital costs that undermine competitiveness without materially improving resilience.

As part of the Q1 2027 banking package, **AFME recommends that the Commission endsthe application of the permanent P1 NPL backstop** (aligning the EU framework with the approach taken in the UK and the US). If it is not removed then the Commission should **review the current calibration of the NPL backstop to assess whether it should only apply where a bank's NPL ratio exceeds an appropriate threshold, such as 7%**, thereby maintaining prudential safeguards and using the capital constraints effectively as a backstop measure as opposed to an on-going and indiscriminate additional requirement.

In parallel, the ECB should be precluded from setting pillar 2 quantitative expectations[26] – amounting to de facto requirements – regarding NPL provisioning and/or deductions. We therefore recommend a clarification **that when the NPL ratio lies between 0 and 7%, competent authorities are not entitled** to use their supervisory powers in accordance with Directive 2013/36/EU **to impose standard prudential calendar provisioning**. For instance, an amendment to the CRR could formalize such a proposal, **while idiosyncratic deficiencies** in credit provisioning processes (identified during the usual SREP process) **could still be the object of individual and targeted Pillar 2 supervisory measures**, outside of an automatic calendar provisioning approach.

We would also support a further review of the diminished financial obligation 1% NPV threshold in the current EBA guidelines on the definition of default, which are leading to some exposures under forbearance measures to be incorrectly classified as defaults. The 1% threshold leaves very little room for banks to maneuver and provide financial support to viable clients who might face temporary difficulty in meeting their contractual obligation, it being possible that the threshold is breached because of technical or legal reasons. Moreover, this threshold is stricter for credit extended in environments of high interest rates (e.g. emerging markets), where standard forbearance measures such as interest rate reductions can easily breach the threshold and trigger a default classification, even when the borrower remains performing and the operation remains profitable. We suggest the diminished obligation threshold should be amended to act as a backstop to the other forbearance criteria rather than an overriding measure to determine default and suggest the NPV threshold (as defined by the bank) is capped at 5%.

d. Market risk – Fundamental Reform of the Trading Book (FRTB)

Commission recommendation: Continue to monitor the implementation of international standards across jurisdictions and implement a long-term EU approach to market risk capital requirements based on implementation experience and international level-playing-field considerations.

AFME strongly welcomes the Commission's recognition that the future EU FRTB framework should be driven by implementation experience and international level-playing-field considerations. Given the continued divergence in implementation timelines and approaches across major jurisdictions, the EU should avoid introducing requirements that place EU banks at a competitive disadvantage or encourage trading activity to migrate outside the EU.

In developing its long-term approach as part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- **Maintain international alignment**, ensuring that the EU framework reflects actual implementation in key jurisdictions and avoids unnecessary gold-plating, including broader reflections on Basel requirements.
- **Move swiftly** to identify and implement permanent solutions for FRTB.
- **Address outstanding implementation issues identified through the delegated act process** including simplifications to the trading book/banking book boundary, reporting and disclosure requirements, and other operational complexities that add cost without improving risk capture.

[2626] This refers to the ECB Addendum on NPL provisioning published in March 2018 and further supervisory expectations published July 2018.

- **Preserve the viability of internal models**, recognising their importance for sophisticated trading activities, risk management and market liquidity. The Commission itself notes concerns that only a small number of banks are seeking internal model approval.

AFME therefore supports a permanent FRTB solution that is internationally consistent, operationally workable and preserves the competitiveness of EU capital markets while maintaining robust market risk standards.

e. Remuneration

Commission recommendation: Assess adjustments to current remuneration rules and their impact on the EU banking sector. The Commission is assessing for material risk-takers how to reduce unnecessary burden and complexity, address unintended effects on pay structures, prevent distortions in competition for specialised talent and adapt the framework to systemic risks.

AFME strongly welcomes the Commission's commitment to review current remuneration rules with a view to reducing unnecessary burden and recognising the link between banks' competitiveness and their ability to attract, retain and reward talent across global markets. We see this review as a clear opportunity to address the imbalances facing the EU banking sector and to bring EU bank remuneration rules more in line with other global financial centers, without weakening the overall landscape of conduct measures or deviating from FSB principles. We also welcome the analysis of feedback in the Commission's Staff Working Document[27], notably the need to take into account how the landscape has evolved since 2014 and the industry views on the current rules' undue cost and complexity.

The EU's current remuneration framework, notably the Bonus Cap, but also rules on identification of in-scope staff, long minimum deferral periods and constraints on instruments awarded, is more restrictive than in other international jurisdictions, where the risk management frameworks do not show a lower degree of effectiveness.

The EU rules have had unintended consequences, particularly in prompting increases in fixed pay, which imposes cost constraints on firms and diminishes the link between pay, performance and conduct (as the relative proportion of remuneration that is performance-based and 'at-risk' is reduced). AFME analysis of EBA Reports on High Earners has found that while fixed pay accounted for ~30-35% of total pay for high earners at EU banks before 2014, from the introduction of the bonus cap it rose to ~50-55%.

Importantly, the capacity to increase fixed salaries has limits and is itself highly regulated and restricted, with a direct effect on talent attraction and retention, particularly versus non-EU jurisdictions, as well as other industries without comparably strict rules.

No Bonus Cap has been applied in the EU's main competing financial centers, such as the US, Switzerland, Hong Kong or Singapore, though each has rules or guidance on remuneration practices, generally in line with international standards such as the FSB's Principles for Sound Compensation Practices[28]. The UK recently removed its own Bonus Cap, citing its ineffectiveness and unintended consequences.[29] In addition, no other parts of the EU financial ecosystem are subject to the same constraints, nor are other sectors such as technology, with which banks are increasingly intertwined.

Furthermore, because CRD and CRR requirements are calibrated and applied at group level for EU-headquartered firms or any other CRD firm with a banking license within the EU, EU bank remuneration rules must also be applied to staff in third country subsidiaries and branches of these firms, putting EU banking groups or CRD firms with banking licenses within the EU at an additional disadvantage when competing for talent in their operations outside of the EU.

EU bank remuneration requirements are articulated across the CRD/CRR Level 1 texts and the EBA Guidelines on Sound Remuneration Policies. In line with the above considerations, we believe that priority should be given to a review of the provisions within the CRD Level 1 text, as these have the potential to lead to greater flexibility for EU firms, bringing the

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52026SC0615
[28] https://www.fsb.org/uploads/r_090925c.pdf
[29] https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/remuneration-ratio-between-fixed-and-variable-components-of-total-remuneration

requirements to which they are subject more in line with European and international peers. Changes can be made without reducing the overall robustness or effectiveness of firms' remuneration policies, as the majority of the current rules could remain in force.

Given the significant impact, as part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- CRD Article 94(1)(g): Removal of the Bonus Cap to address the trend towards high levels of fixed pay. The appropriate ratio of fixed to variable remuneration should be determined internally, through strong and established governance mechanisms.

The following Level 1 aspects should also form part of a competitiveness-oriented review:

- CRD Article 94(1)(l): Increased flexibility in the proportion of variable remuneration that can be paid in cash and up front, in line with other financial centers.
- CRD Article 94(1)(m): Increased flexibility in relation to minimum deferral periods, in line with other sectors of EU financial services.
- CRD Article 94(3(b): An increase to the 'de minimis' threshold below which certain variable pay obligations are disapplied, again in line with other financial centres, to make the measures more targeted towards management and higher earners.

Additional measures which would also benefit from comparison with other global financial centers include:
- EBA Guidelines on Sound Remuneration Policies §15.6: Removal of the prohibition on dividends during the deferral period.
- EBA Guidelines on Sound Remuneration Policies §15.6: Removal of the 12-month retention period on awarded deferred instruments, and review of any retained holding period for instruments.
- EBA Guidelines on Sound Remuneration Policies §9.3: Re-evaluation of the EBA's definition of fixed and variable pay, for example in relation to severance payment.
- Revision of the criteria to identify Material Risk Takers.
- Review of the remuneration reporting and disclosure landscape at EU and national level (horizontal and financial services-specific).

In addition to the measures set via CRD, some Member States have introduced even more restrictive rules through their national transposition. For example, additional requirements relating to areas such as the Bonus Cap, the identification of in-scope staff and the creation of a Remuneration Officer role apply in Member States such as Belgium, Germany and the Netherlands. The Commission's review should also be leveraged as an opportunity to explore how bank remuneration requirements can be harmonised across the Union, to avoid creating additional complexity in the single market and putting the more pressure on the EU banking sector.

f. Prudential Treatment of software

Commission Recommendation: Propose a revision of the prudential treatment of banks' investments in software assets to ensure that the framework is prudentially sound, consistent with the digital and cyber-risk environment and that it provides the correct incentives for banks to invest in innovation and digital resilience.

The nature and the use of software have fundamentally changed over the past 20 years; it now plays a central role in driving innovation and operational efficiency. Software is a strategic asset for banks, enabling them to serve clients where and when needed, manage complex portfolios, develop cybersecurity measures, and deliver digital services competitively. Software displays several unique characteristics, namely its capacity to generate income, its key importance in banking operations, and its role in facilitating the implementation and embedding of regulatory requirements. One could now say that "software is as necessary as an asset to produce banking services as a factory to produce cars". Thus, software can be regarded as protecting the value of assets and banks more generally in periods of distress, even more so than when the prudential framework for software was designed.

Despite its pivotal role, the prudential treatment of software still differs across major jurisdictions.

In the EU, banks must follow the "prudential amortisation" approach, where banks partially deduct activated software investments from their Common Equity Tier 1 (CET1) capital[30]: the positive difference between accounting and prudential amortisation is deducted, and the remaining amount risk weighted. This partial deduction is not necessarily risk-adequate, increases the cost for EU banks to acquire and develop software, and reduces the capital available for lending and investment. The current EU capital treatment presents a competitive disadvantage for IT investment in the EU.

By comparison, in the US, banks are generally permitted to recognise 100% of software assets on their balance sheets without a corresponding regulatory capital deduction. This is based on US accounting rules (US GAAP[31]) that allow banks to classify software within tangible assets, more specifically under "Property, Plant, and Equipment". This classification enables banks to avoid the automatic deduction associated with "intangible" assets required by the more rigid interpretations of Basel standards. The economic rationale is that the value of software is releasable also under stressed conditions.

Additionally, the US GAAP amendments clarify that the intangibles disclosures in paragraphs 350-30-50-1 5 through 50-3 are not required for capitalised internal-use software costs, leading to the classification of internal-use software figures within broader disclosure categories distinct from the "intangible" category, such as "internal-use software and furniture and equipment".

Finally, it is worth recalling that non-banking entities don't have such regulatory constraints to invest in IT.

A legislative change is therefore urgent in the context of pressing IT and cybersecurity challenges (as highlighted by the EBA[32] and ECB[33]) and the corresponding investment as well as the digital transformation of the banking business, taking into account the growing competition among international banks, fintechs, GAFAs, and non-banks in general. Furthermore, software today has changed significantly from software at the time of IAS 38 (issued by the International Accounting Standards Committee in September 1998) and it should be recognised that today's software is part of the backbone of banks' operating infrastructure and an essential asset for their competitiveness. In addition, if software is not deducted from CET1, it must still be amortised as per accounting rules, reducing its carrying amount over time.

As part of the Q1 2027 banking package, **AFME recommends that the Commission:**

- Allow full exemption from deduction to support bank digitalisation as it is done in the US.
- Software should be treated as an asset subject to appropriate risk weighting (100% under article 113(5) CRR).

This adjustment would 1) support EU competitiveness 2) enable EU banks to accelerate innovation and digitalisation, remove the substantial entry barriers that EU banks face to significantly improve their IT systems, enhance customer service capabilities and achieve greater efficiency 3) level the playing field between EU and US banks and 4) harmonise the competitive landscape with FinTech entities.

g. Prudential Treatment of Crypto-Assets

AFME is disappointed that the Commission did not commit to a review of the current prudential treatment of crypto-asset. The interim prudential treatment of crypto-assets agreed by the co-legislators in the CRR3 is overly risk-averse, incomplete and uncertain, making it difficult for banks to participate in the crypto-asset market and be competitive. It also prevents international corporates from using crypto-assets for their treasury purposes as well as making it difficult for corporates in the EU. to use the asset for their purposes, e.g. payment management. We look forward to the outcome of the review that is taking place at the Basel Committee this year and hope that it will enable banks to effectively act as players in these markets.

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[30] Art. 36 (1) (b) CRR
[31] ASU 2025-06 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Targeted Improvements to the Accounting for Internal-Use Software
[32] Operational risks and resilience | European Banking Authority
[33] Cyber risk - a supervisory perspective

As part of the Q1 2027 banking package, AFME recommends that the Commission:

The EU should ensure a level playing field with major jurisdictions for crypto-assets by

- Promoting a strengthened and future-proofed Basel standard that is carried over in the final EU crypto-asset treatment.
- Addressing the areas where the EU interim treatment prevents EU firms from participating in the crypto-asset market and aligning with other major jurisdictions that are implementing a more risk-based, proportionate approach.

A strengthened and future proofed Basel standard

We encourage EU regulators to contribute to the ongoing review of the Basel standard SCO60. Crypto asset markets, infrastructure, and regulatory frameworks have matured significantly since SCO60 was introduced, which underscores the need to revise SCO60 to better reflect these developments and, importantly, allow activities within the prudentially regulated banking perimeter to adopt blockchain technology including taking exposure to digital assets utilising this technology. Among the necessary changes to be introduced are the following (as acknowledged in the communications to the Basel Committee this year as well as in previous interactions):

1. Permit the use of permissionless blockchains
    - The standard has an effective prohibition regarding the permissibility of using permissionless blockchains
    - Existing and new risk management and/or supervisory principles should be recognised to eliminate the distinction between permissioned and permissionless blockchains.

2. Permit Group 1b stablecoins as eligible financial collateral and HQLA
    - There is no recognition of Group 1b stablecoins as eligible financial collateral or HQLA and the framework adds a separate credit RWA unless reserves sit in a bankruptcy-remote SPV, overstating capital for regulated stablecoins where equivalent protections are achieved through local insolvency law.
    - A look-through approach for risk weighting of regulated stablecoins should be allowed and without a RWA add-on where the legal framework provides enforceable reserve-asset claims. In addition, banks should be provided flexibility to apply a flat risk weight where regulators have published those for domestically regulated stablecoins.
    - Regulated stablecoins should be considered as financial collateral and banks should be allowed to apply a look through approach for collateral haircut determination.
    - Regulated stablecoins should be permitted in Group 1b as HQLA.

3. Remove the Group 2 exposure limit
    - The hard limit on Group 2 exposures should be removed, provided appropriate risk management and governance are in place.
    - If the limit is not removed, banks should be permitted to net long/short positions of Group 2 exposures and collateral (including collateral or exposure legs in SFTs) should not be in scope of the Group 2 exposure limit measure.

4. Restructure risk factors for Group 2a under FRTB-SA, reduce the risk weight to at least 60% for curvature risk, and allow FRTB IMA
    - Market risk requirements do not reflect adequately the fundamental drivers of risk and so the risk factors under FRTB-SA should be restructured.
    - FRTB-IMA and SA-CVA should be allowed to be used.

5. Recognise liquid Group 2a as eligible financial collateral
    - Liquid Group 2a crypto-assets should be recognized as eligible financial collateral, particularly in SFTs to cover clients' short positions on crypto ETFs and finance cash-and-carry trades (e.g., long spot ETF, short futures).

In the short-term, the current EU interim treatment should be adjusted to reflect the following points:

1. Removing exposure limit to "other crypto-assets" in the CRR (as referred to in Art. 501d(2) point (c) of CRR3) as long as major jurisdictions such as UK and US have not implemented the related provisions.
2. Instead of applying a risk weight of 1250% for "Group 2a" (Art. 501d (2) point (c)), apply counterparty's risk weight.
3. Align the definition of crypto-asset exposures with the current Basel standard to ensure clear exclusion of custody services.

4. Clarify, in CRR3, the LCR and NSFR treatment for the cash reserves deposited by the Electronic Money Issuers within a Credit Institution, taking into account the characteristics of these deposits, while ensuring that this treatment does not give rise to arbitrage opportunities.
5. Eligibility as HQLA. Allow for the classification of regulated stablecoins as High-Quality Liquid Assets (HQLA) in banks' regulatory liquidity reports under EU rules, by amending the CRR and the Delegated Regulation (2015/61). Under MiCA, stablecoins are typically backed by liquid assets such as banks' deposits and treasuries' bonds and this should be reflected in the banks' liquidity metrics such as LCR and NSFR.
6. Remove the flat 250% risk weight for ARTs under the EU credit risk treatment and allow a look-through similar to BCBS standard for group 1b.
7. Level-out the impact from a potentially prolonged FRTB postponement, where only a Simplified Standardized Approach (SSA) is available for unfloored RWAs.
8. Avoid gold-plating via Level 2 legislation. Both the CRR and MICAR require specification via regulatory technical standards (RTS). The RTS are not meant to introduce new or more conservative requirements, e.g. additional concentration limits in the draft RTS under MICAR. Any such specifications should be done in Level 1 text only.
9. Clarify that the 1250% risk weight will not apply to crypto-assets required to pay "gas fees".

The aforementioned requests would also apply to the outstanding permanent treatment in the EU.

h. Prudent Valuation

It is unfortunate that the Commission's report did not take the opportunity to consider removing Prudent Valuation (PruVal) from CRR to support the competitiveness of banks operating in the EU and to ensure alignment with many other jurisdictions. The Commission should be committed to removing all instances of EU gold-plating from the EU's banking regulatory framework, PruVal being a prime example of such instances. AFME considers the existing PruVal framework to be excessively conservative, which has a material capital impact and significant operational burden.

The EU approach follows Basel CAP50 guidance on Prudent Valuation, yet neither the guidance nor the regulations from most non-EU regulators mandate the need to achieve 90% confidence in CET1 via additional valuation adjustments (outside of the EU the UK is the only major financial centre to have this requirement). This approach causes outsized market reaction (as observed during Q1 2020), procyclicality and competitive disadvantage for banks operating in the EU.

There is also double counting of risk with FRTB, for example through the Residual Risk Add On (RRAO) framework. As a result, PruVal calibration leads to excessive capital deductions for EU banks, without a corresponding contribution to financial stability. This is especially the case for elements that lead to double counting of risk, beyond regulatory requirements, such as the treatment of Day One Profit deferrals, stemming from EBA Q&A 2019_4458. The Operational Risk add-on to AVA is a further unintended regulatory add-on due to the EU framework (through an EBA RTS) failing to reflect the mandatory phase-out of internal models for Operational Risk for all EU banks.

The EU's approach to PruVal is therefore misaligned with its priorities in terms of simplification and competitiveness. It does not support the growth of European capital markets and unnecessarily traps bank capital which could be better deployed in the real economy.

As part of the Q1 2027 banking package, **AFME recommends that the Commission remove PruVal from the CRR framework.**

i. Market Access

AFME regrets that the Commission did not take the opportunity in its review of competitiveness to reconsider the application of Article 21c of the CRD 6, which we put forward in our consultation response, and which constrains the ability of non-EU headquartered banks to provide credit to EU clients.

We recall that Article 21c of CRD6 introduces a requirement for third-country firms to establish an authorised EU branch to provide "core banking activities" into member states, unless on a reverse-solicitation basis or to EU credit institutions. "Core banking activities" are currently defined in Article 47(1), i.e. as deposit-taking, lending, and guarantees and commitments. In practice, this means that a wide range of cross-border wholesale and corporate banking services fall within scope of the branch requirement, not least due to the purely operational use of accounts to facilitate other services which are typically not considered to be core banking services.

The provision, due to take effect in January 2027, represents a significant departure from certain existing member state-level cross-border regimes for the direct provision of such services. These frameworks have long enabled EU corporates, investors, funds, and financial institutions to receive access to diverse funding sources and other banking services. Going forward, this may be interrupted as EU-based entities will not be made aware of the products and services available on a cross-border basis from outside of the EU. Even where reverse solicitation takes place, new compliance and legal costs may complicate and make the provision of services less competitive, including to clients inadvertently impacted by the scope of the requirement, such as central banks and government authorities.

We note that neither the initial proposals of the CRD6 in October 2021, nor the final provision agreed by the co-legislators were accompanied by an impact assessment or cost-benefit analysis, which would have been essential to assess the proportionality and evaluate the impact of such a wide-ranging change.[34] We note further that third country branches in the EU remain authorised and supervised at Member State level and cannot passport services across the EU.

We would encourage reflection on the creation of an EU-wide third country branch, subject to ECB supervision, and with thresholds and prudential requirements which reflect the nature and scale of the Banking Union. We believe this should be looked at together with other aspects relevant to the completion of the Banking Union. In the continued absence of an EU-wide branch passporting concept, which requires third country providers to set up multiple branches across the EU to service the full European market, AFME believes reconsideration should be given to the scope of the Article 21c limitations on direct cross-border provision in the circumstances set out above.

As part of the Q1 2027 banking package, AFME recommends that the Commission amends the scope of CRD6 Article 21c to define "core banking activities" as retail deposit-taking and retail lending, in order to preserve the ability of EU corporates and financial sector entities to more easily access international sources of funding, as well as operational banking services. However, a notable number of our members do not support this request.

This adjustment would avoid any potential disruptions to the choice for EU governments, central banks and other financial institutions, corporates, investors and funds while maintaining the prudential objective of protecting retail depositors. These objectives are not applicable to sophisticated wholesale clients, such as the above-mentioned corporates and financial institutions, who are well-equipped to assess and manage counterparty risk, and could well benefit from international financing solutions to support their operations in Europe and globally. We acknowledge that some member states have historically required a local presence for carrying out of core banking activities with non-retail clients and would not suggest that these member states be required to modify their regimes at this stage.

Given that the transposition of CRD6 into national legislation was due by 10 January 2026 but is in practice still largely ongoing, the Commission should ideally assess within a short timeframe how best to operationalise changes to the current Article 21c provision, including whether transitional forbearance may be necessary to avoid disruption ahead of the expiry of grandfathering provisions in July 2026 and the full application of Article 21c in January 2027.

[34] In this context, we also note the EBA's July 2025 report (EBA/REP/2025/21) on direct provision of banking services from third countries, which makes no recommendation to broaden the so-called interbank exemption to additional financial sector entities. However, we note the severe limitations of the report's quantitative analysis, which did not conduct a full cost-benefit analysis or detailed scenario modelling of the impact of Article 21c, including no quantification of potential costs to EU firms or markets if Article 21c is applied in its current form. Instead, the EBA had to rely on existing supervisory data and proxies. As the report notes, an ad-hoc data collection was not conducted, and hence did not, amongst others, consider data for investment firms subject to CRR, payment institutions or e-money institutions, and only partial data on asset management companies or funds. The report also explicitly notes that it could not distinguish which services would be provided under exemptions (e.g. reverse solicitation, intra-group, or the MiFID and MiFID ancillary services exemptions) due to data limitations, making it difficult to assess how much third-country activity would be caught by Article 21c versus exempt, and what impact the requirements of Article 21c would therefore have.

j. Leverage Ratio

While we strongly welcome the Commission's commitment to remove the Pillar 2 requirements related to the leverage ratio to address gold-plating, we regret the Commission did not consider a more holistic review of the leverage ratio itself to realign it with its original purpose: a backstop, not a binding, primary constraint. While AFME supports the leverage ratio's role in safeguarding financial stability, several structural features of the current design create distortions that disproportionately affect low-risk capital markets activities and reduce the competitiveness of EU banks relative to international peers. **We therefore recommend the Commission continues to consider making proposals for some targeted adjustments to the calibration of the leverage ratio to improve incentives for client clearing and market-making, without reducing prudential safeguards** as per our response to the Commission consultation – in brief:

- Exclude central bank reserves and certain sovereign bonds held within regulatory liquidity buffers (i.e. LCR numerator) from the leverage exposure measure to eliminate the counterintuitive interaction between the leverage ratio and the liquidity ratio.
- Amend Article 429 of the CRR to align systemic risk reduction frameworks (i.e. central clearing and initial margin) with the leverage ratio.
- Address shortcomings in SA-CCR in the LR specifically for derivatives related to the application of the alpha factor and treatment of variation margin.
- Apply the leverage ratio only at the consolidated level.

k. ESG considerations

As the Commission has emphasised, it is important that risk management requirements focus on material threats and move away from strictly compliance-based approaches to deliver a more efficient, holistic and focused approach. A particular area which should be considered in this context is the current ESG risk management and disclosure requirements in CRR3/CRD6 and associated guidelines and supervisory expectations. In its current form, this prudential framework goes beyond international standards, is in several respects overly prescriptive and insufficiently focused on material risk exposure. In addition, its interaction with broader EU sustainability reporting and disclosure obligations creates unnecessary overlap, duplication and operational burden that could ultimately affect the cost and availability of financing for EU companies.[35] **We regret that the Commission has not explicitly considered these ESG-related provisions in the context of EU bank competitiveness report – this represents a missed opportunity to build on the pro-competitiveness steps taken as part of the Omnibus package. As part of the Q1 2027 banking package, AFME recommends that the Commission reviews the ESG provisions in CRR3/CRD6 and (and ask the EBA to review its related guidelines) to ensure coherence with the Omnibus I package on Sustainability.** This includes removing unnecessary requirements related to prudential transition plans (PTPs) and further simplifying the Pillar 3 framework.

l. Investment firms

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

We welcome the recognition of investment firms' contribution to EU capital markets in the European Commission's communication, and the acknowledgement in the European Commission Staff Working Document accompanying the Commission's report, that the Investment Firm Regulation/Investment Firm Directive (IFR/IFD) should continue to reflect the diversity of investment firms and their activities.

In light of the upcoming proposals for targeted changes to the prudential framework, **we emphasise that investment firms engaging in activities which are considered to be bank-like, should in principle be subject to the same prudential and supervisory requirements as those which are applied to banks, particularly when they have significant footprints in**

[1] EU supervisors' own exercise (Fit-for-55 climate scenario analysis) has shown that climate-related risks have limited systematic impact, especially for GSIBs, yet information requests remain extensive.

systemic financial markets and reflecting the important role played by these firms. This is the case under the IFR/IFD today and should be maintained. Simply not engaging in deposit taking or lending should not be a justification for less stringent prudential requirements if a firm is engaging in other activities which are in fact bank-like in that they involve risk transformation or liquidity provision.

It is important to note that some of the largest non-bank liquidity providers have expanded significantly into equity, fixed income (including sovereign) and related derivatives markets in recent years. At present, regulators and supervisors do not have full transparency on a consolidated basis and across the multiple jurisdictions in which these firms operate to assess whether they possess the operational resilience, liquidity resources, and loss-absorbing capacity required to remain active liquidity providers for clients and the broader market in stress scenarios. The development of these activities outside of the regulated system should therefore be carefully monitored, with tools put in place to enable this to the extent that they are not yet available.

Furthermore, monitoring should be carried out by the relevant authorities with data provided by investment firms directly where this is considered necessary. Requiring banks to act as intermediaries by providing such data would be inefficient and ineffective.

m. Operational Risk

We note the EU commission has not taken any consideration of the Operational Risk framework in its Competitiveness report. Nonetheless, the proposed approach from US policymakers in relation to operational risk signals significant differences with the BCBS and EU approaches, which could have a material impact on capital requirements. In particular, we would note the following departures from the international standard:

Increased netting in the construction of the Business Indicator ('BI'): The first relevant difference is that under the Basel standard, the BI is composed of three distinct elements: (i) an interest, lease and dividend component, (ii) a services component, and (iii) a financial component, each defined separately and entering the calculation largely on a gross basis. By contrast, the US proposal collapses the latter two into a single non-interest component - an interest, lease and dividend component and a non-interest component. In doing so, it combines income and expenses within a single aggregate, moving from predominantly gross-based to a more net-based construction of BI. This reduces not only granularity but also implies that different income and expenses across different sources offset each other, leading to generally lower capital requirements. A second key deviation concerns the treatment of operational losses within this revised accounting construction. As described above, the netting of income and expenses reduces the BI relative to the Basel framework. This effect is, however, somewhat reduced because the US proposals require adding total operational losses to the non-interest component.

Reduction in fee income: A further major departure concerns the treatment of certain fee-based activities. Within this redesigned structure, the proposal introduces a 70% reduction of the contribution of a broad set of fee income streams - investment management, investment services and non-lending treasury services - to the non-interest component of the BI.

As mentioned, analysis to date has shown that these changes could have a material impact on capital calculations and disadvantage European banks. **We would ask policymakers to consider the extent of the changes proposed in the US and to make necessary adaptions to the EU framework for the management of operational risk to ensure the maintenance of a 'level-playing field'.**

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