Executive summary
Febelfin position on the competitiveness of the EU banking sector

Economic importance of the Belgian banking sector

Belgium, as part of the European Union, faces multiple structural challenges at a pivotal moment for the continent's economic trajectory. The Draghi report offers a sobering reflection on these challenges and articulates a clear sense of urgency, pointing in particular to insufficient private and public investment in Europe. In addressing this investment gap, the banking sector occupies a uniquely central position: European corporates rely on bank lending for approximately 70-80% of their working capital and investment financing. In Belgium, this central role is reflected in €572 billion in credit extended to households, businesses and public authorities in 2025. Beyond credit intermediation, banks safeguard the stability and integrity of the financial system and play a crucial role in the implementation and enforcement of the AML and sanctions framework.

Yet the competitiveness of EU banks is structurally weakened compared with non-EU peers. While European banks have more than doubled their CET1 capital since the Global Financial Crisis, they now operate in a high-regulation, high-compliance-cost environment that significantly weighs on their cost base and profitability. The full implementation of Basel III in the EU will further increase risk-weighted assets, reducing banks' capacity to finance the large-scale, long-term projects that the green, digital, and defense transitions require. This contrasts sharply with US and UK peers: the US alone will release a considerable share of core capital by simplifying its rules, widening the competitiveness gap. EU banks also face a converging set of risks – political interference, regulatory and supervisory interference, cybersecurity threats and AI-driven fraud, and broader geopolitical and macro-financial instability.

Completing the single market for EU banks

Despite years of integration efforts, the EU banking market remains highly fragmented along national borders, particularly in retail banking. When referring to the completion of the Banking Union, a lot of attention is paid to the lack of a centralized Deposit Guarantee Scheme (DGS). Given the political nature of the future of any European DGS arrangements, Febelfin will not comment on the direction that the EU should take in this regard. The Belgian banking sector does however experience that the greatest barriers to the single market for banking services stem from regulatory and supervisory goldplating and ringfencing, next to fiscal treatment differences and deep-rooted customer preferences.

Belgian Financial Sector Federation vzw/asbl
Boulevard du Roi Albert II 19 - 1210 Brussels
http://www.febelfin.be | T + 32 2 507 68 11 | F + 32 2 888 68 11

Duplicated requirements and divergent supervisory expectations discourage banks to offer products and services cross-border. Root cause of this is the fact that national authorities continue to impose additional requirements beyond those set by the EU, ECB and global regulators (gold plating). **We call on the European Commission and the co-legislators to address existing barriers to integration without systematically linking all outstanding issues. Progress on reducing fragmentation in the Banking Union, while respecting the sensitivities of Member States, can and should be achieved by advancing individual policy areas on their own merits. Overly bundling distinct files under broad and entrenched policy ambitions risks delaying tangible progress and ultimately weighs on the performance of the European economy.**

In this context, Febelfin notes four issues that should be brought to the forefront of the discussions:

- Give the SSM & SRB the responsibility of managing cross-border capital and liquidity waivers under the CRR, CRD & BRRD. Centralising these decisions would reduce the impact of national sensitivities and better reflect the integrated nature of Banking Union supervision. A European approach underpinned by strong intra-group financial support mechanisms would improve both market efficiency and financial stability.
- Encourage better application of the Single Point of Entry (SPE) approach as the default resolution model for highly integrated groups, subject to robust safeguards.
- Systematically withdraw national options and discretions that go beyond EU/ECB minimum standards, particularly in the areas of DGS target levels, micro- and macroprudential measures and capital buffers.
- Significantly reduce M&A approval timelines, which currently take approximately twice as long in the financial sector as in other industries. Reducing bureaucratic barriers to cross-border consolidation would allow market forces rather than domestic political interests to drive the emergence of larger, more competitive European banking groups.

Supervisory barriers to competition

Beyond the regulatory framework itself, the way EU banking rules are enforced and supervised creates significant competitive obstacles. Enforcement is fragmented, leaving banks to respond to a large number of supervisors with divergent expectations even for comparable institutions of similar size, business model, and risk profile. To restore a level playing field, the **EU needs stronger political enforcement of the limits of supervisory powers**, a renewed focus on regulatory restraint and proportionate use of mandates, strict respect for the legislator’s role, and a streamlining of supervisory bureaucracy around M&A and cross-border activities. Reporting obligations should be rethought with a stronger focus on proportionality, on the elimination of duplication, and on standardization.

We recommend assigning the European Supervisory Authorities a clear secondary competitiveness mandate. At the same time, the legislator has a more direct role to play in setting supervisory orientation and ensuring effective oversight of mandate execution. This does not require legislative change, but rather sustained engagement and scrutiny by co-legislators.

Complexity of the regulatory framework

The EU banking regulatory framework has accumulated an exceptional degree of complexity that now actively undermines the sector's competitiveness, with a rulebook approaching 15,000 pages. The accumulation of Level 2 and Level 3 measures is the principal driver: their volume and granularity add complexity, cost, and operational uncertainty, even where Level 1 legislation sets out clear policy objectives, and their de facto binding effect raises fundamental issues of legal certainty and institutional balance.

This is particularly acute at Level 3, where the boundary between supervision and legislation can become increasingly blurred. This "soft law hardening" raises fundamental issues of legal certainty, accountability, and institutional balance, as measures with material impacts on banks' business models, risk management, and capital allocation are developed outside the co-legislative framework, without political oversight, impact assessment, or transparent debate.

The cumulative effect of the large multi-layered stack of rules is expressed through contradictions, parallel regimes, gold-plating, and double counting which, together, erode the relative profitability of European banks compared with their US counterparts.

Rebalancing capital requirements

Microprudential Simplification and Recalibration

Febelfin calls for a more appropriate calibration of capital requirements. The prudential framework itself has become excessively burdensome: CRR3 has added further layers of complexity through mandatory moves to more prescriptive approaches, input floors on LGD and CCF, restrictions on the use of modelled CCF, and the output floor, on top of an already complex framework, that includes the NPL backstop and the leverage ratio. The ECB's overly conservative, intrusive, and lengthy model approval process traps banks in a continuous approval cycle that delays the implementation of redesigned models by years. According to a 2025 EBF study, 90% of significant EU banks' retained earnings between 2021 and 2024 were absorbed by supervisory add-ons and buffer increases, leaving only 10% available for further lending and investments in IT, AI, and cybersecurity. Amplifying these pressures, the prudential treatment of software investments further penalizes digital ambition.

The output floor is a particular concern: rather than functioning as an exceptional backstop, it has become a permanent constraint that mechanically harms the risk sensitivity of internal models and disproportionately penalizes low-risk, collateralized lending. The NPL backstop now applies fixed calendar-based timelines that ignore actual recovery patterns, creating economically unjustified capital deductions and perverse incentives to dispose of NPLs prematurely at stressed prices. The interaction between prudential, macroprudential, and crisis-management frameworks adds a further layer of inefficiency, with double counting of CET1 across macroprudential buffers and other minimum requirements (leverage ratio, MREL), overlapping requirements through P2R, P2G, and macroprudential buffers, and a multiplicity of MDA restrictions. Proposed corrective measures are:

- Make the transitional arrangements of the Output Floor permanent for low risk mortgages, unrated corporates and client risk hedging.
- Extend the current transitional treatment for investment-grade-equivalent unrated corporates, as a uniform 100% risk weight would reduce risk sensitivity and unnecessarily increase financing costs for European SMEs.
- Discard the revised Prudential Valuation Framework, or at a minimum thoroughly reconsider its calibration, as it embeds excessive conservatism and operational burden without clear evidence of added prudential benefits.
- Widen the scope of the SME Supporting Factor in order to strengthen SMEs' financing conditions and competitiveness. In line with the goals of simplification and proportionality, eligibility criteria should be validated only at the origination of the transaction, thereby avoiding unnecessary reporting obligations.
- Remove the CET1 deduction for software assets or further ease their prudential treatment, aligning the EU framework more closely with the US approach and eliminating an unnecessary disincentive to digital investment.
- Remove constraints on using surplus CET1 capital to meet MREL/TLAC targets. Banks should have discretion over the composition of eligible resources, with supervisory intervention triggered by breaches or emerging shortfalls rather than by instrument type.

An outcome-oriented macroprudential framework for banks

The EU macroprudential framework has become unduly complex, with multiple buffers that often tackle similar risks while being calibrated and applied heterogeneously across Member

States. The framework should therefore be fundamentally simplified and predictability should be improved:

- **Subject to appropriate safeguards and without compromising financial stability, capital buffers and going-concern capital requirements should, as a matter of principle, be applied primarily at the level of the ultimate parent undertaking, with full flexibility for the intra-group allocation of capital and liquidity.** This would reduce structural ring-fencing, create more flexibility, remove the need for reciprocity, and align the framework with centralized supervision under the SSM and resolution under the SRB.
- **The Systemic Risk Buffer (SyRB) should be removed**, as it constitutes unnecessary gold-plating to the Basel standards and may target exposures that are not relevant in stressed scenarios. This removal should not be offset by the introduction or recalibration of other capital buffers.
- **The O SII buffer framework should be recalibrated, as the EU designates a disproportionate share of global O SIIs (around 70%) and buffer rates have steadily increased across Member States.**
- The **Countercyclical capital buffer (CCyB) framework should be simplified** to ensure: a positive and stable level in normal times, a rapid release in stress, and a clear and predictable rebuilding path thereafter. The application of a positive neutral CCyB constitutes a hidden increase in capital requirements and amounts to double counting within the framework. Therefore, in the context of harmonising the application of the CCyB, this positive neutral calibration should not be retained.
- The **reciprocity framework under Article 458 CRR** remains complex, fragmented and unevenly applied across Member States, while its practical impact is limited relative to the burden. It should be reviewed to introduce a higher and consistently applied materiality threshold across the EU.

Digital

EU banks, and especially Belgian banks are strong digital performers, with continuous investments in digitalization and active engagement in advanced technologies such as tokenization and distributed ledger technology. Yet the regulatory and supervisory framework increasingly works against, rather than with, the digital ambitions of European banks. An important issue is the lack of a level playing field between financial and non-financial providers: EU legislation is entity-based rather than activity-based, which means that banks face significantly stricter obligations than non-financial players offering equivalent services.

Older obligations are also increasingly mismatched with digital reality: the mandatory provision of long and specific sets of information about financial products is hard to control in the age of AI and chatbots, and rules such as the PSR's narrow authorization to process data for fraud prevention create friction with GDPR, leaving banks without a clear legal basis to deploy effective fraud-prevention measures such as biometrics. The FIDA proposal is particularly counterproductive, as it imposes significant additional data-sharing obligations on banks without providing the financial sector with the tools needed to enhance its own competitiveness and accelerate digitalisation. For this reason, among others, and in light of the current state of the negotiations, Febelfin believes the Commission should withdraw the proposal.

Belgian Financial Sector Federation vzw/asbl
Boulevard du Roi Albert II 19 - 1210 Brussels
http://www.febelfin.be | T + 32 2 507 68 11 | F + 32 2 888 68 11