

## SFC response to Commission's targeted consultation on banking competitiveness

**Q1 – How is the banking sector currently supporting economic growth in the EU, and to what extent (for example, by providing loans to households and businesses, supporting innovative sectors, and helping channel investments into capital markets (including for retail investors))? How could banks do more to boost productivity and economic growth, thereby supporting the priorities of the EU and accelerating the green, digital and social transitions? Please give concrete examples and evidence.**

The banking sector plays a central role in supporting economic growth by financing businesses, mobilising private savings, and channelling capital toward long-term investments. It also bridges the existing gap between the high level of private savings and the financing needs of companies, infrastructure, and strategic transitions. In particular:

- **Banks remain the primary source of external finance for EU businesses and households**, providing mortgage and investment loans. In this regard, banks' lending to corporates, Small and Medium-sized Enterprises (SMEs), and Start-ups remains strong<sup>1</sup> and helps supporting their scaling and growth across Member States<sup>2</sup>. Compared to peer jurisdictions, the EU continues to rely disproportionately on bank financing with around three quarters of corporate borrowing in the EU27 being provided via bank lending, compared with 53% in the UK and just 26% in the US<sup>3</sup>.
- **Banks play a critical role in supporting innovation and the digital and green transitions**. They finance strategic sectors that are critical for Europe's long-term competitiveness, including by lending to tech-enabled businesses and investment in digital infrastructure, and promote green bonds, sustainability-linked loans, and specialized lending criteria to shift capital away from carbon-intensive sectors and toward renewable energy, energy-efficient housing, and sustainable technologies.
- **Banks play a systemic role in capital markets intermediation, acting as a bridge between household savings and productive investment**. This function is essential in a context where EU capital markets remain structurally underdeveloped. The EU27 accounts for just 14% of global capital markets activity, a share that is declining as North American and Asian markets grow more rapidly<sup>4</sup>. In this situation, banks are uniquely positioned to address the challenge of idling capital highlighted by European Commission [statistics](#) from October 2025, which reveal that EU households held a disproportionate 30.6% of their total financial assets in currency and deposits in 2024. By encouraging disciplined financial planning and retirement preparedness, banks can mobilise these untapped savings into productive long-term investments in capital markets – specifically within equity and bond markets – to fund essential strategic EU policy priorities such as the green transition, digital infrastructures, and long-term industrial growth across Member States.

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<sup>1</sup> ECB, "[Survey on the access to Finance of Enterprises in the Euro Area – Fourth Quarter of 2025](#)": "Financing from external and internal sources continued to be used primarily for fixed investment and for inventories and working capital... Fixed investment remained the most common use of financing (39% of firms)..." (Section 1 / Section 2.3) "In the fourth quarter of 2025, the share of bank loan applications increased to 23%, from 17% in the previous quarter." (Section 2.6) "Firms' perceptions of banks' willingness to lend slightly improved [...]. This increase was driven by both SMEs and large firms. On balance, 4% of firms reported an improvement in banks' willingness to lend, up from 2% in the previous survey round". (Section 1 / Section 2.5)

<sup>2</sup> EIB, "[Investment Report 2025/2026: Capitalising on Europe's strengths](#)": "Despite a higher interest rate environment, bank lending to SMEs – particularly those engaged in digital and green innovation – has shown remarkable resilience. Our data indicates that innovative SMEs are 15% more likely than non-innovative peers to successfully secure bank investment loans to fund their transition and scaling activities". (Chapter 4: Financing the Green and Digital Transition)

<sup>3</sup> New Financial, "[Analysis of the state of play and growth potential in EU Capital markets](#)", p. 16, February 2022.

<sup>4</sup> New Financial, "[Analysis of the state of play and growth potential in EU Capital markets](#)", p. 3, February 2022.

To strengthen the important intermediary role that banks play to mobilise private capital and foster long-term investment in capital markets, we believe that the following measures would enable banks to further support the EU’s economic growth and policy priorities:

- Adjusting MiFID II client categorisation rules:** Further targeted adjustments to MiFID II client categorisation rules – beyond those agreed under the Retail Investment Strategy (December 2025 provisional agreement) and consistent with the EU’s broader regulatory simplification agenda – would help realize the investment potential of existing significant individual savings and increase the capital available to EU firms by encouraging greater retail investment, thereby making an important contribution to the Savings and Investments Union (SIU). Tailoring MiFID II rules to facilitate better access by EU retail clients who have the relevant experience and knowledge to a wider range of investment products would support a more efficient mobilisation of private savings into the European economy, notably through expert financial advice, pension solutions and portfolio management offered by banks. By empowering banks to play a stronger role in mobilising retail savings – particularly through proportionate regulatory reforms such as targeted MiFID II adjustments – the EU can unlock private capital at scale, deepen capital markets, and accelerate delivery of its green, digital and social objectives.
- Introducing tax incentives to foster capital markets investment:** Fiscal and tax frameworks are a key factor of how households and corporates allocate their savings. The current design of tax rules across most Member States does not sufficiently encourage the channelling of private capital towards long-term productive investment. Targeted fiscal incentives – such as a special tax exemption on investment income and capital gains for retail investors – should be introduced, alongside simplified – and ideally automated – tax reporting, to enhance capital markets investment with a view to strengthen long-term savings, increase EU market liquidity, and facilitate corporate growth. Sweden’s *Investeringssparkonto* (ISK, Investment Savings Account) is a good example of a tax-efficient account for holding stocks, funds, and other securities that supports capital markets investment with its automatic tax reporting system and its low standard tax based on account value instead of capital gains tax. In addition, existing financial transaction taxes (FTT) should be reconsidered as EU Member States’ experience to date shows that they increase costs for retail investors and pension funds without generating the initially expected substantial tax revenues.
- Supporting the contribution of third-country banks to EU growth:** Third-country banks can further contribute to boost EU productivity and economic growth by expanding their role in channelling capital into the EU, providing specialised investment services, and increasing competition and efficiency in financial markets. They can better mobilise EU client assets held outside the EU and redirect them toward EU capital markets and EU strategic priorities such as the green and digital transitions. As highlighted in our response to Question 7, this contribution is currently constrained by barriers to the cross-border provision of financial services into the EU. A framework such as the proposed [Institution-Specific Approach \(ISPA\)](#) to EU market access would enable third-country banks to scale up their services to EU-domiciled clients under EU supervision and in compliance with EU rules, thereby contributing to an enhancement in capital market depth, liquidity, and access to high-quality financial services across the Union.

**Q7 – To what extent would the EU economy benefit from the following changes in the banking landscape?**

	<i>To a very large extent</i>	<i>To a large extent</i>	Neutral	<i>To a small extent</i>	Not at all	No opinion

Cross-border bank consolidation						X
Domestic bank consolidation						X
Banking services offered across the single market	X					
Digitalised banking services						X
Banking services offered cross-border from third countries	X					

**Please explain.**

**The EU economy would benefit from reducing barriers to cross-border investment and the cross-border provision of financial services between the EU and third countries.** This means allowing capital and financial services to move more freely across EU Member States' borders and between the EU and trusted non-EU jurisdictions, which would improve access to financing, increase competition, and deepen EU capital markets.

To that end, we recommend the [Institution-Specific Approach \(ISPA\)](#) to EU market access which would provide a practical and proportionate framework to support cross-border activity with third-country banks while ensuring a level playing with EU headquartered banks. ISPA would establish a harmonised EU-level regime, allowing qualified non-EU financial institutions to offer services to EU clients under an EU licence and EU supervision. Integrated EU supervision and compliance with EU law would ensure financial stability, a level playing field, and alignment with single market rules, while giving EU citizens and businesses access to a broader range of high-quality financial services.

**ISPA would help channel additional investments into the EU economy, thereby supporting key EU policy priorities such as the green and digital transitions.** Swiss banks manage on a cross-border basis approximately €1 trillion in assets<sup>5</sup> from EU-domiciled clients that could play an important role in financing the EU's strategic policy objectives.

**Q17 – What are, in your view, the benefits and the costs associated with the current level of cross-border banking activities in the EU, and what would be the benefits and costs associated with further integration of banking activities in the EU? Please also include quantitative estimates if available.**

Regarding cross-border banking activities within the EU, the current level of integration provides important benefits for consumers, businesses, and the market. They enable financial institutions to diversify risks across jurisdictions, allocate capital more efficiently, and benefit from economies of scale, which can translate into improved service offerings and lower costs for customers.

**Further financial integration would also improve access to funding,** particularly for Small and Medium-sized Enterprises (SMEs), **and allow banking groups to achieve further economies of scale** and more efficiency gains, beyond EUR 450 billion in assets<sup>6</sup>, which would contribute to expand their size and profitability and as a result their overall competitiveness at international level.

While intra-EU cross-border banking activity expanded remarkably in the years following the introduction of the euro, with a peak in the period leading up to the 2008 financial crisis, banks

<sup>5</sup> Estimation based on data from Boston Consulting Group (BCG), [“Rethinking the Rules for Growth: Global Wealth Report 2025”](#), 2025. Also, Swiss Bankers Association (SBA), [“Economic Trends in the Swiss Banking Industry”](#), 2019.

<sup>6</sup> AFME, Report [“Banking Union: measuring progress and identifying implementation gaps”](#), 2025.

have then reduced their cross-border activities by around 25%<sup>7</sup>. Since then, the level of intra-EU **cross-border banking activity remained relatively limited**<sup>8</sup>, mostly due to structural and regulatory barriers (i.e., divergence in tax laws, consumer protection frameworks, and supervisory practices) which continue constraining its development<sup>9</sup>. Industry reports confirm that cross-border bank lending and deposit-taking recorded only marginal increases in recent years, with the vast majority of banks' lending portfolios remaining concentrated in their home markets. Only a few Member States (i.e., Luxembourg and Ireland) demonstrate high levels of cross-border integration, with a significant share of deposits and loans originating from non-domestic sources, largely driven by attractive tax frameworks and incentives.

**Q18 – What factors prevent EU banks from engaging in more cross-border activity within the EU or make cross-border activity more costly?**

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
Divergent implementation of EU banking rules across Member States	X					
Supervisory divergence/gold-plating by Member States/national supervisors	X					
Requirements for allocation of capital and liquidity at local level	X					
Non-harmonised macroprudential buffers						X
National discretion in intragroup large exposure limits						X
Incomplete banking union (lack of a European deposit insurance scheme, liquidity in resolution, etc.)						X
Non-prudential barriers (insolvency, investor protection, company law, taxation)						X
Political barriers (government direct or indirect interference)						X
Complexity and length of mergers and acquisition supervisory authorisation procedures						X
Costs/risks of mergers and acquisitions						X

<sup>7</sup> ECB, Working Paper Series, "[Cross-border banking in the EU since the crisis: what is driving the great retrenchment?](#)", 2018.

<sup>8</sup> AFME, Report "Banking Union: measuring progress and identifying implementation gaps", 2025: "Since March 2013, date of the political agreement to establish the first pillar of the Banking Union, the share of non-domestic retail deposits has increased by just 0.5 percentage points (pp), while non-domestic retail loans have grown by 0.3 pp. At the same time, non-financial corporate (NFC) deposits have declined by 1.2 pp, while NFC loans have increased by only 3.0 pp. This shows that the banking sector continues to be largely domestically concentrated".

<sup>9</sup> ECB Article by Patrick Montagner, Member of the Supervisory Board of the ECB, on "[Cross-border banking in the EU: from national silos to an integrated market](#)", 2025.

Absence of economies of scale from engaging in cross-border activities						X
Other (please indicate)						X

**Please explain.**

We believe that there is a range of regulatory and supervisory factors which continues to limit banks' ability to engage in cross-border activities within the EU or increases the associated costs. While the EU established a comprehensive Single Rulebook – and finalised the Capital Requirements Regulation (CRR) and Directive (CRD6) – **gold-plating of EU rules** in national implementation and **divergent supervisory practices** across Member States persist. These constitute **key factors of friction** that directly undermine the efficiency of cross-border banking within the EU. Regulatory fragmentation reduces the ability of banks to scale services across the Single Market, limiting competition, and constraining the efficient allocation of capital and liquidity. In addition, divergence in the supervisory approach creates legal uncertainty, less predictable outcomes, and inconsistent expectations which, ultimately, further discourage cross-border banking activities. As a result, **banks face major challenges due to duplicative processes and obligations, inconsistent timelines, and higher compliance costs** when operating across several Member States. This is particularly relevant from a financial wealth management perspective, where different requirements (i.e., client onboarding) hinder the provision of cross-border services and limit EU clients' access to diversified investment products and solutions. In conclusion, limiting gold-plating in national implementation, advancing greater harmonisation of rules, and ensuring more convergent supervisory practices should remain core priorities for strengthening cross-border banking in the EU, enhancing legal certainty and predictability, and lowering operational barriers for banks operating cross-border.

In addition, it is important to consider the **implications of the framework introduced for third-country banks under CRD6**, particularly under Article 21c. While the regime was initially designed to ensure a level playing field between EU and non-EU institutions, it reflects assumptions shaped by a very different global environment. In light of evolving EU priorities and the current geopolitical landscape, including the need to mobilise substantive financing for defence, digital transformation, climate, and energy security, **it is timely to evaluate whether this framework remains fully aligned with these objectives**. Certain provisions may in practice constrain the provision of credit and other financial services into the EU, limiting market efficiency and access to financing.

**Q59 – What are the areas that create undue complexity in the prudential framework, if any? What are the ways to reduce undue complexity in the prudential framework without leading to deregulation and undermining financial stability?**

We welcome ongoing efforts to review the **EU prudential framework** and believe that measures aimed at streamlining it and improving proportionality, harmonisation and operational efficiency are both timely and necessary to support the competitiveness of EU banks. In particular:

- It is essential to **address the structural complexity of the EU prudential framework** which involves an array of implementing rules and guidelines (over 140 mandates under the CRD6/CRR3 with some eventually deprioritized), compounded by ECB supervisory expectations. The proliferation of and increasing reliance on Level 2 measures, as well as the significant expansion of their scope and level of detail over time, substantially contributed to the growing complexity of the EU prudential regulatory framework. As part of the EU broader simplification effort, it would be appropriate to reassess the balance between Level 1 and Level 2 legislation in the prudential framework and ensure that core prudential requirements are clearly set out in Level 1 legislation and that Level 2 measures are focused on genuinely

technical aspects. Such an approach would reduce regulatory burden while maintaining strong prudential safeguards.

- The review should also **address the architectural complexity of the cumulative layering of EU rules and national implementing rules** which, coupled with a scattered supervisory approach across the EU, further complicates the prudential framework. This is being further exacerbated by gold-plating and the use of discretionary tools at Member State level, leading to a fragmented prudential regulatory and supervisory landscape within the EU. A structured and coordinated simplification agenda extending to Member State-level frameworks would enhance the intra-EU cross-border competitiveness of EU banks.
- In addition, the review should aim to **streamline and simplify the prudential reporting framework** which has become increasingly detailed. The significant expansion of granular data requirements compounded with frequent changes and updates to reporting templates generate high operational costs, particularly where there are overlaps or misalignment across different reporting sections. Rationalising reporting frameworks, focusing reporting obligations on information essential for monitoring the stability, solvency, and risk profiles of financial institutions, and reducing duplicative requirements across authorities would meaningfully reduce the overall complexity of the framework. We welcome in this respect the EBA's initiative<sup>10</sup> to simplify EU supervisory reporting as an important step forward to reduce the reporting burden for EU banks.
- Finally, areas such as **Level 2 and Level 3 measures, supervisory guidelines, macroprudential buffers, and Pillar 2 requirements** could be reviewed to identify where simplification is possible.

In addition, to support the competitiveness of European Banks for the long-term, the **current expanding regulatory fragmentation, in particular with respect to Basel III implementation, should ideally be addressed in a more holistic strategic way at international level.** A coherent international framework is essential for ensuring a level playing field but also for ensuring financial stability by limiting regulatory divergence that may leave certain risks unaddressed, and preventing any potential shift of certain financial activity to less robustly regulated financial sector segments.

In this context, this consultation constitutes an **important opportunity for the Commission to identify and initiate dialogue on targeted areas where internationally agreed standards may require reassessment at BCBS level** with a view to consider possible targeted, internationally aligned refinements that preserve financial stability while ensuring the prudential regulatory framework remains proportionate, coherent, and fit for purpose. Most notable examples in this respect include:

- The **capital treatment of unrated corporate exposures** – which has been implemented very differently across jurisdictions. A global review at Basel level should take into consideration unintended consequences and design shortcomings identified via the implementation process and should aim to ensure that access to finance is not unnecessarily constrained.
- The **Fundamental Review of the Trading Book (FRTB)** – which is the object of widespread implementation delays and ongoing concerns about its complexity and usability.

We therefore call on the Commission to **elevate this review initiative at international level** to ensure that the fundamental role and value of international prudential standards prevails and that the Basel standards remain the minimum common prudential denominator across jurisdictions.

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<sup>10</sup> EBA, "[EBA consults on major simplification of supervisory reporting to deliver a simpler, smarter and more proportionate framework](#)", 10 April 2026.

**Q86 – Should there be, in your view, a more consistent and proportionate set of requirements across the prudential, macroprudential and crisis management rules for smaller banks?**

Yes

No

No Opinion

**If your reply is Yes, please explain how such set of requirements should be framed.**

Smaller and less complex banks face a disproportionately high regulatory burden compared to their size and/or business model, resulting in elevated direct and indirect compliance costs, compared to larger or more complex institutions. A more consistent and genuinely proportionate application of requirements across prudential, macroprudential, and crisis management frameworks is essential to avoid unnecessary complexity and cost. Regulatory requirements should be calibrated to the nature, scale, and risk profile of each institution. In practice, this implies introducing and maintaining rules only where necessary to safeguard financial stability and ensuring that their intensity remains commensurate with the risks to be addressed. For smaller, non-complex banks, this should translate into simplified approaches in areas such as reporting, disclosure, governance, and stress testing, while preserving robust core prudential standards. A clearer and more graduated framework would reduce operational burden and enhance efficiency without compromising resilience, ensuring that supervisory expectations remain aligned with the actual risk posed by institutions.

In this regard, we believe it is useful to highlight the Swiss small banks regime successfully introduced in 2020 by the Swiss Financial Market Supervisory Authority (FINMA). This regime allows smaller, particularly liquid, and well capitalised banks to benefit from regulatory reliefs, simplifications and exemptions (i.e., from calculating risk-weighted assets or the Net Stable Funding Ratio (NSFR)). The benefits of the small-bank regime do not only lie in the immediate regulatory relief it provides, but the small-bank regime compels policymakers and supervisors to continually engage with the principle of proportionality, thereby contributing to more appropriate and proportionate regulation for banks of all sizes.