
Press release

AFME Welcomes Commission Report on Banking Competitiveness and Calls for Ambitious Reforms

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The Association for Financial Markets in Europe (AFME) welcomes the [European Commission's report on the competitiveness of the EU banking sector](#), which recognises that a stronger, more integrated banking market is essential to financing Europe's economic growth, strategic autonomy, and green and digital transitions.

Caroline Liesegang, Managing Director and Head of Capital & Risk Management at AFME, said: *"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 capital stack complexity, 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:

- **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](#)).

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 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.

- **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. 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.

- **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. However, 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.
- **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%).
- **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 could 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.
- **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.

AFME also believes the Commission should give further consideration to the following issues as part of its future workstreams:

- **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 review 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.
- **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
- **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 will continue to engage constructively with the European Commission, Member States, the European Parliament and supervisory authorities to help shape the legislative proposals expected in Q1 2027.

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About AFME:

The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME's legal and regulatory initiatives. For more information please visit the AFME website: www.afme.eu