



European Systemic Risk Board's response to the European Commission's targeted consultation on the competitiveness of the EU banking sector

On 11 February 2026 to the European Commission launched a targeted consultation on the competitiveness of the EU banking sector.¹ The purpose of the consultation is to "provide important guidance to the Commission when preparing, if considered appropriate, a Commission Communication on the competitiveness of the banking sector as part of its efforts to deliver on the savings and investments union".

The European Systemic Risk Board (ESRB) opted to respond to a selection of questions that are close to ESRB's remit and area of expertise. In general, the ESRB's responses fall into one of three categories:

1. Cross-sectoral topics
2. Cross-border topics
3. Macroprudential banking topics

This document includes both:

- the accompanying letter sent to the Commissioner for Financial Services and the Savings and Investment Union, introducing the ESRB's answer;²
- a formatted version of the ESRB response, which was officially submitted using the Commission's template.³

¹ See https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-competitiveness-eu-banking-sector-2026_en#consultation-outcome

² See the published version here:
https://www.esrb.europa.eu/pub/pdf/other/ESRB.letter260417_EC_response_consultation_Competitiveness_banking_annex~5f1b9ce0a3.en.pdf?02371d2065558ee71a19f24c3db57104

³ See https://www.esrb.europa.eu/pub/pdf/other/ESRB.response260417_EC_response_consultation_Competitiveness_banking~faf7b323e6.en.pdf?a011e0196cbcd68a99160cba1ed6026d

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ESRB/2026/062

ESRB contribution to the European Commission's targeted consultation on the competitiveness of the EU banking sector

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Honourable Commissioner, dear Ms Albuquerque,

The European Systemic Risk Board (ESRB) welcomes the opportunity to respond to the European Commission's targeted consultation on the competitiveness of the European Union banking sector. In its response, the ESRB emphasises three key elements. First, maintaining resilience in the banking sector is paramount to ensure it continues to support the EU economy in the face of persistently higher volatility. Second, while simplification of the macroprudential framework is clearly desirable in some places, it should not be viewed as a silver bullet for increasing the competitiveness of the banking sector. Third, any reforms should be underpinned by a system-wide perspective that recognises both the interconnected nature of the EU financial sector, and the existence of national specificities that give rise to different risk profiles across countries.

Simplification of the macroprudential framework is desirable where it removes unnecessary complexity, but this should not be done at the expense of resilience. The ESRB emphasises the need to preserve the resilience achieved by post global financial crisis regulatory reforms, which have contributed to the sector's stability throughout the repeated shocks of recent years. Within this constraint, there is scope to enhance clarity - including by reducing the number of overlapping elements in the capital buffer stack and streamlining unnecessarily complex legislation - and preserve flexibility, so that risks can be addressed where they arise and in a way that reflects national specificities. The ESRB's position is aligned with the recommendations of the European Central Bank's High-Level Task Force on Simplification. These recommendations suggest that regulation be streamlined where this improves transparency and usability, including by simplifying elements of the capital buffer framework.

Completing and deepening the banking union is indispensable for reducing fragmentation and achieving a genuine savings and investment union, which, in turn, would support the competitiveness of the EU banking sector. The ESRB acknowledges the progress made with the banking union but also notes the persistence of

important sources of national fragmentation. Further integration of EU banking markets would improve risk diversification, support a more efficient allocation of capital across the banking union and enable better pooling of risks within cross-border groups. It would also allow the Single Supervisory Mechanism and the Single Resolution Mechanism to operate over a wider and more integrated area of competence. Much therefore remains to be done to complete and deepen the banking union, including progress towards finalisation of the European Deposit Insurance Scheme (EDIS) and a mechanism to ensure liquidity in resolution, combined with an EU public backstop. At the same time, greater integration reinforces the need to look at risks from a system-wide, pan-European perspective. In this context, the smooth functioning of a common sovereign government bond market is a key issue. Previous ESRB work can serve as a starting point for a renewed discussion on this topic, including a consideration by the Commission of the merits of central clearing of government bond cash and repo markets.

A system-wide, risk-based approach is essential to ensure that competition between banks and non-banks does not undermine financial stability. Banks continue to play a central role in the EU financial system, particularly in providing financial intermediation and in supporting the real economy. Competition between banks and non-banks can bring important benefits in terms of innovation, efficiency and diversification of risk and funding sources. However, it also reinforces the need for risk-based regulation that takes proper account of similar activities being run from potentially different balance sheet profiles. Activities that generate similar risks should be subject to an appropriate degree of regulatory consistency, while recognising that different entities can propagate risks differently at system level. The ESRB therefore supports a system-wide, activity-based approach that allows regulation to reflect both the nature of the risks and the role of the entities undertaking them. This can be achieved without blurring the distinct roles of microprudential and macroprudential policies, while taking into account national specificities.

Robust, shareable and granular data is a priority for the ESRB. Effective macroprudential oversight requires timely, granular and high-quality data that can be shared efficiently among relevant authorities. Data sharing is therefore an immediate priority, and the ESRB considers that the current framework, including Regulation (EU) 2025/2088 on better data sharing, does not yet go far enough. More granular and more frequent reporting can allow for an earlier detection and better understanding of the risks that banks run.

The ESRB will continue to work closely with the European Commission and other EU institutions to help ensure that the EU regulatory and supervisory framework supports both the resilience and the competitiveness of the banking sector, within a coherent, system-wide approach to financial stability. We trust that the messages outlined above, and elaborated in our detailed response to the consultation, will be useful for the Commission's further work.

Yours sincerely,

Francesco Mazzaferro

Head of the ESRB Secretariat

1. Banking competitiveness in the EU and globally

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.

Banks occupy a central position in the EU financial system and remain crucial for growth and productivity.

Compared with other financial sectors in the economy, the banking sector has a large, highly interconnected balance sheet of more than €37 trillion.⁴ This makes banks the largest financial sector within the wider economy and the main channel through which savings are transformed into investment. This central role means that banks engage in many activities beyond lending and taking deposits. This has two implications. First, banks need to remain resilient to be able to support economic growth in the EU. Second, changes to financial regulation cannot look at banks in isolation but need to take a system-wide approach, considering opportunities, risks and vulnerabilities across entities and activities.⁵

Banks are by far the largest lenders. Loans granted by EU banks (around €13.5 trillion) are a key source of funding for households and non-financial corporations. Banks provide more than three times the amount of loans to firms as other financial institutions. In the EU, 29.1% of firms use banks to finance investment and 33.9% to finance working capital, compared with 19.8% and 17.7% respectively in the United States.⁶ Bank loans also account for over 90% of household borrowing, thus supporting housing investment and consumption. These channels directly sustain business expansion, employment and capital formation.

Banks hold more than €27 trillion in deposits, coming from all other sectors of the economy. From a wealth distribution perspective, deposits are the main financial instrument for lower-wealth households, with their share declining further up the wealth distribution.⁷ By transforming these savings into loans and securities, banks help to allocate resources towards productive projects.

Operating at the heart of the financial system, banks link the real economy with the main financial markets.

They are the main counterparty in repo and derivatives markets, the second-largest investor in listed equity and corporate bond markets, and the third-largest investor in government bond markets in the euro area. Although the

⁴ The figures refer to the euro area as at the second quarter of 2023. See Andersen, I. and Sánchez-Serrano, A., "A map of the euro area financial system", Occasional Paper Series, No 26, ESRB, 2024.

⁵ A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation, ESRB, 2024.

⁶ According to World Bank statistics.

⁷ See Sánchez-Serrano, A., "Three extensions of the map of the euro area financial system", Occasional Paper Series, No 27, ESRB, 2025.

relative importance of banks has declined since the global financial crisis, they still dominate the provision of financial services in the EU.⁸

The universal banking model means that large banking groups are heavily involved in asset management.

Around 60% of EU fund assets are managed by bank owned asset managers, whereas in the United States around 80% of fund assets are independent.⁹ Through their asset management arms and branch networks, banks distribute investment funds to retail savers and can therefore channel part of household wealth from low yield deposits into diversified capital market instruments that can be used to finance companies and infrastructure.

The Draghi report identified an innovation gap between the EU and the United States and China, especially in advanced technologies.¹⁰

As start-ups tend to carry higher risk and typically provide hard-to-value intangible collateral, traditional bank lending is often out of reach. Even so, banks can support innovation by providing growth loans, co financing with public promotional banks, and using their investment banking and asset management arms to facilitate equity and bond issuance for start ups and scale ups. Banks can also finance digital upgrades of existing firms, leveraging long standing client relationships to support IT investments that boost productivity.

Banks face significant challenges and opportunities in the green and social transitions.

An ESRB analysis showed that banks carry substantial climate risk in their loan books and that an orderly decarbonisation path is the safest option for financial stability.¹¹ As a follow-up, the ESRB proposed a list of micro and macroprudential measures to incentivise banks to accelerate the green transition.¹² In practice, this may entail expanding green mortgages and renovation loans, providing sustainability linked loans for corporates, and underwriting green bonds. Banks can likewise support the social transition by financing social housing, education and skills, and by delivering basic financial services and lending to less well-off households and regions.

Q8: What are in your view the main risks faced by EU banks today?

Banks are at the core of the EU economy and financial system.

This means that they must be resilient to shocks. Banks are exposed to several risks that arise either from their core activities (“traditional risks”) or from shifts in the financial and economic landscape (“transformational risks”).

One such traditional risk stems from the interaction between banks and the real economy.

An economic slowdown and rising interest rates may weaken asset quality as borrowers struggle to service their debt. While asset quality among EU banks is generally sound, non-performing loan ratios are increasing in real estate, retail trade and

⁸ See Pagano, M. et al., “Is Europe overbanked?”, Reports of the Advisory Scientific Committee, No 4, ESRB, June 2014 and Draghi, M. et al., The future of European competitiveness, European Commission, September 2024.

⁹ NBF1 Monitor, ESRB, 2024.

¹⁰ Draghi, M. et al., The future of European competitiveness, European Commission, September 2024.

¹¹ ECB/ESRB Project Team on climate risk monitoring, Climate-related risk and financial stability, ECB, July 2021.

¹² ECB/ESRB Project Team on climate risk monitoring, The macroprudential challenge of climate change, ECB and ESRB, July 2022.

construction. Moreover, the credit quality of SME loan books continues to deteriorate. Asset quality may deteriorate further amid the impact of geopolitical tensions on the macroeconomic environment, especially in export-intensive sectors and in countries with limited fiscal space to allow automatic stabilisers to operate. Profitability prospects have also diminished, as a narrowing of interest margins is set to weigh on net interest income.

Another traditional risk relates to imbalances in banks' balance sheets. Vulnerabilities arise because banks hold long-maturity, fixed-rate assets but rely on short-term, interest rate-sensitive funding. When interest rates rise, asset values fall while deposit costs increase, eroding confidence and making banks more exposed to sudden outflows. Recent market volatility and geopolitical uncertainty have heightened risk perceptions and may exert upward pressure on banks' funding costs.

Reflecting this, deteriorating asset quality and the materialisation of funding and liquidity risks in the EU banking sector have been identified as an elevated source of systemic risk in the ESRB's risk assessment for the first quarter of 2026.

Transformational risks are a newer and more unpredictable element of the risk landscape. The main risk stems from the growing and complex linkages between banks and the non-bank financial intermediation (NBFi) sector, particularly through funding and liquidity channels. Euro area banks are net debtors to the NBFi sector, which funds about 15% of their balance sheets. Most of this funding is short term (deposits, repos, securities financing transactions; see Chart 1 in the 2026 ESRB-ECB report)¹³ and can be quickly withdrawn. Deposits at euro area banks from NBFIs have increased by around 20% since the pre-pandemic period, while repo funding of euro area banks from NBFIs has more than doubled. Such funding is often denominated in euro or US dollars, thus exposing banks to stress in key currency markets (see Chart 2 in the 2026 ESRB-ECB report). Insurers and pension funds hold much of banks' long term debt, thereby helping to meet stable funding and loss-absorption needs. However, their focus on investment-grade assets creates cliff-edge risk: a downgrade could trigger rapid sales by rating-constrained investors, increasing refinancing costs and making it harder for banks to secure new long-term funding. In addition, the homogeneity of NBFi funding providers and limited substitutability mean that, in times of stress, banks may struggle to replace this funding.

Another transformational risk, looking at the asset side of banks' balance sheets, stems from the provision of loans, credit lines and other forms of leverage to NBFIs, as well as liquidity insurance through committed facilities. These exposures create credit risk if leveraged NBFIs suffer losses, funding risk when NBFIs reduce or withdraw their own activities, and contingent liquidity risk if, under stress, NBFIs draw heavily on the roughly €300 billion of credit lines extended by euro area banks. Systemic spillovers via asset price shocks and margin calls may also be triggered.

Banks also face transformational risks stemming from broader structural shifts in the financial landscape, such as increased competition from NBFIs and alternative financial products – ranging from private credit to

¹³ ECB/ESRB workstream on financial stability risks from bank-NBFi linkages, **Financial stability risks from linkages between banks and the non-bank financial intermediation sector**, ESRB and ECB, February 2026.

stablecoins, other digital tokens, crypto staking and lending¹⁴ – which challenge their traditional funding models and may affect their market share and intermediation role. These developments may also facilitate the entry of foreign banks through digital channels, with implications for funding structures and competitive dynamics. Other risks arise from deep and lasting changes in the economy, such as the acceleration of digital technologies, the intensification of climate-related challenges, and the need for sustained investment in resilient cybersecurity infrastructure as cyber risks increase amid geopolitical tensions.

Q9: What are in your view the main risks stemming from EU banks today?

Given the central role played by banks in the financial system, they can amplify shocks to the real economy, other financial institutions and markets. They can also create disruptions in the event of operational failures.

Banks perform three core functions that affect the real economy.

First, they play a prominent role in financing households, non-financial corporations (NFCs), and governments.

Bank loans have historically been the main component of household financing. Despite growth in market-based finance, only around 44% of the external credit granted to NFCs is non-bank-based, meaning that the majority is still bank-intermediated. If banks face high levels of non-performing loans, they may restrict lending to the real economy, causing a credit crunch that can amplify a downturn. This is particularly concerning in a high interest rate environment, where debt servicing costs for borrowers are already high, and particularly for SMEs, whose funding model is predominantly bank-based, with only limited access to market-based finance.

Second, banks dominate the deposit markets, facing little competition from alternative savings products. This can reduce potential returns for savers while diverting equity funding away from innovative firms that typically have to rely on non-bank financing (see the 2024 Draghi report on the future of European competitiveness).

Third, banks play a central role in payment systems. They provide the accounts through which most transactions are settled and process key retail instruments such as transfers, direct debits and card payments. They also operate in large-value systems, managing intraday liquidity and supporting market functioning and monetary policy transmission. Here, the main risks relate to potential IT outages, dependence on external service providers (in some cases outside the EU) and the use of outdated technologies.

These core functions mean that banks are highly interconnected with other financial institutions and markets through lending, securities, derivatives and other financial instruments. For example, in their role as clearing members, large banks provide market participants with access to central counterparties, acting as the primary gateway through which derivatives and securities trades are cleared and collateral is managed. Interconnectedness can occur as part of a group or financial conglomerate structure. In the EU, there are 26 bank-led financial conglomerates,

¹⁴ Joint Report – Recent developments in crypto-assets (Article 142 of MiCAR), EBA and ESMA, January 2025.

meaning groups that operate both in the banking or investment fund sectors and in the insurance sector¹⁵, accounting for 23% of significant institutions under the ECB's direct supervision. Banks dominate the EU asset management space through their subsidiaries: roughly 60% of EU fund assets are managed by bank-owned asset managers¹⁶. Banks are also closely linked to insurers and occupational pension funds (IORPs) through bank-related holdings and bank debt. Debt issued by banks accounts for the largest share of corporate bond holdings among insurers and IORPs alike (45% and 34% respectively). This means that insurers and IORPs hold 9.1% and 1.5% of total bank bonds outstanding respectively (see Chart 2.13 and Table 2.1 in the 2026 ESRB-ECB report referred to in Q8).

These interconnections between banks, market infrastructures, insurers, IORPs and asset managers create dense interconnections across the financial system. Interconnections can mean that risk moves to a place where it can be better managed and/or where it can be better absorbed if it materialises. However, they can also become a channel of contagion. Stress at one bank can quickly spill over to other banks and financial institutions, creating fire-sale dynamics and systemic risk.

The central role banks play in the financial system means that operational failures (e.g. in IT systems or risk management frameworks) in banks could propagate risks to other parts of the financial system. Cyberattacks on banks could also disrupt financial systems and erode confidence.

Banks are now more resilient and less likely to trigger or transmit risks than in the past. Following the reforms introduced in the aftermath of the global financial crisis, banks can even act as circuit breakers, supported by stronger capital and liquidity requirements and harmonised supervision and resolution under the SSM and the SRM. In addition, stress-testing exercises regularly assess banks' vulnerabilities to proactively identify and address risks. The sectoral EU-wide stress test exercises conducted by the ESAs have been instrumental in identifying risks faced by individual banks. To complement these exercises, the top-down system-wide stress-testing tool that the ESRB plans to develop over the next three years aims to also capture risks that originate in banks and propagate through the broader financial system.

Q14: Does the prudential framework adequately account for the activities and the complexity of intermediaries performing financial services other than core banking services? Are there any perceived undue limitations to such activities? Reference is made to financial services performed by investment firms, financial advisors, custodians, wealth managers, market makers or other liquidity providers that are not primarily or not at all engaging in deposit taking and granting loans.

Yes. Overall, the prudential framework does recognise the diversity and complexity of intermediaries providing non-core banking services. It is appropriate that these intermediaries are not subject to the same rules as banks.

¹⁵ **List of Financial Conglomerates 2025**, Joint Committee of the ESAs, February 2026.

¹⁶ Special feature 2.1 of **NBFI Monitor**, No 9, ESRB, June 2024.

The prudential framework (including macroprudential tools) for banks is broadly effective at addressing the risks arising from the wide range of activities that banks undertake. Banks typically combine many of these activities (such as deposit-taking, lending, payment services, trading and market-making) on a single balance sheet. This makes banks structurally complex and creates vulnerabilities (e.g. maturity and liquidity mismatch from combining long-term lending with runnable short-term funding) that are not present, or are present to a much lesser degree, in other intermediaries.

Looking beyond banks, a system in which financial services are provided by a range of competing entities, including non-bank financial intermediaries, can be more resilient than one that relies solely on banks, provided that the prudential framework remains risk-based and proportionate.

In this respect, a key message from the ESRB's response to the Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFIs) is that the same activity does not necessarily generate the same risk across different entities. The risk depends on how that activity is combined with other activities in a given business model and on the associated funding structures, leverage and liquidity profile. This is why the principle of "same activity, same risk, same regulation" is contingent on whether the activity gives rise to the same risk in different entities. Where risks differ, regulation should also differ.¹⁷ The objective of regulation should be to ensure that requirements are commensurate with the risk profile of entities and not to impose identical rules on all entities in pursuit of a "level playing field". This would mean treating materially different risk profiles as if they were the same. An "uneven" playing field can be appropriate if it reflects underlying differences in risk.¹⁸ At the same time, a suitably calibrated and differentiated prudential framework should support, rather than discourage, the favourable diversification of financial intermediation across banks and NBFIs.

This logic applies to the examples cited in the question. While proprietary trading firms and other non-bank liquidity providers may undertake activities similar to those carried out by banks' trading desks or market-making units, they never do so while combining these activities with large, runnable retail deposits. Nor do they typically operate critical payment functions. Their contribution to systemic risk therefore differs from that of banks. Moreover, they often do not have access to backstops such as central bank liquidity. It is therefore appropriate that their prudential treatment, while risk-sensitive, is not identical to that of banks subject to the full CRR/CRD regime. Conversely, additional requirements may be warranted where investment firms or other intermediaries become highly leveraged, are strongly interconnected, or act as significant providers of credit or liquidity transformation.

Against this backdrop, applying different prudential regimes to banks and to other intermediaries should not be viewed as generating "undue limitations", provided that they are grounded in a careful assessment of risks.

In the aforementioned response to the Commission's consultation on NBFIs, the ESRB therefore proposes an approach that combines entity-based and, where appropriate, activity-based regulation. This is designed to ensure that entities

¹⁷ A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for NBFIs, ESRB, 2024.

¹⁸ See Borio, C., Claessens, S. and Tarashev, N., "Entity-based vs activity-based regulation: a framework and applications to traditional financial firms and big techs", FSI Occasional Papers, No 19, Bank for International Settlements, 2022.

undertaking similar activities are treated consistently where they generate similar risks, while allowing for differences where differences in business models lead to different vulnerabilities. This approach also helps to avoid gaps and leakages as activities migrate across the regulatory perimeter, thereby supporting the objectives of the capital markets union and the savings and investments union by fostering deeper and more resilient market-based finance. In this way, a diversified ecosystem of banks and NBFIs can support risk dispersion and help to ensure greater shock-absorbing capacity at the system level.

Reflecting this, the ESRB reiterates the point it made in that response and calls on the Commission to make use of this conceptual approach in its regular reviews of legislation or when considering new legislation.

Q15: How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

Competition between banks and financial firms supports EU capital markets, the capital markets union, and the savings and investments union. It continues to reshape how liquidity, credit and risk are supplied and transmitted.

Notably, competition has improved liquidity in normal conditions but has also increased the risk that it evaporates abruptly in periods of stress. Proprietary trading firms and other non-bank market-makers now play a key role alongside banks in core markets. Their entry lowered transaction costs, improved liquidity, and facilitated faster and more effective price discovery across asset classes.¹⁹ By competing with banks in intraday market-making and price discovery, they have made liquidity more continuous in normal times, especially in standardised instruments such as government bonds and equity index products. However, these firms typically rely on market-based funding and collateralised leverage and do not have much own capital, which limits their ability to warehouse risk. During periods of extreme volatility or sharp increases in margin and haircut requirements, they may be less able or willing than banks to provide liquidity and may withdraw almost entirely, as seen during the Swiss franc depegging episode.²⁰

In lending, competition has broadened access to credit in normal times, but has also increased the risk that new providers may retrench during times of stress.²¹ In the EU, banks have traditionally been the main lenders and, while they remain key lenders, a growing share of credit is provided by NBFIs. New entrants such as private credit funds and other alternative lenders now specialise in particular market segments. Unlike banks, for which maturity transformation is an inherent part of the business model, many NBFIs have different funding models. They issue liabilities that are closer in maturity to their assets and tied to asset performance, so liquidity risk and losses are largely absorbed by investors who choose that risk profile. These lenders may therefore be better placed to provide certain

¹⁹ Bouveret, A., et al., "Flash crashes on sovereign bond markets – EU evidence", ESMA Working Paper Series, No 1, ESRB, 2022.

²⁰ Huang, W., et al., "HFTs and dealer banks: liquidity and price discovery in FX trading", Occasional Paper, No 63, January 2023.

²¹ Fleckenstein, Q. et al., Nonbank Lending and Credit Cyclicalities, NYU Stern, June 2020.

types of credit, including to borrowers outside traditional banks' risk appetite. However, because their lending model is more transactional in nature than banks' relationship-based model, they may be less reliable lenders during times of stress.

A system in which financial services are provided by a range of competing entities can be more resilient than one that relies predominantly on banks. At the same time, relationships between banks and NBFIs are often symbiotic, with banks often providing funding, leverage, structuring and risk management services to NBFIs. However, this symbiosis deepens interconnectedness and may create new channels for stress transmission. An ESRB-ECB analysis²² shows that, in the euro area, NBFIs now fund around 15% of bank balance sheets. On the asset side, banks' exposures to NBFIs account for around 10% of total assets – roughly €1.66 trillion, of which €432 billion relates to exposure to potentially leveraged NBFIs. Similar reinforcing business models exist in market-making and derivatives, where non-bank liquidity providers rely on bank-provided prime brokerage, financing and hedging. Such structures can amplify shocks in both directions: stress in NBFIs can affect banks through funding and credit channels, while stress in banks can impair NBFi-dominated markets.

From a macroprudential perspective, as lending and liquidity provision move beyond banks, resilience and oversight must follow. For regulated entities, authorities understand how vulnerabilities such as unsustainable credit growth, leverage, liquidity mismatch and concentration risk interact and propagate. For many NBFIs, by contrast, vulnerabilities are less well understood, as business models and funding structures are more diverse and often less transparent, particularly in private credit and other private asset strategies.

Ensuring that competition strengthens rather than undermines capital markets requires a system-wide approach combining both entity-based and activity-based perspectives. Activities such as market-making, repo financing, securities lending and leveraged lending should be analysed across banks and NBFIs, with regulation calibrated to the risks they generate rather than to the entity's label. This requires better data: granular, consistent and timely information on key activities and interconnections, including in opaque parts of the NBFi sector and among lightly regulated firms.

Q16: For retail banking as well as for wholesale and investment banking, would you agree with the following statement: 'The EU banking market is highly fragmented along national borders, domestic entities mainly cater for domestic clients, cross-border activity is subdued, and it is very difficult for clients to get banking services across the single market.'

²² ECB and ESRB, Financial stability risks from linkages between banks and the non-bank financial intermediation sector, February 2026.

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
Retail banking	X					
Wholesale and investment banking			X			

The ESRB considers the statement to be broadly accurate, as already outlined in its 2022 concept note on the review of the EU macroprudential framework for the banking sector. This concept note emphasises that the development of a truly integrated EU-wide banking sector remains far from complete, with banking services continuing to operate predominantly at the national level. This fragmentation also hampers efficient risk-sharing in the private sector and could heighten financial stability risks (see the ESRB’s response to Question 17, which elaborates on this point).

More precisely, the fragmentation of the EU banking market applies more strongly to retail banking than to wholesale and investment banking. Despite the banking union, the EU banking market still remains largely segmented along national borders. This constrains private risk sharing and helps to maintain a strong interdependence between banks and sovereigns. Consolidation is nevertheless progressing: EU cross-border banking deals in 2025 reached the highest level since 2008 (€17 billion in 2025 vs €3.4 billion in 2024, according to data provided to the “Financial Times” by Dealogic²³).

Retail banking in the euro area remains fairly localised, with most households banking domestically. However, cross-border deposits are growing, albeit slowly. ECB data show that as at January 2026, households held 1.7% of deposits across borders, compared with 1.1% ten years earlier. This progress is also driven by pan-European fintech platforms, which allow EU residents to open and manage savings accounts across multiple partner banks, thus combining cross-border access with local deposit guarantees and streamlined digital onboarding. However, persistent issues such as IBAN discrimination (when a company, employer or public authority refuses to accept a bank account solely because its IBAN comes from another EU/EEA country) hinder cross-border banking within the EU.

For wholesale and investment banking, the picture is more nuanced. Cross-border activity is significantly more developed than in retail markets. Large corporates, financial institutions and sovereigns routinely access syndicated loans, bond underwriting, derivatives and foreign exchange services on a cross-border basis, and these activities are often booked through pan-European banking groups and major financial centres. For instance, ECB data²⁴ show that at the end of 2023, direct cross-border lending by euro area banks to non-banks totalled €1.03 trillion, or 14.1% of such lending, up by 1.65 percentage points since March 2019. Market infrastructures closely linked to banking and capital markets, such as TARGET Services and the main central counterparties (CCPs) and central securities depositaries

²³ “EU Cross-Border Banking Deals Jump to Highest Since 2008 Crisis”, Financial Times, 16 February 2026.

²⁴ Lenoci, F. and Molitor, P., “Intra-euro area cross-border bank lending: A boost to banking market integration?”, Financial Integration and Structure in the Euro Area, ECB, 2024.

(CSDs), operate across multiple countries, and many key funding and hedging markets in the euro area function at a European level.

The Single Supervisory Mechanism and Single Resolution Mechanism have substantially harmonised prudential rules and supervisory practices for significant banks. Even so, much remains to be done to improve the banking union and achieve the goals of the savings and investment union, including the establishment of a European deposit insurance scheme to break the link between banks and their national sovereigns, as well as a mechanism to ensure reliable access to liquidity in resolution, featuring a European public backstop and further harmonisation of insolvency, collateral and consumer protection regimes.

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.

Following a setback during the sovereign debt crisis, cross-border integration of banking activities has recovered only modestly. Better use of the potential benefits of the Single Market would provide the following key advantages:

- **Risk diversification:** allowing banks to diversify their exposures across multiple countries reduces their vulnerability to localised economic and financial shocks and mitigates systemic risks, thereby creating a more resilient banking sector.
- **Efficient allocation of capital throughout the EU, ensuring that financial resources are directed to regions where they are most needed.**
- **Increased competition that cross-border banking brings to national markets.** This heightened competition encourages innovation, drives operational efficiency and leads to better services and lower costs for consumers and businesses alike.
- **Smooth transmission of monetary policy across Member States.** Cross-country financial spillovers play an important role in the transmission of euro area monetary policy and systemic risk across euro area countries²⁵.
- **Streamlined operations and reduced inefficiencies within the banking sector.** This unified approach would bolster confidence in the EU's financial system and create a more cohesive environment for banks to operate in, ultimately benefiting consumers, businesses and economies across the region.
- **Stronger international competitiveness of EU banks, positioning them more effectively in the global financial market.**

The significant progress made in strengthening frameworks since the global financial crisis has laid a strong foundation for unlocking the full potential and transformative benefits of deeper integration across Europe. To reap all these benefits, it is crucial to fortify the common governance of EU-wide supervision across the different sectors

²⁵ Skouralis, A., "The role of systemic risk spillovers in the transmission of Euro Area monetary policy", Working Paper Series, No 129, ESRB, 2021.

of the financial system. Otherwise, the EU might have to endure the same drawbacks as in the past. Before the global financial crisis, the EU banking sector had reached a relatively high level of cross-border integration²⁶, although this also led to a suboptimal allocation of risks across the EU. In the absence of meaningful progress towards a single financial market, further cross-border banking activities can push up costs and introduce regulatory complexity, crises, fragmented resolution mechanisms, and entail significant harmonisation costs. The diversity of Europe’s banking landscape adds another layer of systemic complexity, making strong safeguards essential to protect the financial stability of host countries.

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

The environment is currently conducive to increased consolidation, with cross-border mergers among EU banks at their highest levels since the 2008 financial crisis. In 2025, the total value of cross-border banking deals

²⁶ Schmitz, M. and Tirpál, M., “Cross-border banking in the euro area since the crisis: what is driving the great retrenchment?”, Financial Stability Review, ECB, 2017.

within the EU surged to €17 billion, up from €3.4 billion in 2024, according to data provided to the “Financial Times” by Dealogic.²⁷

The ESRB believes that reforms to complete the banking union and the capital markets union are key to creating an even more favourable environment for cross-border mergers. Financial institutions currently face a fragmented landscape of national specificities in terms of securities, accounting and insolvency laws, which need to be addressed. At EU level, finalising the European deposit insurance scheme is key, as is creating a liquidity framework in resolution with an EU public backstop.

Another factor that is not present in the list above and that would foster cross-border lending within the European Union is the minimum harmonisation of key concepts and instruments for borrower-based measures (BBMs). One of the key policy proposals put forward by the ESRB in its 2022 concept note²⁸ is to introduce into EU legislation a common minimum set of BBMs for residential real estate loans, while keeping any decision regarding their activation, calibration and implementation at the national level. This would facilitate not only cross-border lending and competition in the EU mortgage market, but also reciprocation in terms of BBMs, and would likewise mitigate systemic risk at the EU level. Minimum harmonisation of BBMs should allow sufficient flexibility to address national specificities and ensure that they remain effective, such as by defining lending standards or allowing for the possibility to go beyond the list of harmonised instruments. Any minimum harmonisation at EU level should take account of the complexity of possible legal challenges at national level.

It would appear that banks are not making full use of the opportunities presented by passporting rules in the Single Market and by European banking supervision. More precisely, banks operating across borders through subsidiaries can apply for liquidity waivers to consolidate liquidity across legal entities – an option that has been highlighted by the supervisory authorities. However, there may be scope to streamline regulatory and supervisory conditions for cross-border waivers in order to facilitate their implementation. Moreover, European banking supervision has made it clear that it will not obstruct banks seeking to convert subsidiaries into branches²⁹.

Q19: Why have EU banks generally relied more on subsidiaries rather than branches and the free provision of services for their cross-border activities within the banking union and the single market?

Only a limited number of truly pan-European banks operate across the whole of the EU. Even so, EU cross-border banking deals in 2025 reached their highest level since 2008 (€17 billion in 2025 compared with €3.4 billion in 2024, according to data provided to the “Financial Times” by Dealogic³⁰). A major advantage of the Single Market in

²⁷ “EU cross-border banking deals jump to highest since 2008 crisis”, Financial Times, 16 February 2026.

²⁸ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, 2022.

²⁹ Elderson, F., “Europe at a crossroads: it is high time to complete the Single Market”, keynote speech at the SRB Legal Conference 2025, Brussels, 18 June 2025.

³⁰ “EU cross-border banking deals jump to highest since 2008 crisis”, Financial Times, 16 February 2026.

banking lies in enabling cross-border institutions to implement capital and liquidity management strategies on a group-wide basis across multiple jurisdictions. Strengthening financial integration is essential to fully unlock the potential of the Single Market, improve efficiency and support cross-border consolidation, which aligns with the goals of fostering risk-sharing and reducing risks.

As described in an ESRB 2018 special feature titled “Bank branches and macroprudential policymaking in the EU”, credit institutions have three primary methods for conducting operations in EU Member States: establishing a subsidiary, setting up a branch, or offering direct cross-border services. A subsidiary operates as an independent legal entity within the host market and is subject to local prudential regulatory requirements. By contrast, a foreign branch does not have separate legal status, and providing direct cross-border services does not require a physical presence in the foreign market. Freedom of choice as to the form of cross-border activities is a fundamental right of financial groups. To ensure that the right to convert subsidiaries into branches does not adversely affect the information available to macroprudential authorities, the ESRB issued a recommendation in 2019 on the exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country.

Another obstacle stems from the absence of a fully fledged European deposit insurance scheme (EDIS). Renewed prospects for reaching a compromise on EDIS, more than ten years after the initial proposal, would strengthen the crisis management framework and mark a major step towards integration and common resilience within the banking union.

European banking supervision has made efforts to address barriers to cross-border banking integration, as highlighted in a speech by Frank Elderson, member of the ECB’s Executive Board³¹. For instance, the ECB issued a guide clarifying that cross-border mergers within the euro area should be treated in the same way as domestic mergers. Mr Elderson also underlined the ECB’s willingness to support banks that wish to convert their subsidiaries into branches and emphasised that banks operating across borders via subsidiaries can request liquidity waivers to consolidate liquidity across legal entities. He reaffirmed that, provided prudential regulatory requirements are met, the Single Supervisory Mechanism will actively promote cross-border banking integration and consolidation. Nevertheless, several prudential provisions, including waivers and intragroup large exposure limits, have been flagged as possibly warranting revision in order to facilitate cross-border integration.

The 2018 ESRB special feature titled “Bank branches and macroprudential policymaking in the EU” describes the complexities of macroprudential policy in the context of cross-border banking. The study points to several challenges associated with addressing systemic risks through branches, as opposed to subsidiaries. One key issue is that, unlike subsidiaries, branches are not required to hold their own capital, which may limit the macroprudential policy options available to host authorities. Consequently, the host country’s macroprudential framework must rely more heavily on reciprocity mechanisms to mitigate systemic risks effectively. The ESRB has already made an important contribution in this area through the adoption of its framework for voluntary reciprocity of macroprudential measures

³¹ Elderson, F., “Europe at a crossroads: it is high time to complete the Single Market”, keynote speech delivered at the SRB Legal Conference 2025, Brussels, 18 June 2025.

(see answer to Question 69). In the recommendations of the Governing Council's High-Level Task Force on Simplification, the ECB has proposed widening the scope of automatic reciprocity.

For countries outside the banking union, subsidiary structures may be preferable to “branchification”, as they enable host supervisors to better enforce regulations, manage financial stability and respond independently to crises.

Q27: What are, in your view, the effects of digitalisation on the activities and business model of EU banks in the single market?

Digital innovation can revolutionise the monetary and financial system by bringing together central bank reserves, commercial bank money and claims on financial and real assets on programmable platforms.³² This can enhance the quality, scope and accessibility of financial services. For instance, securities trading and settlement currently involve a complex web of intermediaries, messaging, instructions, reconciliations and money flows. The use of tokenisation and distributed ledger technology (DLT) could bring these activities onto programmable platforms. If combined with state-of-the-art compliance tools, this would reduce transaction costs, cut settlement delays and make collateral management more efficient.³³ Tokenised central bank reserves would provide a stable and trusted settlement asset for wholesale transactions.³⁴ New digital assets such as central bank digital currencies and tokenised deposits would play an important role as settlement assets, thus helping to address the needs of customers.

In the right form, digitalisation can bring benefits for financial stability. For example, thanks to their resilience, programmability and ability to bear interest, tokenised deposits would offer significant advantages over stablecoins,³⁵ and could also help avoid potential outflows of traditional bank deposits. Indeed, banks are expected to respond with competitive settlement assets such as tokenised deposits. Over 60% of EU banks surveyed by the EBA in 2024³⁶ were actively exploring all-purpose DLT solutions, while 22% had already started using DLT applications. Adoption of artificial intelligence (AI) by EU banks is only partial at present.³⁷ Recent data from the EBA show that AI is most often used for activities like customer support, anti-money laundering, fraud detection, and the profiling and clustering of clients or transactions.³⁸

The digital transition can also introduce risks, particularly when fragmentation arises owing to the coexistence of legacy and new networks, or when market participants develop numerous new solutions without regard to

³² “The Next-Generation Monetary and Financial System”, BIS Annual Economic Report 2025, BIS, June 2025

³³ The Board of the International Organization of Securities Commissions, Tokenization of Financial Assets, IOSCO, 2025.

³⁴ Digitalisation of Finance, BIS, May 2024.

³⁵ Crypto-assets and decentralised finance – Report on stablecoins, crypto-investment products, and multi-function groups, ESRB, October 2025.

³⁶ Uses of DLT in the EU banking and payments sector: EBA innovation monitoring and convergence work, EBA, 2024.

³⁷ Cecchetti, S. et al., “Artificial intelligence and systemic risk”, Report of the ESRB Advisory Scientific Committee, No 16, 2025.

³⁸ Risk Assessment Report – November 2024, EBA, 2024.

the wider economic implications. Such fragmentation may undermine market cohesion and stability. Therefore, authorities, including central banks, need to coordinate industry and public efforts to promote resilient innovation.³⁹

From a system-wide perspective, digitalisation gives rise to greater competition, including from new providers of financial services in the form of fintech companies and big tech firms,⁴⁰ and may therefore disrupt existing financial services. Moreover, digitalisation does not remove the vulnerabilities of traditional finance, although these may play out differently depending on design choices, adoption and scale.⁴¹ Finally, digitalisation can increase operational weaknesses within the financial system, particularly as new providers can fall outside the regulatory perimeter.

A system-wide approach to financial stability needs to capture:

- interconnections within the financial system and increased dependencies between market participants and market infrastructures;
- the risk of contagion, in particular due to the increased speed of financial transactions;
- regulatory arbitrage if digital financial services are offered by unregulated entities;
- amplification of traditional financial risks, such as liquidity risk, through the faster pace of withdrawals or procyclical behaviours that automated models can also encourage and intensify;
- fragmentation risks through the proliferation of new infrastructures (e.g. DLT), which may lead to interoperability issues and possibly result in market and liquidity fragmentation;
- concentration risks via market infrastructure, models or third-party providers, where flaws or errors could have systemic consequences.

The ESRB is of the view that the banking sector is now more vulnerable to cyber incidents, making robust security measures and resilient digital infrastructures essential.⁴² The ESRB has also flagged risks stemming from third-country multi-issuer stablecoin schemes in a recommendation⁴³.

³⁹ Statement by the ECB Governing Council on Advancing the Capital Markets Union, ECB, 2024.

⁴⁰ Beck, T. et al., "Will Video Kill the Radio Star? – Digitalisation and the future of banking", Reports of the Advisory Scientific Committee, No 12, January 2022.

⁴¹ Cipollone, P., "Towards a digital capital markets union", keynote speech at the Bundesbank Symposium on the Future of Payments, Frankfurt am Main, 7 October 2024.

⁴² Systemic cyber risk, ESRB, 2020.

⁴³ Recommendation of the European Systemic Risk Board of 25 September 2025 on third-country multi-issuer stablecoin schemes (ESRB/2025/9) (OJ C, C/2025/6342).

2. The single market and the banking union

Q45: Do you consider that the EU framework on the regulatory treatment of sovereign exposure should be improved? If yes, how should this be done, and how would it affect the holdings of sovereign debt by banks?

In a report published in 2015, soon after the peak of the euro sovereign debt crisis, the ESRB analysed systemic risks related to the regulatory treatment of sovereign exposures and assessed several policy measures to mitigate these risks.⁴⁴ The scope of the report focused mainly on banks, which at that time were the main holders of their country's sovereign debt.

The report acknowledges that exposures of banks (and insurance corporations) to their sovereigns can be seen as both a source of fragility and a crisis mitigation factor. It also argues that, from a macroprudential perspective, while the regulatory framework may have led to banks having excessive holdings of sovereign debt, at the same time it is difficult to reform the existing framework without generating instability in sovereign debt markets and distorting incentives for financial institutions. Without going into further detail, the report considered the pros and cons of policies related to (i) stricter capital requirements for sovereign exposures, (ii) diversification requirements, (iii) amendments to liquidity regulation, and (iv) enhanced Pillar 2 and Pillar 3 requirements.

The report also defined a framework for assessing policy options regarding the regulatory treatment of sovereign exposures. That framework is defined by a set of policy objectives (increase the resilience of the financial sector to sovereign risk over the economic cycle, limit systemic risks at the EU level, and ensure appropriate availability and pricing of funding for the economy as a whole) and constraints (ensuring consistency with the rest of prudential regulation, not hindering or interfering with fiscal, monetary and financial integration policy in the EU, and not impeding or interfering with the free movement of capital in the EU, all while ensuring a level playing field). One important consideration when weighing up a possible reform of the current regulatory framework for sovereign exposures is the need to conduct such discussions at a global level, making the task all the more complex.

In 2018, the High-Level Task Force on Safe Assets, which was created to investigate the practical considerations relating to sovereign bond-backed securities (SBBS) according to the mandate given by the General Board of the ESRB, published its main findings.⁴⁵ Its report found that, in principle, the design of SBBS could facilitate the diversification and de-risking of sovereign bond portfolios without mutualising sovereign risks. To assess the feasibility of this design, it conducted extensive technical analysis and sought feedback from market participants.

The ESRB's 2015 report can still serve as a solid starting point for discussions on the regulatory treatment of sovereign exposures for banks and insurance corporations. It discusses in detail how sovereign debt can

⁴⁴ ESRB report on the regulatory treatment of sovereign exposures, ESRB, 2015.

⁴⁵ Sovereign bond-backed securities: a feasibility study, ESRB, 2018.

contribute to systemic risk, as well as the pros and cons of several possible policy measures. It provides a qualitative assessment of the impact of these measures, along with a brief impact assessment, which can also provide a first indication of the behavioural response of banks and insurance corporations to changes in the regulatory treatment of sovereign exposures. The report by the High-Level Task Force on Safe Assets may also be useful if there are developments towards the pooling and tranching of cross-border portfolios of national sovereign debt.

Finally, the ESRB touched upon the market structure of sovereign debt in its response to the targeted consultation by the European Commission on the macroprudential policies for non-bank financial intermediation.⁴⁶ In particular, the ESRB called on the European Commission to consider (i) introducing margin requirements in bilaterally cleared government bond cash and repo transactions, and (ii) ways to facilitate the central clearing of such transactions. This would incentivise a move to central clearing, thereby reducing the risk of episodes of illiquidity and funding stress and contributing to a much-needed strengthening of the resilience of these core markets.

Q46: Exposures to Member States' central governments, or third country jurisdictions assessed as equivalent, when denominated and funded in domestic currency, receive a 0% risk weight under the Capital Requirements Regulation, as provided for by the international standards. Such 0% risk weight applies regardless of credit rating, exempts the sovereign bonds from large exposure requirements, and classifies them as high-quality liquid assets. However, this treatment does not apply to sovereign exposures denominated in Euro issued by non-Euro Area Member States. Should that treatment be expanded to sovereign exposures issued by non-Euro Area Member States and denominated in Euro and how would this affect the holdings of sovereign debt by banks? Please elaborate.

The fiscal situation and the creditworthiness of the sovereign debt of countries outside the euro area (at the time of writing: Czech Republic, Denmark, Hungary, Poland, Romania and Sweden) vary significantly. Subjecting them to the same regulatory treatment may alter the incentives of financial institutions to hold domestic sovereign debt and of treasury offices to issue sovereign debt in non-domestic currencies. In itself, the "euroisation" of non-euro area countries should not be considered a policy goal. Sovereign debt issuers in non-euro area countries may opt to issue sovereign debt in euro to avoid concentration among domestic banks and to gain access to a larger investor base (although they may be exposed to foreign exchange risk).

⁴⁶ A system-wide approach to macroprudential policy – ESRB response to the European Commission's consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation, ESRB, 2024.

3. Complexity and effectiveness of the regulatory framework

Q48: A certain degree of complexity is necessary to achieve the desired regulatory objectives, while recognising the degree of sophistication and diversity of the EU banking sector. How do you rank the comparative level of undue complexity in the following parts of the framework?

	Low	Somewhat low	Medium	Somewhat high	High	No opinion
The overall framework						X
The minimum capital requirements (Pillar 1)						X
The supervisory measures (Pillar 2)						X
The macroprudential requirements			X			
The resolution requirements						X
Other						X

For this question, the ESRB will focus its answer on the complexity of macroprudential requirements. Broadly speaking, the ESRB emphasises that simplifying the macroprudential framework will not in itself provide a silver bullet for achieving greater competitiveness in the banking sector. Competitiveness largely depends on deeper structural factors that fall outside the remit of macroprudential regulation and are best addressed through economic and fiscal policies. In this context, the completion of capital markets integration, alongside further progress towards the banking union and the savings and investment union – including the establishment of a European deposit insurance scheme – is key to fostering competitiveness. A broader simplification and harmonisation of national rules would also represent a more significant driver of competitiveness across the EU banking sector.

The design of macroprudential requirements reflects the complexity and diversity of the financial system. Other industries with high levels of complexity are regulated by similarly complex rules. A certain degree of complexity is necessary to ensure a sound and resilient banking sector, which in turn supports long-term competitiveness.

The design of the European macroprudential framework also aligns closely with the nature and location of macroprudential risks. These risks can broadly be categorised as cyclical (arising from financial cycles) or structural (reflecting underlying characteristics of the financial system itself). Effective macroprudential frameworks should include tools that address both types of risks, ensuring adaptability to evolving systemic vulnerabilities. In the euro area, where monetary and foreign exchange policies are fully aligned, it is particularly important for macroprudential policies to target the specific features and risks of the financial cycle, which remains predominantly local. Experience over the past 15 years of macroprudential policies shows that applying a one-size-fits-all policy might be highly inappropriate.

Nevertheless, some simplification is possible at national level. On this topic, the ESRB’s 2022 ESRB concept note titled “Review of the EU Macroprudential Framework for the Banking Sector” discussed the main challenges to be

addressed and set out what, in the ESRB’s view, needs to be done to ensure that our macroprudential rules for banks remain fit for purpose.

For example, the ESRB offered several practical recommendations to support and inform the Commission’s review. A decade of experience with macroprudential provisions has underscored the need for a more consistent, forward-looking and actively countercyclical approach to using macroprudential tools. An overarching goal of reform was to reduce the framework’s complexity, both procedurally and conceptually, making it easier for authorities to implement without compromising the safeguards that uphold the integrity of the internal market.

For example, as described in the 2022 ESRB concept note⁴⁷, creating a single macroprudential article on risk weights for real estate exposures would foster consistency, reduce complexity and enhance the proper functioning of the Single Market. At the same time, sectoral risk can still be addressed via the sectoral systemic risk buffer, although the instruments do differ, for example, in terms of risk sensitivity and reciprocity arrangements.

Q50: Would you support less complexity in the bank regulatory framework even if this means...

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
...less risk sensitivity within risk-weighted requirements			X			
...increase in capital requirements		X				
...less consideration for EU specificities			X			
...less consideration for national specificities			X			
...higher contributions to safety nets (DGS and resolution funds)			X			
...less resilience/ financial stability					X	

As regards the application of the macroprudential regulatory framework, the ESRB would support making the relevant provisions less complex, both procedurally (including as regards the reciprocation of macroprudential measures – see also the response to Question 69 and the Macroprudential commentary on the reciprocity framework⁴⁸) and conceptually, as doing so would facilitate their use by authorities without weakening existing safeguards for the integrity of the internal market (see also p. 2 of the ESRB’s 2022 concept note⁴⁹).

- **Neutral stance on the trade-off between lower complexity and lower risk sensitivity within risk-weighted requirements.** Risk weights play a crucial role in determining the amount of capital that must be held by banks to make them more resilient to different sources of risk. Risk-weight measures complement buffers by allowing

⁴⁷ Review of the EU macroprudential framework for the banking sector – A Concept Note, ESRB, March 2022.

⁴⁸ Voluntary reciprocity of macroprudential measures: overview of ten years of experience, ESRB, May 2026.

⁴⁹ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March 2022.

authorities to directly influence the capital requirements for specific exposures, particularly in sectors showing signs of overheating, thereby enhancing the **risk sensitivity** of the framework and providing a more granular response to emerging systemic vulnerabilities. Lower complexity can be achieved while still providing for a risk-sensitive framework, as reflected, for example, in the ESRB proposal to create a single macroprudential provision on risk weights for real estate exposures, replacing Articles 124, 164 and 458 of the CRR (see the ESRB's 2022 concept note and its response to Question 48 of this consultation). At the same time, sectoral risk can still be addressed via the sectoral buffer.

- **The ESRB somewhat supports lower complexity if it means an increase in capital requirements.** A timely build-up of capital buffers that can be released in times of stress is essential for **financial stability**. The impact of such increases can be reduced by ensuring that they are gradual and take place when conditions are favourable (for example, when banks are profitable). The banking sector should aim to achieve high profitability, strong capitalisation and the ability to easily raise capital at low cost, thus helping to ensure resilience during economic downturns. This stable state enables banks to maintain lending, build capital buffers and avoid the procyclical, constrained lending typical of stress scenarios.⁵⁰
- **Neutral stance on the trade-off between lower complexity and less consideration of EU specificities.** The ESRB would prefer to maintain the current level of resilience of the financial system.

While regulatory complexity can be detrimental to **financial stability** through a multitude of channels,⁵¹ targeted simplification can serve to strengthen the financial system.

The current level of **resilience** needs to be maintained (or, if necessary, increased), while aiming to enable a more flexible and preventive activation of capital buffers.⁵²

In recent years, EU banks have weathered repeated episodes of economic and financial volatility and have continued to lend to the real economy. Over the past two to three years, they have also been able to distribute a significant portion of their profits as dividends, during which time the regulatory framework has not changed significantly.

Similar crises in earlier years had instead resulted in the weakening, or outright failure, of a significant number of institutions. The consistent stability of the EU banking system amid a remarkable increase in uncertainty must be attributed, at least in part, to the wide-ranging reforms in prudential regulation, supervision and resolution that have taken place since the global financial crisis.

Q51: The single rulebook for banking is based on both directives and regulations. Unlike regulations, directives must be transposed into national law, which can lead to different applicable legal framework applicable across Member States. In your view, which provisions currently set out in directives, such as the Capital Requirements Directive

⁵⁰ Using the countercyclical capital buffer to build resilience early in the cycle – joint ECB/ESRB report on the use of the positive neutral CCyB in the EEA, ECB and ESRB, January 2025.

⁵¹ Gai, P. et al., "Regulatory complexity and the quest for robust regulation", Reports of the ESRB Advisory Scientific Committee, No 8, ESRB, June 2019, p. 32.

⁵² Review of the EU macroprudential framework for the banking sector – A Concept Note, ESRB, 2022.

(CRD), the Bank Recovery and Resolution Directive (BRRD) or the Deposit Guarantee Scheme Directive (DGSD), would be more effectively established through directly applicable regulations, and for what reasons, if any?

The ESRB shares the views endorsed by the Governing Council of the ECB, as set out in Recommendation No. 6 of the High-Level Task Force on Simplification:

“Recommendation #6 proposes refocusing EU prudential law from directives to regulations, increasing harmonisation and regulatory transparency, and streamlining level 2 and 3 acts. More use of regulations would prevent a heterogenous transposition into national law. It would facilitate uniform supervision and cross-border banking, benefiting in particular banks that operate across various jurisdictions and their investors. Applying regulations would also help harmonise the legal basis for using supervisory guidance and expectations within the EU. A thorough review of level 2 and 3 acts and their implementation would reduce the level of prescriptiveness of some acts; this may thus increase the level of supervisory discretion. This recommendation would make the legal framework more comprehensible, lowering barriers to entry as well as reducing the regulatory burden on banks. On the other hand, transitioning from directives to regulations would limit national discretion and flexibility. The recommendation suggests moving in this direction, while being conscious of the trade-offs involved.”

Q55: How would you evaluate the various authorities responsible for banks in terms of:

		Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
effectiveness (the extent to which authorities identify weaknesses and address them)	Supervisory authority						
	Macroprudential authority						
	Resolution authority						
risk-based (the extent to which authorities focus on the most material risks in a proportional way)	Supervisory authority						
	Macroprudential authority						
	Resolution authority						
efficiency (extent to which authorities are reacting timely and are outcome focused)	Supervisory authority						
	Macroprudential authority						
	Resolution authority						
Other							

The answer is a self-assessment on the past 15 years of activity at the ESRB.

1. Effectiveness

The ESRB’s mandate is to identify and mitigate systemic risk. It therefore plays a crucial role in safeguarding financial stability within the EU. Its effectiveness is further underpinned by the issuance of recommendations and warnings.

Recommendations call on authorities to take specific risk-mitigation measures, while warnings alert policymakers to imminent threats. These tools enable the ESRB to proactively address vulnerabilities in the financial system and promote coordinated action across Member States.

Supported by regular discussions among members, from the technical to the policy level, the ESRB also provides **regular risk updates**. This framework allows for continuous monitoring, analysis of systemic vulnerabilities and timely identification of emerging systemic risks.

The **ESRB's risk dashboard**, published on its website, enhances transparency and public awareness through key financial stability indicators.

More generally, the ESRB combines a very broad membership with majority-based, rather than unanimity-based, decision making. This means its members can share information and discuss views across a wide audience, including at short notice when needed. At the same time, the ESRB can reach decisions quickly, as it does not require unanimity among its members.

2. Risk-based approach

The ESRB's approach is inherently risk-based: the risk identification process described above is one of the key drivers of its own analysis and policy recommendations agenda.

The ESRB also promotes a risk-based approach in other ways, notably through its role in designing adverse stress test scenarios for EU authorities conducting EU-wide stress tests, developing scenarios that reflect the most significant systemic vulnerabilities. As such, the ESRB provides stress test scenarios for the banking sector, money market funds, the insurance sector and pension funds, and central counterparties.

By tailoring these scenarios to emerging threats and prioritising risks that could have the greatest destabilising effects, the ESRB ensures proportionality in its approach. This risk-based methodology also ensures that EU authorities and financial institutions allocate their efforts to addressing the most critical weaknesses from a systemic angle.

3. Efficiency

The ESRB aims to ensure the timely and effective implementation of its recommendations through its "comply or explain" mechanism. This process requires addressees either to implement the recommendations or to justify their non-compliance. This approach is further enhanced by the use of dedicated assessment teams, composed of a small number of experts from ESRB member institutions and supported by the ESRB Secretariat, which assesses compliance and fosters dialogue with addressees. Compliance reports are approved by the General Board and then published. They enhance transparency and accountability and help to ensure swift action in response to systemic risks.

The latest ESRB Annual Report states that, from April 2024 to March 2025, the ESRB conducted seven compliance assessments, addressing both cross-sectoral and sector-specific risks. Most addressees were deemed "fully compliant" or "largely compliant", demonstrating effective implementation. However, one addressee was found to be "materially non-compliant", highlighting the importance of ongoing monitoring. The publication of compliance reports reinforces the ESRB's outcome-driven approach, ensuring that its recommendations result in meaningful action to mitigate risks. The

ESRB thus ensures that its recommendations are acted on efficiently, contributing to timely and effective systemic risk mitigation across the EU.

4. Moving forward, the ESRB is set to further enhance its macroprudential oversight and systemic risk assessment through the strategic recommendations outlined in the report titled “Building on a Decade of Success”.

The report by the High-Level Group on the ESRB Review includes key proposals to improve holistic risk assessments. To succeed, the ESRB should focus on interconnections and spillovers, employing system-wide stress tests, refining metrics for country-specific macroprudential stances and strengthening communication strategies. Additionally, enhancements to data access frameworks and knowledge-sharing mechanisms would help bolster analytical capacity and collaborative efforts. With most recommendations proposed in the report not requiring legislative amendments, the ESRB’s General Board has already begun implementing these measures, ensuring that the institution continues to effectively safeguard financial stability across the EU while adapting to emerging challenges such as climate risks and cyber threats.

Q56: How would you rate the degree of accountability of various authorities responsible for banks?

	Low	Somewhat low	Adequate	Somewhat high	High	No opinion
Supervisory authority						X
Macroprudential authority					X	
Resolution authority						X

For this question, the ESRB will focus its answer on its own remit.

The ESRB is accountable to the European Parliament and the Council, with specific requirements set out in Regulation (EU) No 1092/2010. This regulation mandates that the Chair of the ESRB be invited to an annual hearing at the European Parliament, with additional hearings required during periods of widespread financial distress. These hearings are conducted separately from the monetary dialogue between the European Parliament and the President of the ECB.

The ESRB operates transparently, ensuring that its findings are broadly communicated. It publishes annual reports, special risk reports, and public warnings or recommendations when necessary. These publications aim to provide clarity regarding identified risks, the Board’s assessments and the actions it undertakes.

To maintain impartiality, the ESRB operates free from political influence. This independence allows the Board to base its decisions on objective, data-driven assessments rather than on short-term political considerations.

Collaboration and expertise are central to the ESRB’s functioning. Its internal governance includes a Steering Committee and a General Board, made up of representatives from the ECB, national central banks and other European financial regulatory bodies.

When issuing recommendations or warnings to relevant authorities, the ESRB ensures transparency and accountability. If the ESRB recommendations are not followed and no sufficient justification is provided, the ESRB must inform the addressees, the European Parliament, the Council and the relevant ESAs.

Finally, the ESRB is subject to external evaluations, which ensure its effectiveness and transparency. For instance, the European Court of Auditors may review its performance to confirm that it is fulfilling its mandate in a cost-effective manner.

Q69: In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks				X		
The calibration of macroprudential buffers				X		
The calibration of other macroprudential tools				X		
The heterogeneous application of some tools like Other Systemically Important (O-SII) buffers across the EU		X				
The current reciprocity arrangements		X				
The decentralised macroprudential governance framework and prominent role of national macroprudential authorities in setting measures.				X		
Other						

The macroprudential framework plays a vital role in addressing systemic risk and enhancing banking system resilience. A degree of complexity is inherent in order to address systemic risks effectively: over-simplification could lead to overly generic risk mitigation, resulting in blind spots in some cases and overly conservative outcomes in others. That said, complexity can also reduce policy effectiveness. Simplification should therefore focus on removing unnecessary complexity to improve the framework, not on deregulation, or weakening resilience. Efforts to simplify the framework should be guided by three core objectives: resilience, clarity and flexibility. Preserving the resilience of the banking system remains paramount, while trade-offs may arise when seeking to ensure clarity of rules and keeping the framework suitably flexible.

Regarding multiple macroprudential buffers and possible overlaps, the ESRB can support the ECB's recent recommendations on simplifying the capital stack (Recommendation 1) by merging buffers into a non-releasable buffer (CCoB-O/G-SII) and a releasable buffer (CCyB-SyRB), thus reducing complexity while preserving resilience and flexibility, including potential sectoral application. The ESRB agrees with the ECB that "any reduction in the number of buffers must maintain the current allocation of macroprudential and microprudential powers and preserve the competencies of national and supranational authorities within the banking union". The ESRB would underscore the importance of maintaining a clear distinction between micro- and macroprudential requirements. Specifically, buffers such as the G-SII/O-SII should remain part of the macroprudential framework and should not be merged with microprudential capital requirements. This would preserve the distinct objectives, mechanisms and systemic risk focus of macroprudential tools. See also the response to Q80 for possible overlaps between macroprudential buffers and the leverage and resolution framework.

On the calibration of macroprudential buffers and tools, greater harmonisation and improved coordination among national authorities can, in some cases, strengthen effectiveness and reduce unnecessary complexity. The ESRB has issued several high-level recommendations on calibration, particularly for the CCyB, emphasising the need for forward-looking approaches and the broader use of cyclical indicators beyond the credit-to-GDP gap. A positive neutral CCyB, built up during normal times, could further enhance the ability to address cyclical risks proactively (see response to Q73). The ESRB also proposed further harmonisation of the O-SII buffer calibration in its 2022 concept note⁵³.

On the heterogeneous application of tools, see the response to Q72.

On reciprocity, the ESRB is of the view that the current framework works well overall, but that there is room for improvement to make it even more effective⁵⁴. Building on its 2022 concept note, the ESRB advocates expanding automatic reciprocity well beyond the CCyB by amending the CRD/CRR so that automatic reciprocation becomes standard practice, subject only to clearly defined materiality thresholds. Once this is in place, the activating authority would no longer need to ask the ESRB to issue a recommendation to Member States calling for reciprocation of the measure, significantly simplifying implementation, reducing administrative burden and promoting a more uniform application of measures across jurisdictions. De minimis thresholds would also avoid disproportionate burdens for banks. This position also aligns with the ECB's simplification Recommendation 4, which proposes automatic reciprocity up to a certain threshold, combined with, and conditional on, a more standardised application of macroprudential tools. Achieving this requires a more standardised application and description of macroprudential tools and more harmonised rules on the level of consolidation (individual, sub-consolidated or consolidated) at which the reciprocated measures would apply. The ESRB also supports the ECB's proposal that bank exposures subject to the measures be identified based on harmonised common reporting templates, so that both banks and reciprocating macroprudential authorities can easily access and apply them.

⁵³ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March 2022.

⁵⁴ Voluntary reciprocity of macroprudential measures: overview of ten years of experience, ESRB, May 2026.

As for the decentralised nature of macroprudential governance, a degree of complexity is inevitable, owing to diverse systemic risks and national specificities. Financial cycles, structural factors and interdependencies differ across countries and require country-specific macroprudential policies. Broadly speaking, the greater the differences in national characteristics, the greater the need for national flexibility. This could evolve as wider structural changes allow for economic cycles to become less national and more synchronised across Europe. The aim should therefore be to reduce unnecessary complexity and overlaps, rather than to deregulate, or weaken resilience.

Q70: How can the macroprudential buffer framework be streamlined, while at the same time preserving resilience and the ability of responsible authorities to address systemic risks? Which buffers could be merged and what should be their role?

The ESRB considers it important that any proposal to change the EU prudential framework retain the current levels of resilience. Efforts should focus on eliminating unnecessary overlaps and complexity, while maintaining robust tools to address structural and cyclical risks, including sector specific risks.

The ESRB would support the proposal to merge macroprudential buffers into releasable and non-releasable variants, provided that resilience is preserved. The new buffers should remain aligned with international standards, with one possible option being to model the releasable buffer on the CCyB.

Furthermore, the ESRB supports the option of being able to target certain risks at a sectoral level.

Against this backdrop, the ESRB considers that three objectives should steer the process of streamlining the buffer framework: maintain resilience, enhance clarity and retain flexibility, while ensuring that structural and sectoral risks can continue to be addressed.

- **The priority is to maintain resilience, ensuring that the banking system is able to absorb shocks and continue supporting the economy during crises.**
- **Clarity focuses on streamlining tools and eliminating overlaps.** Current heterogeneity in the calibration and application of buffers, such as the O-SII buffer, undermines predictability and effectiveness. The ESRB has advocated the introduction of an EU-wide floor methodology, as well as the use of within-year averages instead of year-end values in systemic importance score calculations, in order to reduce volatility and improve predictability. Please also refer to the response to Question 72. Simplification efforts should also focus on reducing administrative burdens, such as double reporting, as outlined in the ECB's simplification recommendations.
- **Flexibility allows for adaptation to emerging risks and national specificities, including sectoral risks.** Tools such as the sectoral SyRB allow authorities to target sectoral vulnerabilities, while guided discretion approaches would allow national authorities to calibrate tools in line with country-specific risks. It is important to strike a balance between retaining sufficient flexibility and minimising complexity arising from the heterogeneous application of these instruments.

The ESRB also supports the ECB's proposal to merge EU-specific elements, such as the P2G and P2R leverage ratio add-ons, into a single leverage ratio buffer, which could reduce complexity while maintaining compliance with Basel III standards.

Coordination among stakeholders, including the ESRB, the ECB, the EBA and the EU Commission, would be essential when implementing these proposals. Operationalising these changes should involve impact analyses to ensure that simplification does not inadvertently weaken resilience or create blind spots in risk mitigation. Furthermore, harmonisation efforts should balance the need for consistency across the EU with the need to ensure flexibility for national authorities to address local vulnerabilities.

In conclusion, simplifying the macroprudential buffer framework should be guided by the principles of maintaining resilience, enhancing clarity and retaining flexibility. Resilience must be preserved by maintaining overall capital levels and ensuring that tools continue to address cyclical, structural and sectoral risks effectively. Clarity can be enhanced by harmonising calibration methodologies (for instance, see response to Question 72 for the O-SII buffer calibration) and simplifying capital stacks, including through measures such as a single leverage ratio buffer, possibly mechanically linked to the risk-based framework. Meanwhile, a sufficient degree of flexibility should be retained so that national authorities can adapt tools to country-specific vulnerabilities within a consistent EU framework. Simplification should not compromise resilience or the ability of responsible authorities to respond to emerging risks. Streamlining along these lines would reduce unnecessary complexity and administrative burden while safeguarding financial stability across the EU.

Q71: What are your views regarding the need for a buffer for tackling sectoral risks? Is there a need to maintain a sectoral buffer specifically for real-estate exposures to ensure a more targeted application?

Yes.

The ESRB can support the proposal to merge the CCyB and SyRB into a single releasable buffer, although this would limit flexibility by eliminating some of the granular features of the SyRB. The ESRB is in favour of maintaining the possibility of targeting certain risks at a sectoral level. This could be achieved, for instance, through a sectoral component of a new releasable buffer, a separate sectoral buffer, or sectoral risk-weight based measures. The ESRB proposes conducting further analysis of the various options for targeting sectoral risks, including analysing whether sectoral risk-weight measures under the CRR could be streamlined or eliminated. Such analysis would help determine the most efficient way of achieving flexibility without increasing complexity and undue heterogeneity in how the instruments are applied.

The flexibility of the SyRB and the ability to apply it in a sectoral way are both valuable features for targeting sectoral systemic risks, such as those stemming from real estate markets. Sectoral buffers complement, rather than substitute, other instruments. While borrower-based measures and stricter underwriting standards can be effective in curbing the build-up of new risks, they do not increase loss-absorbing capacity against the existing stock of exposures. Similarly, a general releasable buffer would also increase resilience, but in a less targeted way, affecting

all sectors irrespective of their contribution to systemic risk. Risk-weight floors on sectoral exposures can also increase resilience in a targeted manner, albeit through a different mechanism.

The sectoral SyRB has been used in many EU countries. As of March 2026, there are currently nine countries with an active sectoral SyRB. This means that there are as many instances in which a sectoral SyRB is used as there are in which a general SyRB is employed. In its early days, this measure was used as a substitute for the more complex use of Article 458 risk weights, with the sectoral SyRB applied to residential real estate exposures (Belgium in 2022). Lithuania, Slovenia, Malta, Germany and Portugal have all chosen this instrument as a way to make their banks more resilient to RRE risks. The sectoral SyRB has also been used to limit systemic risk stemming from the commercial real estate sector in Hungary, Denmark and Austria.

A sectoral buffer could potentially be used for risks other than real estate. For example, it could act as an incentive for banks to accelerate the green transition, as proposed in a joint ECB/ESRB report⁵⁵.

One possible way forward would be to establish one releasable buffer with a sectoral component. In this regard, it is worth noting that the possibility of applying the CCyB in a sectoral manner has previously been analysed within the Basel framework, as a voluntary add-on to the standard CCyB rate⁵⁶. To date, this option is available under the Spanish macroprudential framework (although it has yet to be used), and it has been used extensively in Switzerland to target RRE risks. Such an option would allow for a single releasable buffer, while retaining some flexibility to apply it optionally in a sectoral way. However, this option may also introduce increased complexity, not least in relation to reciprocity.

Another option would be to maintain a separate sectoral buffer. Should the current sectoral application of the SyRB be retained, the legislation could be revised to address certain issues concerning the application of the sectoral buffer. In its 2022 concept note, the ESRB argued that the sectoral buffer rate should be weighted to reflect the share of sectoral exposures relative to total exposures⁵⁷. In this way, a higher sectoral buffer would not trigger thresholds that would result in a more burdensome procedure or require authorisation from the Commission. Currently, SyRB rates on all exposures are treated in the same way as sectoral SyRB rates, i.e. by adding together the general SyRB and sectoral SyRB rates.

To make the framework less complex, either of the two options for a sectoral buffer may be coupled with deleting or streamlining the CRR risk-weight provisions contained in Articles 124, 164 and 458. This change would eliminate the relative redundancy between the sectoral buffer and the sectoral risk-weight measures and would provide countries with a clear option for targeting sectoral risks. However, we acknowledge that the two instruments are not perfectly substitutable.

The ESRB calls for further work to determine the best option for balancing the need to maintain resilience with the need to simplify the framework and limit undue heterogeneity in regards to targeting sectoral risks. Should

⁵⁵ ECB/ESRB Project Team on climate risk monitoring, The macroprudential challenge of climate change, ECB and ESRB, July 2022.

⁵⁶ Guiding principles for the operationalisation of a sectoral countercyclical capital buffer, BCBS, 2019.

⁵⁷ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March 2022.

the Commission require it, the ESRB stands ready to conduct an in-depth technical analysis of the pros and cons of different instrument options to support a decision on this matter.

Q72: What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks?

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
The methodology for the identification of O-SIIs should be revised to ensure an enhanced cross-country consistency while considering national specificities.		X				
The O-SII buffer should be calibrated following a more harmonised methodology which ensures a better correlation of systemic importance with a defined range for the level of the buffer rate		X				
Maintain the current state of play regarding the O-SII buffer calibration while enhancing transparency and accountability (including through public disclosure) regarding the calibration methodology and its application.				X		
Other (please specify)						

As communicated on previous occasions, the ESRB believes that it would be beneficial to carry out a holistic review of the O-SII identification and, more importantly, calibration methodology. For example, in its 2022 concept note⁵⁸ (Section 3.1.4), the ESRB proposed developing an EU-wide floor methodology, together with additional guidance on the calibration of O-SII buffer rates. Since EBA guidelines for the harmonised identification of O-SIIs already exist, several ESRB members believe that there may still be room to develop a more harmonised calibration methodology.

On O-SII identification. A comprehensive look at the O-SII framework should start by addressing certain shortcomings in the identification methodology. Certain countries face challenges when it comes to measuring systemic importance. Such challenges relate to factors that are not sufficiently captured by the identification methodology, such as country specificities related to the absolute size of the individual institutions, their business models, or the degree of concentration in the banking sector. For example, the EBA guidelines offer no possibility to exclude very small banks from the identification methodology in countries with smaller or less sophisticated financial sectors. Certain mandatory indicators for the O-SII assessment, such as “debt securities outstanding”, were inspired by the G-SIB framework and are not well suited to these smaller, less complex banks.

Additionally, any data gaps that render the calculation of appropriate O-SII scores challenging or infeasible should also be addressed. For instance, macroprudential authorities may find it challenging, or even infeasible, to

⁵⁸ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March 2022.

fully assess potential window dressing. This applies to cases where the reporting frequency is low and/or the quarter-end values might be window-dressed. In addition to the problem of potential window dressing, it is also challenging in practice to use some of the optional indicators provided in Annex 2 of the EBA Guidelines (EBA/GL/2014/10, December 2014). These include, for example, “assets under custody”, as only full FINREP institutions are required to report this information and materiality thresholds apply, and “degree of resolvability according to the institution’s resolvability assessment” where the information is not shared by the resolution authority.

The use of within-year averages instead of year-end values during the O-SII identification process could help to make scores less volatile from year to year, although this should be carefully balanced in terms of frequency.

Less variability in the scores increases predictability, which is beneficial for financial institutions’ capital planning processes and provides greater transparency to market participants. In addition, the use of averages would mitigate the adverse effects of window dressing by institutions.

While unwarranted heterogeneity should be reduced, any proposed legislative change must ensure flexibility for national authorities when identifying O-SIIs and calibrating buffers, so that country specificities can be accounted for, including differences in the size and concentration of the banking sector.

On O-SII calibration. To address differences in the buffer rates of banks that have similar scores, a floor methodology could be used as a first step towards limiting heterogeneity at the lower end of the buffer rates. This would allow some jurisdictions to set high buffer rates if they considered this appropriate, given their specific national systemic risks, while ensuring a minimum degree of harmonisation. An ECB floor methodology currently applies for setting the O-SII capital buffer for each O-SII identified in the SSM, with the possibility of a top-up by the ECB. This floor methodology could serve as a starting point and be extended to the whole of the EU. Guidance covering the buffer calibration process, in addition to the identification process, could be issued for that purpose. Such a methodology would allow systemic risk to be addressed in a more consistent manner across Member States, while further strengthening the resilience of O-SIIs and, consequently, of the entire European banking system. As the O-SII buffer is a macroprudential tool, the ESRB should be involved in the development of such a methodology, possibly alongside the ECB and the EBA.

Q73: Is the current share of releasable buffers⁵ (countercyclical buffer and the systemic risk buffer) in the total combined buffer requirement adequate, so as to ensure that sufficient resources can be released in a downturn to support lending to the economy?

The ESRB’s answer to this question is that the share of releasable buffers is not adequate. While it has increased in recent years, further enhancements are needed. The ESRB welcomes any initiative that would allow for a greater use of releasable buffers. Analytical work conducted by the ESRB and the ECB has assessed whether sufficient releasable capital is available, ultimately reinforcing the argument for additional releasable macroprudential buffers within the banking union and the EEA.

Additional releasable buffers would ensure that sufficient capital can be released during times of stress to absorb losses, allowing credit institutions to maintain their essential economic functions during downturns

and addressing concerns over buffer usability. Banks may find it easier to use these buffers to support lending in periods of stress when they have been made explicitly releasable by the authorities.

Despite recent positive developments, with several countries more recently having increased the CCyB and the SyRB, resilience in the form of releasable buffers remains limited. As of Q3 2025, macroprudential buffers across the euro area were still mostly composed of their non-releasable components, with only 20% being releasable. The ESRB therefore welcomes any initiative that would support both a broader and more harmonised use of releasable buffers across countries. However, it should be noted that some ESRB members consider the weight of releasable buffers to be adequate, and they therefore take the view that further increases should be limited to specific cases.

The ESRB's and ECB's work also included an examination of policy options to increase the availability of releasable buffers⁵⁹. Among these options was a more proactive use of the CCyB earlier in the cycle – for instance, through a positive neutral CCyB (PN CCyB) rate, which has been gaining in popularity among EEA members. In the ESRB's January 2025 joint report with the ECB⁶⁰, which provides a comprehensive compendium of EEA members' experiences to date in implementing a CCyB early in the cycle, it is noted that implementing a PN CCyB would be one way of ensuring a greater availability of releasable buffers throughout the financial cycle, by ensuring that capital is already available before a downturn begins, or when an unexpected crisis hits the financial system. Such an approach should continue to be set at national level and should maintain an appropriate degree of flexibility during both the build-up and release phases. A few countries have pointed to a lack of clarity in EU legislation and have called for clarification of the legal framework.

The primary goal should be to ensure that banks are resilient and that a sufficient amount of releasable buffers is available. Which tool is used to achieve that resilience is a secondary concern, and both the CCyB and the SyRB could be appropriate.

Q74: How could the risk-weight toolkit under Article 458 CRR be fine-tuned? Would its role change in the context of a streamlined buffer framework?

Despite its complexity, the risk-weight toolkit under Article 458 of the CRR has been an essential component of the macroprudential framework, especially for addressing systemic risks in the real estate sector at national level. The ESRB is in favour of maintaining the possibility to target certain risks at a sectoral level. This could be achieved, for instance, through a sectoral component of a new releasable buffer, a separate sectoral buffer, or sectoral risk-weight-based measures. One way of simplifying the framework might be to delete or streamline the CRR risk-

⁵⁹ Enhancing macroprudential space in the banking union – Report from the Drafting Team of the Steering Committee of the Macroprudential Forum, ECB, March 2022; Removing disincentives for the use of macroprudential buffers, ESRB, March 2021; and Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March 2022.

⁶⁰ Using the countercyclical capital buffer to build resilience early in the cycle – Joint ECB/ESRB report on the use of the positive neutral CCyB in the EEA, ECB and ESRB, January 2025.

weight provisions. However, further analysis of the pros and cons of multiple options is required to determine the best way forward.

Should the possibility of targeting sectoral risk through risk-weight measures also be maintained, it is important to address the shortcomings of the current framework, which is fragmented, with provisions for risk weights spread across various articles, leading to inconsistencies, complexity and challenges for harmonisation across jurisdictions. To improve its effectiveness, the ESRB supports the proposal to consolidate the macroprudential risk weight-related provisions in the CRR into a single chapter, or into a harmonised article replacing Articles 124, 164 and 458.

The benefits that this consolidation would bring are as follows:

- A unified approach to risk-weight adjustments for exposures secured by immovable property, aligning macroprudential risk-weight tools for both SA and IRB banks.
- Harmonisation, while retaining some flexibility in the design of the risk-weight measure.
- A simplified framework, ensuring consistency across jurisdictions and improving transparency.
- The definition of common activation rules.

The new consolidated article should aim to strike the right balance between consistent application and flexibility for national authorities to address country-specific systemic risks. Creating clear and unified activation criteria and calibration methodologies would enable authorities to implement risk-weight measures effectively while ensuring harmonisation.

Simplified activation procedures should avoid burdensome and time-consuming procedures for both EU and national authorities and could differentiate between measures below and above predetermined thresholds:

- **Below the threshold:** activation could require only notification and opinions from the ESRB and the EBA, aligning with the governance frameworks for the SyRB and O-SII buffers.
- **Above the threshold:** activation could involve opinions from the ESRB and the EBA, followed by a non-objection procedure from the European Commission, thus ensuring robust oversight.

Thresholds for risk weights should be calibrated using data from EU banks, differentiating between the SA and IRB approaches.

The ESRB would also advocate mandatory reciprocation of risk-weight measures below the threshold, consistent with current practices under Articles 124 and 164 of the CRR, and with the view expressed in the 2022 concept note⁶¹. Above the threshold, voluntary reciprocation arrangements could apply.

⁶¹ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, March, 2022.

In addition, simplified procedures for releasing or reducing existing risk-weight measures would reduce administrative burdens and streamline the framework, with only minimal side effects on financial stability.

More generally, the ESRB would also advocate replacing the measure-by-measure assessment with a broader, more economics-based evaluation, such as in the form of an annual institutional process. Under such a framework, the ESRB would assess holistically the overall appropriateness of each country’s macroprudential policies and their compatibility with the Single Market. On this basis, the ESRB could signal potential issues to the European Commission and, when needed, make formal recommendations to national authorities.

The introduction of the CRR3 output floor, which sets a lower bound on the Total Risk Exposure Amount (TREA), may not completely eliminate the need for macroprudential risk-weight measures, although the prospect of underestimating risk weights will be diminished. The output floor aims to reduce excessive variability in risk-weighted assets and enhance comparability across institutions, but it does not directly address systemic or macroprudential risks. Even with the output floor, risk weights for real estate exposures may remain insufficiently low in light of heightened systemic risks, particularly in countries where real estate contributes significantly to cyclical systemic risk. Therefore, macroprudential measures that can be applied at a sectoral level will still be necessary to “top up” the resilience provided by the output floor and ensure an adequate level of resilience for specific exposures.

Q80: In your view, which of the areas below create inefficiencies and undue complexity in the interactions across the prudential, macroprudential and crisis management parts of the framework?

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
Overlapping requirements addressing the same or similar risks (P2R/P2G/certain macroprudential buffers);				X		
Limited buffer usability resulting from double counting CET1 both in macroprudential buffers and in other minimum requirements (leverage ratio, MREL)	X					
Multiplicity of MDA restrictions with varying triggers stemming from prudential and resolution frameworks	X					
Cross-framework governance and coordination issues and data sharing.	X					
Other (please specify)						

1. Overlapping requirements addressing the same or similar risks (P2R/P2G/certain macroprudential buffers) – Somewhat disagree

While P2R/P2G, as microprudential buffers, are designed to capture idiosyncratic, bank-specific risks, macroprudential buffers are designed to capture cyclical and structural systemic risks. Thus, the buffers are designed to capture two distinct types of risk. Nevertheless, there is some degree of overlap, such as between P2G and CCyB, it is fairly limited in practice.

2. Limited buffer usability due to double-counting of CET1 in macroprudential buffers and other minimum requirements (leverage ratio, MREL) – Fully agree

The double-counting of CET1 capital across risk-weighted buffers and non-risk-weighted requirements (e.g. the leverage ratio and MREL) limits buffer usability, particularly during systemic crises. This issue was highlighted in the ESRB's 2022 concept note. Banks must maintain capital to satisfy multiple overlapping requirements, which reduces their ability to use buffers effectively to absorb losses.

3. Multiple MDA restrictions with varying triggers stemming from prudential and resolution frameworks – Fully agree

The presence of multiple Maximum Distributable Amount (MDA) restrictions, each with distinct triggers from the prudential and resolution frameworks, adds operational complexity for banks and authorities alike. For instance, distribution restrictions linked to MREL breaches (M-MDA) are not always aligned with those related to capital buffer breaches (MDA), creating confusion and inefficiencies in crisis management. (2)(3)

4. Cross-framework governance and coordination issues and data sharing – Fully agree

Insufficient information sharing and coordination between microprudential, macroprudential and resolution authorities impede a coherent approach to addressing systemic risks. For example, macroprudential authorities should be consulted on capital conservation plans during systemic shocks and on distribution restrictions tied to MREL breaches. Enhanced coordination, as emphasised by the ESRB Secretariat, would require ongoing sharing of granular and cross-sectoral data to enable comprehensive assessments of financial vulnerabilities and contagion risks (see also the responses to Questions 55, 92 and 93 on data sharing).

Q81: How could the governance in the macroprudential framework be improved to achieve a more consistent application of macroprudential tools across the EU?

Since its inception, the ESRB has helped define a macroprudential dimension in financial oversight, complementing microprudential regulation. In its unique role as a supranational macroprudential supervisor, the ESRB brings the EEA macroprudential authorities and the ESAs around one table to reach a holistic assessment of financial stability across Europe.

The ESRB issued a Recommendation in 2011 setting out its proposals for the institutional arrangements needed to implement macroprudential policy in the EEA.⁶² The Recommendation called for the designation of a single institution or board in each Member State tasked with macroprudential policy. It also emphasised that the central bank should be given a pre-eminent role in macroprudential policy. Finally, it mandated macroprudential authorities to cooperate and exchange information on a cross-border basis, by informing the ESRB of actions taken to address systemic risk at the national level. To date, all 30 EEA Member States have established a macroprudential authority.

⁶² Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3) (OJ C 41, 14.2.2012, p. 1).

Overall, the ESRB is of the view that governance in the macroprudential framework has helped to ensure a consistent application of macroprudential tools across the EU. While some disparities in institutional arrangements across Member States remain, such differences may well be down to domestic legal systems and other national specificities.

One area in which governance could be improved is transparency and communication strategy. As noted in the report⁶³, macroprudential authorities often face challenges in communicating their objectives and policy decisions effectively. Enhanced transparency, including the publication of risk assessments, policy rationales and expected outcomes, can improve accountability and foster trust among stakeholders. The ESRB's role as a centralised body for macroprudential oversight could be strengthened by providing standardised communication frameworks for national macroprudential authorities, ensuring consistency in public messaging across the EU.

Q82: What ways could be envisaged to reduce undue complexity in the interactions across the three parts of the framework, including in relation to the capital stack and governance arrangements between the authorities in charge of the prudential, macroprudential and crisis management rules, without undermining financial stability?

Reducing undue complexity in the interactions between the prudential, macroprudential and resolution frameworks is vital for enhancing financial stability, improving buffer usability and ensuring coordinated governance. In particular, there is a need to address overlapping requirements in the capital stack, fragmented governance arrangements and inconsistent policy triggers.

Simplifying the capital stack: the coexistence of overlapping requirements in the prudential and resolution frameworks creates complexity and can limit the usability of capital buffers, as highlighted by the ESRB-ECB report on the usability of capital buffers. Prudential requirements such as Pillar 1 and Pillar 2, macroprudential buffers and Pillar 2 Guidance (P2G), as well as resolution requirements such as MREL/TLAC, interact in ways that restrict CET1 usability. Banks often face simultaneous demands on the same CET1 capital, which can lead to earlier breaches of requirements and premature "failing or likely to fail" assessments.

Aligning the calibration and interaction of buffers is essential to reduce complexity. In particular, macroprudential authorities need to be aware of the increasing role being played by the resolution framework and the consequent impact on the limited usability of macroprudential capital buffers when deciding upon their calibration. Harmonisation of definitions and scopes between prudential and resolution frameworks, such as consolidation perimeters, would further simplify compliance and improve buffer usability.

Regarding governance arrangements, please see our answer to Question 83 below.

⁶³ Report of the Analytical Task Force on the overlap between capital buffers and minimum requirements, ESRB, December 2021.

Q83: How could the governance arrangements across the three parts of the frameworks be improved, having in mind the objective of ensuring the adequacy of requirements applying to individual banks and avoiding overlaps?

Governance arrangements across the prudential, macroprudential and crisis management frameworks in the EU are critical to maintaining financial stability while ensuring the adequacy of requirements for individual banks. However, there are several areas where overlaps and inefficiencies may persist. Improving governance arrangements means streamlining decision-making processes, enhancing transparency and aligning objectives across the three frameworks.

Need to clarify roles and responsibilities among microprudential, macroprudential and resolution authorities.

Decisions made by macroprudential authorities could potentially conflict with prudential objectives, such as in the use of capital buffers. As suggested in the 2022 concept note⁶⁴, involving macroprudential authorities in assessing capital conservation plans during systemic crises would align buffer replenishment paths with broader financial stability goals. Ensuring clear mandates for each authority responsible for each of the three parts of the framework, with well-defined responsibilities and decision-making powers, would reduce overlaps and ensure coherence in policy implementation.

Transparency and communication strategies are also useful for improving governance. Macroprudential authorities often face challenges in communicating their objectives and policy decisions effectively. Enhanced transparency, including the publication of risk assessments, policy rationales and expected outcomes, would promote accountability and foster trust among stakeholders.

In conclusion, improving governance arrangements across the three frameworks requires clearer roles and responsibilities, cross-framework coordination mechanisms, and greater transparency. These measures would ensure the adequacy of requirements for individual banks while avoiding overlaps.

⁶⁴ Review of the EU Macroprudential Framework for the Banking Sector – A Concept Note, ESRB, 2022

Q92: What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs?

	Low impact	Medium impact	High impact	No opinion
Number of data points	X			
Frequency of changes of the reporting obligations		X		
The difficulty of using regulatory reporting for internal risk management purpose				X
Ad hoc reporting requests from supervisory authorities		X		
Frequency of submission of reporting obligations	X			
Other				

When assessing the determinants of reporting costs in the regulatory framework, it is important to distinguish between structural factors that genuinely raise compliance burdens and perceived drivers that should not materially increase costs where supervisory expectations and banks’ internal systems are functioning as intended. In this context, the number of required data points and the frequency of submissions should not be considered problematic for a number of reasons.

Regulatory reporting frameworks typically request information that is already generated, stored and used by institutions for internal risk management, accounting and governance. A situation where certain prudential, risk or accounting data are not readily available should not necessarily be seen as a reporting burden issue, but rather as an indication that internal data collection and data aggregation processes may need further strengthening. Ensuring that such core information can be produced regularly is also consistent with the expectations set out in frameworks such as BCBS 239.

It should be acknowledged that institutions may sometimes need to construct several new data points by aggregating or transforming the granular information they already hold (e.g. by grouping, summing or mapping existing observations into supervisory categories). This kind of operation should be kept to a minimum in future reporting frameworks. Receiving more granular and less pre-processed data reduces the need for follow-up enquiries from collecting authorities, and the lower degree of pre-processing reduces the risk of errors introduced by institutions when engineering the above-mentioned aggregates. Crucially, a simpler, more efficient and more reliable approach to data collection tends to rely on more granular, less processed data – and therefore typically requires more, not fewer, data points. This is why simply counting the number of data points collected is rarely a good proxy for reporting burden.

In this context, the ESRB supports the concept of a “one-stop shop”, whereby supervised institutions would submit granular data once to a single EU-level database, from which aggregates, indicators and analytical outputs would then be derived for different policy and supervisory purposes. Such a one-stop shop should be as comprehensive as possible, encompassing supervisory statistics, central bank statistics, EMIR data and information

collected by all European Supervisory Authorities (ESAs), thereby maximising data re-use and minimising the duplication of reporting requirements.

Initiatives such as the ECB's Integrated Reporting Framework are designed precisely to reduce the proliferation of bespoke aggregates by standardising definitions, harmonising data models and promoting the collection of more granular, reusable information. These projects should advance at fast pace, as they reduce the need for banks to engineer supervisory-specific aggregates in the future. The answer to Question 93 provides more details on the concept of a cross-sectoral integrated reporting system (Single Integrated Reporting System), fully aligned with the one-stop-shop approach outlined above. Less frequent changes to reporting obligations could also help reduce reporting adaptation costs for banks.

The ESRB, as well as central banks and supervisors, often need up-to-date and detailed information to monitor risks in a timely manner. More frequent reporting is valuable because it enables: (i) the early detection of temporary balance sheet adjustments, such as window dressing around reporting dates; (ii) more accurate monitoring of liquidity, leverage and other short-term indicators that can fluctuate significantly within reporting periods (this is especially true for liquidity, which can change by the hour when markets or institutions are under stress); and (iii) a more robust understanding of bank risk profiles over time. This contributes directly to the objectives of macroprudential oversight and financial stability.

Without comprehensive and frequent reporting of granular data, authorities must rely on numerous ad hoc data collections. Over time, this reliance creates greater operational disruption and costs for banks than regular reporting. Indeed, banks can automate data extraction and submission. While this will involve some one-off, upfront costs, automation makes regular reporting – regardless of frequency – largely a marginal-cost activity. In this sense, continuity and predictability enable efficient reporting far more than limits on data or frequency of reporting.

Q93: What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

The ESRB supports efforts to reduce the reporting burden for banks (and other financial institutions) with two main priorities.

First, data sharing mechanisms should be enhanced, if necessary by making amendments to sectoral and activity-based data-sharing legislation between European institutions, central banks and supervisory authorities. This would help reduce duplicate reporting, as data that are collected once may then be reused for multiple supervisory, statistical and risk monitoring purposes.

The Better Data Sharing Regulation (Regulation (EU) 2025/2088 of the European Parliament and of the Council of 8 October 2025), which entered into force on 10 November 2025, aims to streamline reporting and disclosure requirements and to reduce the administrative burden without undermining the related policy objectives. This Regulation sets out a framework for the sharing and reuse of information reported to other authorities overseeing the financial system. While the ESRB welcomes this objective, it considers that further improvements are still needed.

Specifically, the existing limitations on the ESRB's access to data have not been addressed by this new legislation, since data sharing will cover only data that the requesting authority would already be able to obtain from financial institutions or from other authorities, pursuant to existing EU law. It does not give the ESRB access by default to granular datasets deemed necessary for the performance of its mandate. This limitation was already highlighted in the ESRB Chair's letter to the ECON Committee of 19 August 2024, which outlined the benefits of streamlining access to supervisory data for systemic risk analysis. Addressing this limitation should be a priority.

The Better Data Sharing Regulation also introduces the concept of a cross-sectoral integrated reporting system. The ESAs have been mandated to prepare a report by November 2030 covering a common data dictionary and a data space for collecting and exchanging information, and to do so in close cooperation with the ESRB. In this regard, and in line with the ECB's Opinion on the European Parliament's proposal to establish a Single Integrated Reporting System (SIRS), the ESRB has noted in the letter referenced above that "data sharing and data reporting are two distinct processes that should be considered separately. Enhanced data sharing can and should be implemented as soon as possible, while the SIRS should be established gradually, taking into account the ongoing projects conducted by the ESAs and the ECB/ESCB, and aligning with the Commission's strategy on supervisory reporting". In this context, the ultimate ambition should be to apply a "one-stop shop", "reporting once" principle across all reporting frameworks for financial entities.

Second, the value of data sharing is undermined wherever the quality of the data being shared is limited. Therefore, it is essential for banks to address persistent deficiencies in IT and data systems.

This important point is also outlined by the ESRB in its recent response to "ESMA's call for evidence on a comprehensive approach for the simplification of financial transaction reporting". As noted in the response, the Basel Committee on Banking Supervision (BCBS) observed that during the 2007-08 financial crisis, deficiencies in banks' IT infrastructures significantly impeded the timely and accurate aggregation and reporting of risk data, thus undermining effective risk management and threatening financial stability. To address these shortcomings, in 2013 the BCBS introduced its Principles for effective risk data aggregation and risk reporting.

However, according to a report from the ECB, as of 2018, none of the significant banking institutions had fully implemented these principles.⁶⁵ In 2024, it further emphasised that "the progress made by significant institutions to date has been generally insufficient".⁶⁶ Furthermore, it observed that remedying these deficiencies may result in substantial operational and IT cost reductions by facilitating automation and IT modernisation. It also emphasised that "in the longer term, more accurate data can also help to lower operational and IT costs through enhanced automation and the modernisation of IT architectures".

In light of these considerations, the ESRB is of the view that reporting entities may achieve significant cost efficiencies by systematically implementing best practices, making targeted enhancements to internal IT infrastructures, and placing greater emphasis on standardisation and automation across both internal and

⁶⁵ Report on the Thematic Review on effective risk data aggregation and risk reporting, ECB, May 2018.

⁶⁶ Guide on effective risk data aggregation and risk reporting, ECB, May 2024.

external reporting processes. These measures are expected not only to optimise operational workflows and reduce redundancies, but also to enhance the overall quality and reliability of the data reported.