Financing the future: a strategic banking sector for a competitive Europe

Recommendations of the European Banking Federation for the EU 2024-2029 term

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Foreword
by Christian Sewing
President, European Banking Federation

As we approach a pivotal moment in the European Union, marked by the upcoming EU elections in June 2024, it is essential to acknowledge the vital and strategic role of banks in Europe's transformation. The European Banking Federation's recommendations for the forthcoming legislative period underscore the significant shifts we are witnessing: from the green transition and digital transformation to demographic challenges and the evolving global political landscape.

The banking sector has demonstrated remarkable resilience amidst crises such as the COVID-19 pandemic, the conflict in Ukraine, and recent financial turmoil in other parts of the world. At the same time, tectonic economic and geopolitical shifts have exposed the vulnerabilities of global value chains and further accelerated Europe's comparative loss of competitiveness. I am convinced that Europe has the human capital and economic potential to keep pace, but the continent must become more ambitious in shaping its own future.

At the forefront of these changes, Europe's banks emerge as essential catalysts for progress in enabling the transition to a more competitive, more resilient and more sustainable economy. To meet these unprecedented challenges, significant financing and investments are required, making the involvement of banks indispensable. In doing so, they will support the welfare of European citizens, boost sustainable growth and help restore Europe's global competitiveness, while building its strategic autonomy. In these efforts, the need for a resilient, profitable, and competitive banking sector in Europe is more evident than ever.

The EBF recommendations are a call to action for all European policymakers taking the helms this year. The banking sector is ready to assume its responsibilities in funding the substantial investments needed for Europe's future. However, this can only be achieved through a regulatory framework that fosters competitiveness and profitability in a rapidly evolving global market, ensuring fair competition among all financial entities in Europe and beyond. The EBF recommendations outline top priorities for the next five years, including bolstering the EU's economic competitiveness, promoting transition finance for the EU Green Deal, boosting a secure digital transformation, and completing the Single Market for financial services. In addition, they emphasize the urgent need for an integrated, open, and liquid capital market in Europe, capable of mobilising private capital at the scale required for Europe's economic transformation.

To conclude, I believe that the European banking sector does play a critical role in advancing Europe's new ambitions for the generations to come. To get there, the European Banking Federation is keen to continue engaging in dialogue with European policymakers, citizens and stakeholders at European level.

Introduction

Banks are essential to help deliver sustainable growth and strategic objectives in Europe

The concluding legislature has been marked by a series of significant crises at both the international and European levels. Firstly, the global COVID-19 pandemic, then a war on the European continent resulting from the invasion of Ukraine. This conflict triggered an energy crisis, driving a rapid increase in inflation and a sharp rise in the cost of living for citizens. Additionally, the escalating climate disruptions have been increasingly impacting the lives of citizens and businesses. And at the same time, a sweeping digitalisation of all aspects of human activities has been giving rise to new opportunities for progress and interaction, but also to broad risks on the social, democratic and critical services levels.

In this highly challenging context, **European banks have not only demonstrated remarkable resilience but have also played a crucial role in upholding stability.** They have provided tangible solutions and closely collaborated with policymakers to mitigate the impact of these crises on citizens and businesses.

These various crises have also exposed the vulnerability of value chains and the reliance of numerous sectors in the European economy on the rest of the world. More generally, they have accelerated Europe's loss of competitiveness compared to other parts of the world, notably the US and Asia. This competitiveness, which fosters growth, is indispensable for the well-being of Europe and its citizens. It is essential for servicing the debt of states and companies, for financing the green transition, for investing in greater European innovation and security, and ultimately for supporting an aging population.

The upcoming years will remain challenging. Policymakers, businesses and households will continue to grapple with the consequences of the conflict in Ukraine, geopolitical tensions, inflation, soaring energy costs, disrupted supply chains, and a shortage of skilled labour. In addition, the rapidly expanding uptake of technology and advancements, such as generative AI and quantum computing, will continue reshaping nearly every industry and will impact society in ways that are only beginning to be understood. However, the biggest challenge is climate change. Achieving the 2030 EU climate targets alone necessitates investments amounting to one trillion euros annually[3]. Achieving net-zero emissions within the next three decades demands channelling trillions of investments to activities that support the transition to net-zero including those that would otherwise be allocated to carbon-intensive technologies.

All the current and future challenges and vulnerabilities – whatever their form or shape – have one thing in common: they require additional financing and investment to support sustained and sustainable growth. This is why, now more than ever, also given the high level of debt among states and local authorities, **Europe needs a banking and financial sector that is both resilient and profitable. The sector is crucial for funding the substantial investments needed to address the challenges, both immediate and long-term. The banks are fully prepared to assume their responsibilities and play their role within society. However, they do require a regulatory framework that enables the industry to remain competitive in an ever-evolving global market and ensures fair competition for all entities providing financial services.**

[3] https://eur-lex.europa.eu/resource.html?uri=cellar:749e04bb-f8c5-11ea-991b-01aa75ed71a1.0001.02/DOC_1&format=PDF

The performance of the European financial sector and the overall health of businesses are indeed closely correlated. **This calls on European policymakers to reaffirm the strategic role of the European banking sector in achieving Europe's competitiveness, growth and strategic autonomy.** This recognition must be coupled with a genuine understanding of what is necessary to maintain a healthy financial sector in Europe. **Banks and financial service providers are, in fact, confronted with an excessive – and increasingly over-reaching – number of legislative and regulatory proposals that undermine their position** (and their ability to effectively fulfil their role in supporting the economy). This is especially important to note, as such proposals come from numerous different policymakers and touch numerous different functions of banks, which – taken individually – may seem unrelated. When, however, they are assessed from the viewpoint of the bank that must implement them all, the accumulated effect yields a quite overwhelming picture.

Europe requires a strategic vision wherein a robust banking sector that is both efficient and digitally competitive, coupled with deeper European capital markets will finance its future.

Such a strategic vision can only be driven by deeper cooperation within the EU. It is urgent to harness the potential of a united Europe with greater strength and consistency than ever before. The Single Market is a key EU endeavour valued by European companies, but even after 30 years it remains incomplete. In too many areas, including finance, the EU still remains a patchwork of 27 national markets and economies. A deeper and more dynamic internal market would empower Member States to efficiently pool resources and work towards shared goals.

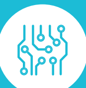
Against this background, the key priorities that the EBF sees for the 5 coming years are:

1 Finance Europe's future prosperity and strategic autonomy

- by acknowledging the banking sector as a strategic sector in the context of the EU's open strategic autonomy vision promoted by the European Union
- by ensuring that European banks can be more competitive, to the benefit of European households and corporates within an enabling regulatory and supervisory framework
- by completing the Single Market, considering the Banking Union as a single jurisdiction, and developing European Capital Markets

2 Maintain Europe's leading role & act together to achieve the transition towards a sustainable economy

3



Develop a strategic vision for Europe's digital financial services where banks can deploy meaningful innovation in a cyber resilient ecosystem

The current document represents, in a non-exhaustive manner, the input from the European banking sector in preparation for the upcoming EU elections. Its purpose is also to enhance the dialogue between the financial sector and political decision-makers, which we deem essential given the significant challenges that lie ahead. In this regard, the EBF intends to continue engaging in constructive dialogue on the topics addressed with all interested stakeholders at the European level.

1. Competitiveness, open strategic autonomy, regulatory efficiency & simplicity

The banking sector is a strategic industry

The prosperity of EU citizens depends very much on the strategic choices Europe will make in a rapidly changing world faced by vital challenges. It is therefore essential for the European Union to think about its future and its strategic place in a world of global competition.

Europe's competitiveness is currently being tested: vulnerabilities in the global supply chain, dependence on energy and raw materials coming from outside Europe, and a global trade landscape that is increasingly defined by protectionism and rivalry. Other regions face similar challenges, and they are taking measures to mitigate them, thereby exacerbating the EU's position. The United States has sent a clear signal through initiatives like the Inflation Reduction Act (IRA) and other comparable subsidy programs. Meanwhile, China is becoming more assertive and is seemingly at odds with the United States.

The decline of GDP in the EU shows the magnitude of the widening gap with other major global regions. Between 2001 and 2022, the United States' GDP nearly doubled, raising from $13.90 trillion in 2001 to $25.46 trillion in 2022. For the same period China's GDP increased almost sixfold, surging from $3 trillion in 2001 to $17.96 trillion in 2022. In contrast, the European Union's share of the global GDP has been consistently decreasing, reaching $16.64 trillion in 2022. This trend is diminishing Europe's competitiveness and influence in the worldwide arena.

Europe is consequently losing share in the global markets, which will further weigh on its competitiveness and growth. However, **sustainable growth is imperative for Europe:** the ability to service debt, funding the green and digital transitions, financing increased defence efforts, providing support for an aging population, they all depend on growth. If left unaddressed, all these challenges will require even more investments and creation of employment opportunities in Europe to tackle the risks.

Simultaneously, the COVID-19 crisis and the conflict in Ukraine have exposed Europe's vulnerability and dependency in areas such as defense, security, energy and supply chains. These events have underscored **the necessity for enhanced control and autonomy in critical strategic domains at the European level.**

Beyond essential investments aimed at reducing these dependencies, **Europe will need to continue investing very significantly to achieve its environmental and technological transformation objectives.**

Therefore, the need for a robust and resilient EU banking system is greater than ever, as it is the essential foundation for financing this transformation. European strategic autonomy is impossible without robust and resilient banks that can support its economy at full strength in all situations – and that can compete at global level.

The financial sector, being the primary source of investment and thus sustainable economic growth, plays a crucial role. The sector is is actively involved in funding business and household projects in the face of these fundamental changes. An example of this commitment is the stability of lending by EU banks compared to non-EU entities during the Covid pandemic, highlighting the EU banks' role as part of the solution.

However, **the European banking sector is also grappling with a loss of competitiveness,** notably when compared to US banks. Larger European banks are currently outnumbered in the top 10 global banks, with only two European banks remaining, and only eight in the top 30 banks worldwide.

Bank	1/01/2008	7/11/2023
JP Morgan	147	417
Total of the 10 largest banks in the eurozone	832	449
• BNPP	98	70
• Santander	135	61
• Intesa	48	50
• BBVA	91	49
• ING	87	46
• Unicredit	130	44
• Nordea Bank	56	38
• Credit Agricole	56	38
• CaixaBank	67	30
• Deutsche Bank	65	23

Market capitalization of the largest us banks and the 10 largest banks in the eurozone (in $bn)

Europe urgently needs to change course if it wants the European financial sector to finance its future. The European Union needs a financial sector that is capable of addressing the needs of the European market yet globally connected too.

In order to achieve this, the sector must demonstrate competitiveness and innovation. **Adequate profitability is also necessary** to withstand potential shocks and address upcoming challenges.

European banks saw improved profitability in 2022 and early 2023 after years of low and even negative interest rates. Normalising interest rates is expected to restore profitability above the cost of capital, which has not been the case for a long time. So, there are no windfall profits in the banking sector.

Profitability is the best defence against uncertainty; it supports capital strength, lending for investment, job creation, consumption, growth, and

tax revenue. Today we see that European banks' profitability remains lower than peers in competitive regions and many other industries. Healthy profits are thus essential for the resilience and attractiveness of the European banking sector, fostering economic growth and competitiveness.

This is also why initiatives adopted or emerging in some European countries aimed at imposing ad hoc taxes (bank levies and windfall taxes) on banks are unjustified, discriminatory and, most importantly, fall short of addressing the cost-of-living crisis. As expressed by the European Central Bank (ECB) on other similar initiatives, ad hoc taxes for budgetary reasons place undue burdens on banks and should be carefully considered as they might ultimately affect the sector's resilience and ability to finance the economy by providing credit to businesses and individuals.

RECOMMENDATION 1.

The EU should recognize the banking sector as a strategic sector, also in the context of its open strategic autonomy vision. A high-level dialogue is suggested to define a shared vision and actions for the global competitiveness of the European financial sector, benefiting businesses and citizens.

An enabling regulatory framework and aligned supervisory approaches – conducive to EU competitiveness

To effectively fulfil its role, the banking industry needs **a regulatory framework that enables European banks to remain competitive and profitable in a rapidly evolving global market.**

Since 2008, the regulatory framework for the financial sector has undergone extensive revisions to enhance its resilience. The objectives of these reforms have largely been achieved, as demonstrated by the banks' resilience during the turbulence of March 2023. **Far from complacency, the overly complex financial services framework could be streamlined, making it more efficient and equally robust.**

Due to the incremental nature of the revision process, rather than a cohesive and coordinated project, the current framework is marked by considerable complexity and overlapping measures. **There is no longer a clear holistic view of the collective impact of all rules,** which risks impeding both the provision of financing within the EU at present and the adaptability of these regulations to future challenges. The extraterritorial application of EU law is another example that impacts and impedes the competitiveness of globally operating banks. While banking regulation has predominantly focused on stability, which remains unquestioned, there is now a need to shift toward competitiveness and growth. Digital finance, which is so crucial for both, is a case in point: the rapid technological developments and the rise of hyper-scaler tech companies that have been penetrating the financial ecosystem on different levels and with no borders, have been met with legislation that is struggling to catch up and supervision that is fragmented both geographically and at sectoral level. There is a need for more efficient regulatory approaches, not through deregulation, but through streamlined and simplified regulation with the flexibility for adjustments when necessary. Furthermore, given the global character of capital markets, EU legislators and regulators should be more aware of important regulatory developments in jurisdiction beyond the EU which host (and foster) strong financial sectors. **Such a comprehensive assessment should be conducted before the adoption of any new legislative proposals in the field of financial services.** This is particularly important as the European Commission continues to adopt numerous initiatives that affect negatively the European banking sector (FIDA, RIS, etc.).

In addition, we continue to observe a lack of harmonization in the EU when it comes to financial legislation. Even within regulations, there are often opportunities for Member States to apply different rules. While gold-plating can be motivated by good intentions, it undermines the goal of harmonization in the EU and often adds a layer of complexity, and a barrier to the Single Market. This fragmentation also creates an unlevel playing field for European banks

and hampers consumer confidence, as they should be able to expect the same framework throughout the Union. This issue also needs to be better addressed going forward, by limiting the application of national discretions.

A comprehensive assessment of the existing regulatory framework

It is therefore important that the European Commission initiates a **comprehensive assessment of the existing regulatory framework,** including level 2 standards, to evaluate the impact and efficiency of regulations (incl. the impact of additional gold-plating as referred above). This evaluation should consider not only stability and resilience but also the objectives of effectiveness, competitiveness, and support for sustainable growth in Europe. A relevant precedent for such an assessment is the "call for evidence" conducted in 2014, which is now outdated. This analysis could serve as a foundation for adjusting or recalibrating existing requirements, if they are found to be counterproductive or inefficient. It should be conducted before adopting any new legislative proposals in the field of financial services.

Competitiveness test

Furthermore, to take into account the primary objective of promoting Europe's competitiveness and hence that of the financial sector, it is essential **that policymakers check the impact on competitiveness of any EU legislative proposal or ahead of any review.** This is to ensure that any proposed legislation is relevant and/or appropriately calibrated. This "competitiveness test" should thoroughly evaluate whether a proposal contributes to enhancing Europe's competitiveness and (open) strategic autonomy. It should also assess how the extraterritorial application of EU measures to the international activities of banks abroad impact EU bank competitiveness at global level. Adjustment to international standards and more flexible equivalence assessments are needed.

Competitiveness and growth as complementary objectives

With the same objective in mind and in addition to systematically considering the competitiveness of Europe and European actors in shaping European legislation, it would be opportune to add **an additional, international competitiveness and growth objective** to the European supervisory authorities - including the Single Supervisory Mechanism (SSM) - alongside their primary objectives of financial stability and safeguarding the integrity, efficiency, and orderly functioning of the financial sector. Adding this secondary objective to the mandate of these authorities would entail that they facilitate, subject to aligning with relevant international standards, the international competitiveness of the European economy (including the financial services sector) and its growth in the medium and long term. It implies that, when they work towards their primary objectives, they must also consider how their work affects the secondary objective and whether it advances this objective as far as reasonably possible. This approach aligns with recent developments in the UK following the enactment of the Financial Services and Market Act, where the Bank of England and various authorities such as the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have adopted similar measures.

Legislation reviews only when necessary

The increasingly common practice of systematically stipulating a fixed revision date in legislative acts (sometimes after only a few years) tends to **inflate the number of reviews** or, at the very least, the legislative workload – often without any actual need. The decision to review existing legislative acts should therefore be left to the discretion of European institutions based on necessity, rather than being predetermined by fixed dates.

Assessing the current multilevel decision-making system for EU regulation

The European banking sector is currently experiencing **a growing inflation of level 2 standards,** often leading to highly impactful results. Therefore, the criteria for developing policy standards at both level 1 and level 2 should be clarified. **It is necessary to conduct a thorough evaluation of this multilevel decision-making system shaping the EU regulatory framework to assess whether it is still fit for purpose or if adaptations are needed.**

Among the aspects that seem interesting to evaluate further is the question of whether it would be appropriate to enhance the powers of the European Supervisory Authorities (ESAs) to issue binding supervisory recommendations to national competent authorities (NCAs) in specific cases of issuing no-action letters.

Currently, ESAs can issue no-action letters in cases where they consider that provisions contained in an EU act may directly conflict with another EU act or where there is an absence of a level 1 or level 2 act. It might be prudent to also grant the ESAs the right to issue no-action letters in other circumstances, especially where regulatory relief may be necessary. This includes situations where external factors make ongoing compliance with existing regulatory obligations by market participants not possible, impractical, or undesirable as a matter of regulatory policy. Under the existing regime, no-action letters consist of an opinion issued by the ESAs in respect to a specific EU act, aiming at "furthering consistent, efficient, and effective supervisory and enforcement practices." In these cases, the ESAs generally recommend to national competent authorities not to enforce a specific regulatory requirement. Transforming such opinions into binding recommendations vis-a-vis national competent authorities could increase regulatory harmonization while also providing EU market participants with legal certainty regarding the status of relevant provisions. Implementing this approach would necessitate amendments to the ESAs regulation, particularly the articles dealing with no-action letters. These changes would need to ensure that this power is time-limited, can be triggered only in exceptional circumstances as defined in the ESAs regulation, and is justified by the principle of convergence of supervision practices of NCAs across EU Member States.

RECOMMENDATION 2.

The European Commission should initiate a comprehensive assessment of the existing regulatory framework, including level 2 standards, to assess the impact and efficiency of regulations. This should be done not only in terms of stability and resilience but also concerning the objectives of effectiveness, competitiveness, and support for sustainable growth in Europe. This analysis could serve as the basis for adjusting or recalibrating existing requirements, if they are found to be contrary to the objectives or inefficient.

RECOMMENDATION 3.

Submit all legislative and regulatory proposals affecting the banking sector to a serious impact assessment on the sector's competitiveness (competitiveness test).

RECOMMENDATION 4.

Assess whether the current multilevel decision-making system that shapes the EU regulatory framework (especially level 1 and 2), as established by The Lisbon Treaty, is still fit for purpose.

RECOMMENDATION 5.

Introduce a complementary competitiveness and growth target within the objectives of the European Supervisory Authorities (ESAs) in the regulations of November 2010 establishing the EBA, ESMA and EIOPA, as well as for the single supervisor in the Regulation of 15 October 2013, which sets out the ECB's objectives for the prudential supervision of credit institutions.

RECOMMENDATION 6.

Strengthen the existing ability of the ESAs to allow the issuance of binding supervisory recommendations to national competent authorities (NCAs) when issuing no-action letters.

RECOMMENDATION 7.

Avoid the inclusion of pre-determined review periods in legislative texts as a measure to avoid unnecessary legislative processes and create legislative stability.

Fair competition and level playing field

Equally important are conditions that ensure fair competition for all entities providing financial services. Banks are facing increasing competition from non-banks, which are subject to fewer regulatory burdens. Competition is welcomed: it spurs innovation, benefits customers and drives progress. But it must be fair competition.

Intermediation in the lending market has undergone a dramatic shift from traditional banks to shadow banks, i.e., non-depository institutions that fall outside the scope of traditional banking regulation. Shadow banking's ascension may signal growing systemic risks. These could include direct and indirect exposures faced by banks, insurance companies and pension funds, reduced financing availability for banks and non-financial corporate borrowers, and increased asset price volatility.

Reducing shadow bank risk could be achieved through further direct regulation, more transparent financial reporting, and limitations on asset/liability mismatches, among others.

Banks are also competing with non-European (big) tech companies with powerful networks and huge investment capacity. This has the potential to fundamentally change the competitive dynamics in banking and not to the benefit of consumers.

Big tech companies can amplify fintech offerings thanks to their global scale, multi-billion user bases and cutting-edge technology. But above all, they use their vast troves of user data to offer more personalised and seamless customer experiences. In financial services, as in other markets, they use this privileged access to a sophisticated processing of data and their digital infrastructure to carve out a foothold for market entry.

Obviously, when this occurs with a conscious consent by users and leads to better customer service and greater innovation, financial inclusion and competition, it is basically a good thing. But realistically, it can create "walled gardens" controlled by the owners of key infrastructures such as on smartphones, which in turn creates captive customers.

This eventually reduces real choice and competition. It also creates new types of risks, blurs the lines of accountability, and can shift the provision of financial services outside of the regulatory perimeter.

It is essential therefore to ensure a level playing field for financial institutions regarding big tech activities in digital finance. Making sure that big tech companies are not exploiting asymmetric privileges in terms of access to data and infrastructure while also ensuring that consumers are granted consistent and uniform protection across all varieties of financial services is indispensable.

Regulatory initiatives like the Digital Markets Act (DMA) and the Regulation on Markets in Crypto-assets (MiCA) are expected to play an important role in addressing these concerns. However, other initiatives, like the Financial Data Access (FIDA) proposal, which mandates data sharing by banks beyond payment information, introduce new challenges (see chapter on European data-driven economy). This proposal includes obligations for sharing a significant portion of customer data held by banks and all types of financial sector entities. While the goal is to foster competition and innovation by opening up financial sector data to third parties, it is essential to avoid unintended consequences. There is indeed risk that data may be shared with actors, such as big techs, who already have a dominant share of both individual and corporate data. This could give rise to an even more dominant position and the further exploitation of data. Imposing these data-sharing obligations solely on financial institutions could further tilt the competitive balance, increasing the existing asymmetry – after PSD2 – between banks and other participants in the data economy who are not subject to similar requirements.

RECOMMENDATION 8.

Re-assess the regulatory perimeter regularly to ensure that it captures adequately non-banks offering financial services.

RECOMMENDATION 9.

Ensure an effective implementation of the Digital Markets Act obligations by the designated gatekeepers, including on data portability for individuals and firms. A Commission Implementing Act could help to support this and ensure a more harmonized approach by gatekeepers.

2. Stability, Banking Union, and integrated European reporting

The European banking sector is robust and resilient. Banks hold strong capital and liquidity positions, well above minimum requirements. This resilience has been evident through a series of challenging events, including the COVID-19 pandemic, geopolitical tensions such as the conflict in Ukraine, and more recently, the turbulence witnessed in the banking sectors of the United States and Switzerland. It is a result of the substantial efforts made by banks themselves to adapt their business models and enhance their risk assessment capabilities, as well as the full implementation of the internationally agreed-upon regulations and standards following the global financial crisis. The recent adoption of the banking package, which implements the Basel 3 endgame in Europe is set to bolster this resilience even further.

Now that the legislation of the Basel 3 Agreement has been completed in Europe, monitoring advancements in other parts of the world, particularly in the United States, becomes crucial to maintain a level playing field. Given the uncertainties surrounding the implementation in the US, **it may be necessary to ensure that the delegated act on market risks (FRTB – Fundamental Review of the Trading Book) at the European level is not confined to a two-year period.**

However, as stated above, while the banking regulatory reform post-Global Financial Crisis (GFC) has succeeded in terms of bank resilience, it has also made the framework overly complex. Therefore, there should be a move towards simplification by removing redundancies between different pieces of legislation, various elements in the policy toolbox, and the allocation of powers to diverse authorities at both EU and national levels **(see recommendation 2).** It has also imposed significant constraints on the sector in terms of profitability and the capacity to finance the economy. It has also prompted a notable shift in the role of intermediation and financing towards the unregulated sector of shadow banking, which has grown considerably, with all the risks associated with a less transparent and less regulated sector.

It now appears essential to consider additional objectives – competitiveness and growth - beyond just stability in order to enable banks to support the necessary growth in Europe (see recommendations 3 and 5).

RECOMMENDATION 10.

Be prepared to extend – if necessary – the delegated act on market risks (FRTB – Fundamental Review of the Trading Book) at the European level to ensure a Level Playing Field (LPF) at the international level, notably with the US.

Completing the Banking Union and considering it as a single jurisdiction

Establishing the **Banking Union** stands as one of EU major accomplishments. Both the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) have contributed to financial stability and a level playing field for Eurozone banks. However, the Banking Union remains unfinished. Persistent political and regulatory constraints hinder the development of universal cross-border bank business models.

Europe still needs to address the **third pillar of the Banking Union** and, in parallel to working on the final design of the third pillar of the Banking Union, several European reforms and decisions seem necessary, notably **resolving the home-host debate.** Specifically, requirements that restrict the movement of capital and liquidity within the Banking Union pose significant challenges. Although it seems difficult, it will be necessary to take a broader perspective on the Banking Union and to negotiate compromise solutions in parallel with the remaining open elements of the BU. The lack of progress in the third pillar of the BU – as well as in the home host debate - is a source of fragmentation and acts as structural barriers to bank consolidation across the Eurozone. It also acts as an obstacle to the development of a single capital market. Banks play a crucial role in the functioning of all major capital markets. They operate - and often hold a leading position - in critical segments such as asset management, bond underwriting and trading, initial public offerings, and financial advice. They are active traders in securities markets and often provide market-making services. It is challenging to envision a genuine Capital Markets Union (CMU) without the banks as key players being able to operate throughout the Euro area – which they are currently restricted from.

SSM calculations reveal that the absence of liquidity waivers prevents around 250 billion euros of high-quality liquid assets from circulating freely within the Banking Union. Concerning capital, the same calculations show that the total amount of risk-weighted assets resulting from non-waived individual requirements of cross-border subsidiaries within the Banking Union is about 25% higher than the risk-weighted assets attributable to these subsidiaries at the consolidated level. This underscores the need to recognise the Banking Union as a single jurisdiction across all its regulatory prudential components (particularly concerning intragroup exposures). Such recognition would facilitate progress in reducing the fragmentation of capital, liquidity, and the newly binding minimum requirement for eligible liabilities (MREL). The MREL has been calibrated far above the Total Loss Absorbency Capacity (TLAC) standard and its definition is overly complex. Major banks have to issue a large portion of their MREL in the US market which is more expensive and raises doubts about swiftness of bail-in operationalization. There is a strong case for MREL simplification and recalibration.

So, ring fencing practices have to be removed. A very impactful one is the application of the output floor at local level ignoring the discretion offered by the Basel Committee which the EU should have taken up and should reconsider sooner than later. In an efficient Banking Union, there should no longer be any distinction between home and host supervisors for banks operating across borders and the possibility of "national bias" playing a part in regulation and supervision should be eliminated. A forward-looking and equitable solution must take into account host country demand for fair burden sharing while allowing as much integration as possible.

We understand that this is a longer-term project given current political realities. Nevertheless, initiating a dialogue between the sector and regulatory authorities to devise a progression plan on this matter would be beneficial.

The current legislative proposal on **Crisis Management and Deposit Insurance** is being scrutinised by Member States. Apart from certain technical adjustments to the existing regulations, the core aspects of the proposal do not seem to be supported at this stage by a substantial part of the Council. The reasons for Member States' positioning are of a political nature going beyond the business of banks. Against this background, the EBF will continue following the proposals and the intentions of Member States.

The distinct characteristic of Europe in crisis management is not having a lender of last resort like the UK or the US. This is a fundamental disadvantage when it comes to quell markets in the event of financial crisis. The mere existence of a lender of last resort would reduce panic and let the system deal with the situation within the recovery and resolution framework.

RECOMMENDATION 11.

Keep on working to complete the Banking Union by initiating a structured dialogue with the banking sector to advance the recognition of the Banking Union as a single jurisdiction across all its prudential components (capital, liquidity, MREL) and making progress towards addressing the third pillar of the Banking Union.

A predictable and usable macroprudential framework

Robust, proportionate, and predictable macroprudential framework is another crucial element of a well-functioning European financial sector. As noted by EU institutions, there is a continuing need to assess the use and regulation of current macroprudential measures. The European Union's macroprudential framework is, indeed, excessively complex, and the COVID-19 crisis has exposed deficiencies in terms of buffers usability. Greater clarity is required regarding the risks covered by each of these buffers and the absence of overlap (double counting) with other macroprudential buffers, as well as with the Pillar 2 Requirements (P2R) and Pillar 2 Guidance (P2G), in addition to Pillar 1 requirements.

The review should, therefore, ensure greater predictability and a level playing field by: (1) providing more certainty concerning the Maximum Distributable Amount (MDA), as banks manage their management buffers based on their distance from the MDA. Unlike the measures that were imposed during COVID, the European banking sector believes that dividend suspension should not occur without the MDA trigger currently set out in the regulation, and that the MDA could be lowered during periods of stress ; (2) Ensuring that if the countercyclical buffer (CCyB) is increased for greater buffer usability, this should be offset by a reduction in conservation buffers (CCoB). Alternatively, the CCoB could itself be reusable ; (3) Ensuring that European authorities coordinate the relaxation of buffers to maintain consistency in their reduction across risk-weighted assets (RWA), leverage ratios, and the minimum requirement for own funds and eligible liabilities (MREL). Without considering all the constraints on bank capital, buffers relaxation measures are ineffective.

Furthermore, the roles and responsibilities between national and European authorities need to be clearly defined to ensure coherence of the EU macroprudential framework as a whole, prevent double counting, and avoid fragmentation of the European market. Additionally, given that banks are now sufficiently capitalised, **any review of the macroprudential framework should by no means lead to an increase in capital requirements.** Such an increase would be unjustified and further divert resources that could otherwise be invested to support the European economy.

RECOMMENDATION 12.

Ensure that the upcoming review of the macroprudential framework enhances predictability, and better usability of buffers, while clarifying the risks covered by them to avoid overlaps – all without resulting in heightened capital requirements for banks and ensuring harmonisation in the use of tools to tackle similar risks.

Towards an integrated European reporting system

It is widely acknowledged that the current regulatory reporting system for financial institutions is laborious, costly and increasingly complex. After the EBA concluding in 2021 that an integrated reporting system is feasible, the EBA, ECB, SRB, EC, and the banking industry are currently exploring the best way to revamp and integrate regulatory reporting (i.e., statistics, prudential, and resolution), with specific attention to governance and achieving an essential common data dictionary. Concurrently, the ECB has taken a first step aiming to consolidate its statistical reporting requirements within a unified reporting framework (IReF) with the maximum harmonization of additional national requirements. This framework would seek to standardize, harmonize, and integrate existing statistical information collection requirements from financial institutions across various sectors and countries, as far as possible. The EBF is fully supportive of IReF being scalable from statistical reporting and expanding to meet the data needs of supervisors too; becoming the first step towards a truly integrated reporting.

Likewise, the EBF is supportive of the joint initiative towards an integrated, standardized, progressively more granular and proportionate reporting framework that enhances and harmonizes data quality and alleviates reporting burden on financial institutions. Reaching the common objective will also result in authorities receiving high-quality, comprehensive and detailed data that will help authorities in their monitoring and policy decision making.

To start, it is crucial that all parts commit to the common European vision with a fit for purpose governance through new governing bodies aligning authorities and industry perspectives. By this means, the systematic application of the “define once”, “report once”, “share information” and “enhanced governance” principles is ensured to create and maintain a new reporting process that is feasible for both industry and authorities resulting in cost-effectiveness and reducing the overall burden.

RECOMMENDATION 13.

Ensure a full and true collaboration between authorities and industry in the design phase of the new regulatory reporting ecosystem.

3. Sustainability - EU’s leading role at risk

The European Green Deal aims to set the EU on the path to a green transition. It sets out to achieve climate neutrality in Europe by 2050 by driving economic growth through green technology but also establishing sustainable industries and transportation systems while reducing pollution. It stands as one of the most significant endeavors of the current legislative period. Of all the challenges facing our economy and society, this will be by far the one **requiring the most substantial investment.** Europe will require investments of more than 700 billion euros a year to meet its energy transition goals to combat climate change. It also requires a substantial rethink — not just within society and corporations, but also amongst policy makers and regulators.

Sustainable finance is a key priority for the European banking sector. Banks are overhauling their internal systems, particularly those related to data collection, risk management and loan origination and credit approval processes, to ensure the alignment of their financing activities with the EU sustainability goals. Banks are in a unique position and stand ready to assist their clients in their transition, helping them raise necessary financing and advising them at every stage of this complex sustainability transformation journey. **However, and despite all the efforts made, banks are primarily intermediaries and not the owners of the investments' decisions. They cannot drive the transition of the economy on their own, nor can they shoulder the primary responsibility for enforcing climate policies. It is up to governments to define clear and consistent policies that incentivise all sectors and businesses to progress in this transition and increase the economic viability of sustainable investments.** The system of incentives needs a substantial overhaul, redirecting the ever-increasing fossil fuel subsidies towards transition. It is important that Europe's industrial and fiscal policies are aligned with its sustainability goals as soon as possible. In order to deliver **a just transition,** what is needed is a holistic approach that provides certainty and clarity and that supports and incentivizes people and businesses to embark on the sustainability journey as soon as possible without potential cliff effects of the transformation from brown to green.

Europe is currently leading in this field, and that's a positive development as it provides European banks and businesses with new opportunities. However, **to maintain the EU leadership and competitiveness of EU banks and businesses, it is crucial to ensure that the EU legal framework does not burden but rather supports them, and enables them to effectively face challenges and harvest opportunities, including in the global market. More clarity, certainty, coherence, usability, and global alignment in sustainable financial regulations will further mobilize finance for the transition.**

What is needed are clear and consistent rules and pragmatic approaches that will effectively guide direct investments and bank-led financing to industries, including carbon-intensive ones for which the transition is critical in contributing to reaching net zero.

Furthermore, given that almost a quarter of EU banks' exposures are to entities located outside the EU, it is imperative for **rules and standards to be globally coordinated and convergent.** Global cooperation and harmonization will play a crucial role in preventing market fragmentation and facilitating the flow of capital to where it is most needed. As a minimum, it is important to ensure the interoperability of the EU regulations and standards with global initiatives.

Consequently, we advocate for three overarching objectives:

1. First, we must prevent regulatory fragmentation and strive for a unified global approach to regulation, consistent reporting standards, climate scenarios, and stress tests. This includes the prudential frameworks that should remain risk-based, internationally defined and complied with, ensuring a comprehensive approach and a level playing field. This is crucial for the successful global transition toward a sustainable economy.

2. Second, there is an immediate and pressing need to simplify a regulatory framework that has become excessively complex, inconsistent, and indecipherable. The rules must also be proportionate and tailored to Small and Medium Enterprises (SMEs).

3. Third, it is of paramount importance to increase focus towards transition finance which is currently missing within the European sustainability framework.

Focus on climate and biodiversity fair and inclusive transition

Despite the rapid growth of sustainable finance markets, financing and regulatory efforts have mostly focused on green activities, while support to the broader range of investments needed for the whole economy's climate transition has been limited.

The coverage of the EU economy by the EU Taxonomy eligible activities is low as also evidenced by the average eligibility disclosed in various studies on 2023 NFRD corporate reporting, showing an average eligibility between 22-30%. The EU Taxonomy does not capture the existing large volume of economic activities improving their existing conditions and which are supporting the transition, but are not aligned with all the relevant Taxonomy criteria. More emphasis needs to be placed on supporting corporates with a credible sustainable transition as the economy's transition to net-zero requires financing of companies and activities that may not meet strict environmental thresholds and administrative requirements such as those outlined in the EU Taxonomy but can still enhance their performance and contribute to EU objectives.

In fact, no regulation clearly outlines the decarbonization efforts expected from each sector to meet these commitments. The European sustainability framework provides a broad target to achieve across Europe but has not yet been translated into sector-specific pathways to accomplish this. An effective framework for transition finance that would support and underpin voluntary commitments but also provide a clear understanding of what constitutes transition finance in order to facilitate the engagement with customers and diminish the risk of greenwashing is needed for an **orderly transition. The EU should specify common sectoral pathways and roadmaps in line with credible scenarios that would include intermediary targets, milestones and technologies and solutions by sector to be used as a clear benchmark against which to define and assess corporate transition plans.**

The existing regulation also needs to be further clarified. For instance, at present, it remains unclear to what extent companies in transition can be included in SFDR article 9 funds under the disclosure regulation, just as the EU Taxonomy leaves limited room to finance the broad transition. Financing companies in transition has exposed the financial sector to claims of greenwashing due to a lack of shared understanding regarding the nature of the transition toward sustainability. Sector-specific pathways are therefore pivotal for the successful progress toward a sustainable economy and real impact.

While transitioning toward net-zero carbon emissions is essential, we believe that addressing the biodiversity crisis is equally important. Biodiversity and ecosystems, being even more complex than climate, biodiversity transition should already be part of discussions to avoid repeating the issues we have seen on the climate agenda and to capitalise on the interdependencies and hence the dual impact of both themes.

RECOMMENDATION 14.

EU institutions should establish a clear and orderly transition finance framework at the EU level, outlining sectoral transition pathways and roadmaps against which companies can benchmark their transition plans. The revision of the Taxonomy should also incorporate the transitional aspect into the existing taxonomy of sustainable activities. It's imperative to define the thresholds and timelines that each activity must adhere to in order to achieve the targeted sustainability objectives.

RECOMMENDATION 15.

Transition pathways should be defined for both climate considerations and impact and dependency on biodiversity. These pathways should be aligned with information required by the Corporate Sustainability Reporting Directive (CSRD) while also considering voluntary market-driven initiatives such as GFANZ and NZBA for climate, and PBAF and TNFD for biodiversity. These pathways should not be drafted in isolation and should feed into each other as much as possible.

RECOMMENDATION 16.

To enable banks to best support their clients' transition, it is crucial that corporates publish their transition plans following the standards outlined by the ESRS (European Single Reporting Standard). Therefore, it is essential that companies in the scope of the CSRD are required to produce a high-quality transition plan, encompassing at least the information stipulated in the ESRS. There should also be clear guidance and tools for SMEs that wish to produce a transition plans.

Towards a usable sustainability framework

The European sustainability framework was developed rapidly during the current legislature, and the individual pieces of legislation have been adopted at various points in time and without ensuring comprehensive consistency. **As a result, the framework has become a set of complex, incoherent, and excessively burdensome requirements.** While the European Commission is striving to introduce alignment through level 2 legislation and level 3 guidance (see also EC initiative launched by President von der Leyen), we are of the opinion that several modifications to level 1 legislation are still necessary, particularly to align the Taxonomy, Sustainable Finance Disclosure Regulation (SFDR), the Benchmark Regulation, as well as the Corporate Sustainability Reporting Directive (CSRD) and the Pillar 3. **This could be achieved through the adoption of an omnibus legislative proposal.**

While the EBF is very supportive of the **initiative launched by President von der Leyen to simplify and reduce by 25% reporting requirements,** we would also like to stress that we would also like to stress that availability of consistent, comparable, standardized and high quality ESG data is key for managing transition and associated risks. Within this context, it is particularly important to keep the crucial elements of the ESRS, which are expected to substantially improve the data availability, and

ensure consistency throughout the reporting value chain. This entails aligning data points and timing to eliminate duplications and redundancies, or data gaps, across various regulations, while also ensuring common definitions. Equally important is achieving symmetry in reducing data request for both the financial and non-financial sectors. Finally, alignment with international standards and commonly accepted conventions should be sought, accompanied by the provision of reconciliation tables to notably curtail reporting costs and reconciliation efforts.

RECOMMENDATION 17.

A 'usability' omnibus legislative proposal early in the next legislature should be considered given the immediate and pressing need to simplify and address misalignments and inconsistencies at existing level 1 regulatory framework. The following thematic areas could be included in the proposal: a clarification and harmonisation of definitions across the framework ; an alignment of timing and sequencing, to also grant sufficient time for the market to implement any changes or guidance, the explicit integration of the transition framework and the elimination of the unintended consequences and dispensable complexities.

RECOMMENDATION 18.

The pursuit and implementation as soon as possible of the initiative launched by President Ursula von der Leyen to simplify reporting requirements (incl. sustainable reporting requirements). The reduction of reporting burdens for corporates should be accompanied by equivalent alleviations in disclosure obligations for the users of such data, such as financial institutions (e.g. under SFDR, Pillar 3).

Enhancing data accessibility and closing the data gap

Access to data is crucial for financial institutions to fulfill their sustainability obligations, including the assessment of their clients' transition plans. This is why the EBF supports **the European Single Access Point (ESAP)** initiative and advocates for its swift implementation. Given the current lack of sustainability data and the fact that financial institutions are dependent on corporate data to meet their own obligations, it appears logical for non-financial information to be among the first to be made publicly available.

In the short to medium term, a data gap will however remain, necessitating a consistent, transparent approach to using estimates, proxies, and "equivalent information" across legislations. Over the long term, ensuring manageable costs for ESG data and uniformity in data definitions and methodologies among providers across Europe is crucial.

To ease reporting burdens while meeting increasing regulatory demands, public data sharing should be considered when individual data collection is costly or ineffective. Prompt and extensive support measures are vital for companies and financial institutions, ranging from operating dedicated websites, portals or platforms for financial support, and facilitation of joint stakeholder initiatives. Providing ESG data, such as physical risk maps, CO2 emissions, consumption or EPC certificates, is crucial, especially for banks to meet ESG Pillar 3 obligations and support building renovations. Additionally, a timely centralised list of NFRD/CSRD-compliant companies and a "whitelist" of these companies meeting minimum social safeguards, required for the taxonomy analysis, would be extremely helpful.

Access to customer data, including that of SMEs remains essential to enable financial institutions to meet their sustainability commitments and fulfill their regulatory sustainability obligations. To enable unlisted SMEs to embark on the sustainability journey and mitigate the need for bilateral engagement as much as possible, it is important that EFRAG develops a voluntary, harmonized, simplified standard or Guidance for unlisted SMEs based on simple and understandable language and only containing

minimal essential elements that would address the information needs of financial institutions and other relevant stakeholders as soon as possible. If SMEs do not have a standard adapted to their characteristics and capacity, unlisted SMEs risk being overburdened by complex and multiple requests.

RECOMMENDATION 19.

As an immediate step, public agencies and authorities should be encouraged to disclose relevant ESG data centrally, where already collected, to reduce individual information requests towards companies. Regarding access to future databases such as those containing energy performance data of building as envisaged in the EPBD. The EBF strongly advocates for the rapid establishment of these databases at the national level and ensuring free access to financial institutions.

RECOMMENDATION 20.

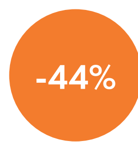
EU (EFRAG) to develop a voluntary, harmonized, simple standard as well as guidance for unlisted SMEs.

4. Urgent push ahead needed on European Capital Markets

"Banks in Europe provide the bulk of investment funding. They alone, however, cannot help the EU win the global investment race, especially in comparison with the United States."[4]

Further developing and integrating national capital markets into one single, liquid and efficient market is central to the European Commission strategy – commonly known as the Capital Markets Union (CMU) since 2015. The objective is widely recognised by policymakers, but progress is slow, if not in reverse.

ECB analysis shows that financial integration in Europe is still much lower than before the global financial crisis: large investors, especially from outside the EU, are deterred by European market structures, which are often fragmented across 27 Member States, and therefore less liquid and less attractive. Since Brexit, the EU has lost approximately a third of its capital market, but it has also gained a competitor with deep liquidity pools. Europe's capital markets continue to fall behind.

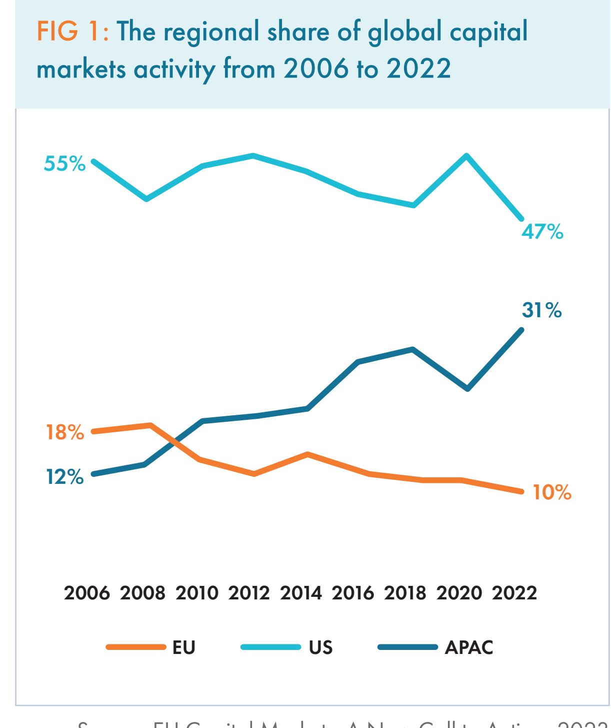


New Financial[5] has estimated a 44% decline in the EU's share of global capital markets activity from 2006 to 2022.

Decline in the EU's share of global capital markets activity from 2006 to 2022.

The EU's share of global capital markets activity has nearly halved over the past fifteen years and is significantly smaller than its share of global GDP. Other regions and countries have pushed ahead in developing their own markets which could draw away companies, jobs, and capital from the EU.

FIG 1: The regional share of global capital markets activity from 2006 to 2022



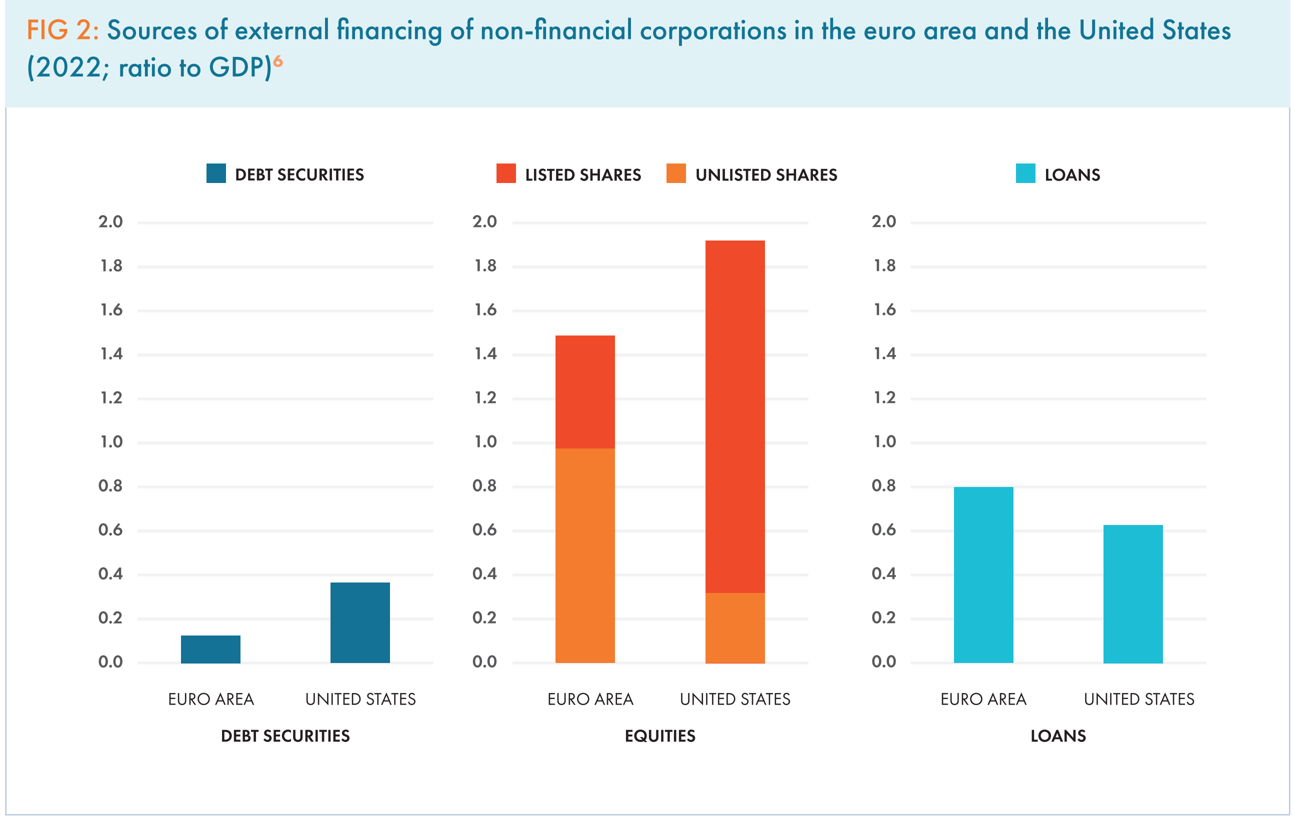
Source: EU Capital Markets: A New Call to Action, 2023

[4] Paschal Donohoe, Werner Hoyer, Christine Lagarde, Charles Michel, and Ursula von der Leyen, "Channelling Europe's savings into growth," ECB Blog (Frankfurt, 2023)

[5] https://newfinancial.org/report-eu-capital-markets-a-new-call-to-action

Also, on the borrowing side, for instance, while bank loans account for 75% of corporate borrowing and bond markets for 25% in the EU, the inverse is true in the United States. In the euro area alone, bond markets as a percentage of GDP are three times smaller than in the United States. The EU also falls behind on public equity-based financing. Although equity represents firms' main source of funding in both jurisdictions, in the euro area it is mainly unlisted, while in the U.S. most equity is listed, opening firms up to a greater pool of potential investors and market liquidity.

FIG 2: Sources of external financing of non-financial corporations in the euro area and the United States (2022; ratio to GDP)[6]



Source: ECB (euro area accounts); OECD and ECB calculations

[6] https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog230830~cfe3be0960.en.html

Altogether, the EU has registered poor progress in the change of funding ratio of companies towards capital markets[7]. **This removes financing capacity for the EU economy.**

Yet, funding green and digital transitions, diversifying supply chains, financing increased defense efforts, and supporting an aging population require trillions of euros annually, crucial for Europe's future prosperity and strategic sovereignty. While banks will finance a major portion in the coming years, they alone cannot cover all these needs, nor can governments, given their debt levels. **A significant portion must come from private capital. Therefore, Europe must create the conditions to attract long-term private capital more effectively.** Otherwise, Europe will not be able to finance its sustainable transformation and keep up with technological advancements. **Thus, developing capital markets in Europe, along with greater integration within a true capital markets union** - to unlock a liquid and attractive market for domestic and foreign investors underpinned by strong, globally competitive financial institutions and infrastructures - **is vital for Europe's future. The attractiveness of EU capital markets is also key for the strategic autonomy of the EU.**

As both users and key service providers in capital markets, banks continue to support the Capital Markets Union as a central pillar of Europe's future viability. In order to achieve meaningful change going forward, the development/ deepening of markets, (the 'CM' in 'CMU'), and of a more flexible and future-proof regulatory framework will be vital.

While most of the CMU actions will have been adopted by the end of the cycle, a number of reforms still remain to be launched and/or completed, making it important to build consensus around a prioritization and sequencing of the next-generation reforms.

The absence of a true European capital market has also been a significant barrier to achieving a more integrated banking system. This is also one of the structural factors contributing to the lower profitability of European banks compared to their US counterparts. A developed European capital market, particularly through further securitisation of loans, would enable banks to manage their balance sheets more efficiently.

European capital markets are also still significantly fragmented, leading to complexities and potential inefficiencies. For instance, while EU equity capital markets are only about 25% the size of the US market, the EU has a far more extensive market infrastructure. With three times as many exchange groups, 18 central counterparties, and 22 central securities depositories, compared to just one of each in the US, the disparity is clear. Though the market itself primarily needs to adapt, it's also opportune to reflect on ways to encourage further consolidation of capital market infrastructures in the EU. Such consolidation could lead to deeper liquidity pools, enhancing the attractiveness of the EU for investors.

There is however also a growing recognition that, beyond the removal of EU-level obstacles, the further development of markets can substantially be accelerated by national actions as well as a broader societal uptake of the products and services offered through capital markets.

Securitisation

"I think, also from a policy perspective, that we need to continue finding avenues to strengthen the recovery of the securitisation market[8]."

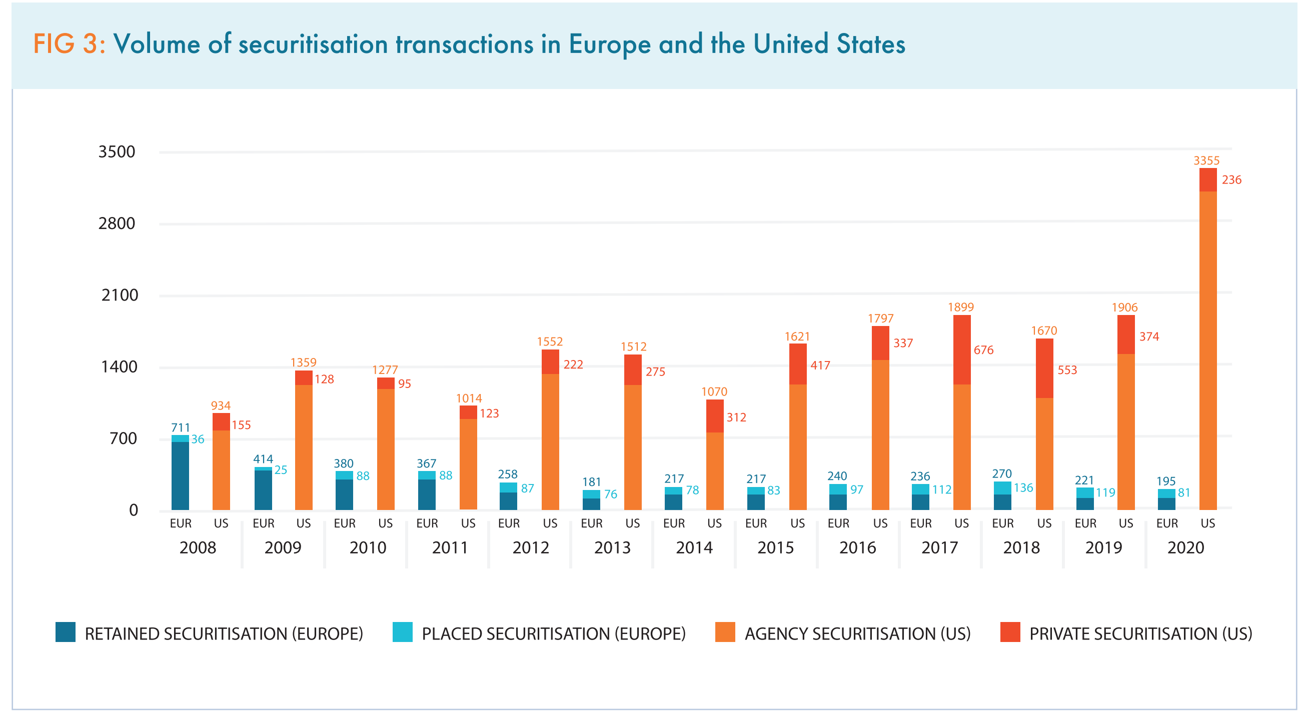
Considering the challenges, notably political, in swiftly achieving the completion of the Capital Markets Union, **Europe needs to re-prioritize and focus first on measures that can yield rapid results—such as facilitating securitisation.** Securitisation is an important instrument as a bridge connecting the capital market to corporate debt financing. Developing the securitisation market would not only contribute to the growth of the Capital Markets Union but also enable banks to significantly increase their financing volumes. Hence, securitisation is an indispensable tool to develop capital markets and finance the energy transition. It is also an effective way to manage risks and avoid overconcentration on banks.

[7] EC CMU KPIs, July 2022

[8] *Andrea Enria, Former Chair of the Supervisory Board of the ECB, 19 December 2023*

The difficulties to securitize loans and distribute them to market participants through liquid instruments forces European banks to hold to maturity a larger proportion of the assets that they originate, which is highly inefficient. As a result, European banks balance sheets are larger and less remunerative than those of their US counterparts. In comparison to the United States, the European securitisation market is quite small, constituting less than a tenth of the size of its US counterpart. In the US, this market is significantly more developed and dynamic, reaching over 3 trillion euros in 2020, while in Europe, it remains marginal, amounting to slightly under 200 billion euros during the same period. Securitised assets represent only 8% of the Eurozone GDP, compared to 47% of GDP in the US.

FIG 3: Volume of securitisation transactions in Europe and the United States



Source: AFME, ESM calculations

Leveraging securitisation to provide financing to the EU economies[9]

Securitisation is an important instrument to make accessible additional capital pools to finance the economy. Today, banks retain most of the loans they extend to borrowers on their balance sheet, binding capital and funding. Securitisation allows for the transfer of loans and credit risk to non-bank investors, such as insurers or other domestic and foreign institutional investors. As the banks "originate" the loans and then "distribute" them to securitisation investors, they play an important role as intermediaries. The non-bank investors would normally lack the market access, risk assessment capabilities and operational prerequisites to directly fund the borrowers, often a larger number of mortgage debtors or small- and medium-sized enterprises (SMEs). At the same time, securitisation allows banks to transfer risks to investors, thereby freeing up lending capacity. Leveraging these advantages, securitisation is heavily employed in the US, where more than half of the outstanding mortgage exposures are securitised and do not remain on banks' balance sheets.

In a hypothetical scenario where EU banks could transfer half of their current mortgage portfolio to non-bank investors, banks' CET1 ratio would increase by around 0.9 percentage points, and banks' lending potential could increase by about €0.9 trillion. If EU banks managed to securitise 50% of the mortgage portfolio, which amounts to around €5.2 trillion for the Eurozone, about €76 billion of capital would be freed-up[10]. This additional capital would result in additional lending potential of about €0.9 trillion[11]. Accordingly, the risk-weighted assets (RWA) density of EU banks would increase by 1.4 percentage points (excluding additional lending and assuming no tranches are retained). Securitisation benefits are even higher for the corporate loan book, as average risk weights for corporate loans are significantly higher than for retail mortgages. Assuming the securitisation of half of the Eurozone banks' corporate book and an average risk weight of 45%, an uplift of 2.0 percentage points CET1 would be created[12]. However, it should be noted that in such a hypothetical scenario the financial system would look very different from today. In particular, the structure of the resulting capital markets as well as the banks' and other financial intermediaries' role would need to change significantly, as would the earnings structure of banks (such as less interest income, but more fee based earnings).

The EU's regulatory treatment of securitizations, particularly the lack of risk sensitivity and the capital treatment, makes it unappealing for banks and insurers. This urgently needs review. Other areas like the supervisory authorization process (SRT process) and simplifying disclosure requirements can also be improved for enhanced efficiency. Additional considerations include extending the possibility for state institutions (like EIF and EIB) to guarantee securitization portfolios (or tranches) to support corporates, especially small and medium-sized companies. This would facilitate the execution of securitization transactions, enabling financial institutions to diversify funding sources and/or achieve economic and regulatory capital relief through credit risk transfer.

[9] EBF Oliver Wyman Report, 2023, p. 14: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2023/jan/The-EU-banking-regulatory-framework-and-its-impact-on-banks-and-economy-.pdf

[10] This assumes an RWA density of around 20% (average across IRB and standardized portfolios according to internal benchmarks).

[11] This assumes an average RWA density for the new lending.

[12] Both hypothetical scenarios assume that the risk-weights of the banks' exposures remain constant. The actual risk-weight of the retained share of the loan books will depend on the securitisation structure.

With the European economy needs securitisation more than ever, reforming it should be a key priority in the next legislative term.

RECOMMENDATION 21.

Urgent reform of the securitisation framework, involving the removal of existing unnecessary regulatory and supervisory constraints.

Deeper and more integrated capital markets

The task of creating a Capital Markets Union (CMU) is not yet complete, especially in terms of removing cross-border barriers to integrated markets. Although most of the CMU actions announced are expected to be adopted by the end of the current cycle, several reforms still await initiation or completion, necessitating consensus on prioritizing future reforms. Among the examples of initiatives required in the next EU legislative cycle to further integrate Europe's capital markets ("Top-down" integration approach) include:

- Completing practical and harmonized solutions for withholding taxes and Double Tax Treaty refunds.
- Further targeted insolvency law harmonization, focusing on financial sector counterparties and key market infrastructures.
- Streamlining regulations by emphasizing high standards over rules quantity, including a new Listing Act to reduce administrative burdens and facilitate public funding access for companies of all sizes.
- Targeted securities and company laws alignment, including shareholder rights.
- Targeted supervisory convergence that avoids gold-fencing/gold-plating while preserving local expertise and market characteristics.

In parallel, continued attention should be given to innovative solutions aimed at attaining significant efficiency gains for European capital markets. For instance, while the US migration to a shorter settlement cycle (T+1) is expected to impact some EU operators, thorough consideration is being given by the EU on the benefits and modalities of aligning its settlement cycle to T+1. While an EU migration to T+1 can help further reducing risk and making European markets more efficient and liquid, it is key that the acceleration of the settlement cycle is conducted in an efficient and coordinated fashion (incl. proper cost/benefit analysis), taking stock of all the core and ancillary processes involved in the settlement chain. In doing this, the EU should also attentively consider broader infrastructure harmonization efforts (and investments) both ongoing and achieved so far.

More broadly, and in line with the goal of enhancing the competitiveness and (open) strategic autonomy of the EU, it's also important to assess the impact of any proposed new regulation on the competitiveness of the EU and EU market participants. This ensures that new laws not only position EU market participants and infrastructures more favourably but also bolster the (open) strategic autonomy of the EU.

RECOMMENDATION 22.

Continue with a number of reforms that are yet to be launched and/or completed, and build consensus around prioritizing the next-generation reforms.

Attracting retail investors

According to the latest Eurobarometer survey on financial literacy[13]*, while more than one in two US households have financial products, only 24% of the European households own a share, fund or bond.*

At a time when investing in securities is more important than ever to promote private risk-sharing, combat rising inflation, and scale up sustainable investments, encouraging retail participation in capital markets is key to ensure that European households are better prepared for the future and that long-term savings are channelled towards the financing of sustainable economic growth.

While a well-established and comprehensive regulatory framework has long facilitated retail investors' access to investment products, ensuring their ability to safely access a wide array of products and services tailored to their investment preferences, the EU has recently introduced a proposal for a Retail Investment Strategy (RIS). The Strategy seeks to boost retail participation by introducing significant departures from existing EU legislation, which may not necessarily promote an improved customer experience.

While access to financial investments by retail clients should be further promoted and simplified – ensuring a high level of investor protection – EU legislative action should remain proportionate and cognizant of the positive results achieved by the current regulatory framework, of the supervisory tools it has enabled, and of extensive efforts made by all market participants to ensure stability, compliance, resilience and transparency. In truth, the Retail Investment Strategy (RIS) proposed by the European Commission – even in its current form, which is already a compromise not proposing a full ban on inducements - risks contradicting the Commission's objectives of encouraging greater participation of European savers in financial products. Specifically, the proposed ban's scope is still extremely broad and jeopardizes access to support and advisory services, especially for less wealthy investors (the partial ban will also have an impact on the number of branches and advisors). It will also disrupt the financial sharing between the wealthiest and the poorest, which is central in the current model based on cost pooling. Additionally, the proposal could lead to a standardization of financial product offerings through a European benchmark, effectively lowering their diversity. The proposal would compel distributors to adapt their systems, which they will no longer be able to finance under sustainable economic conditions, as the text introduces new unjustified requirements or reinforces existing obligations in numerous areas.

To enhance high-quality distribution services and accessible financial advice, fostering a more appealing environment for retail investors, we suggest:

- Preserve investor choice in products, providers, and services. Currently, various channels and services offer retail investors tailored solutions and diversification options. Over-regulating these choices would not support their financial and pension planning needs.
- Streamline and focus disclosure requirements to prevent information overload. Retail investors face complex and sometimes redundant information due to diverse EU regulations. Clear, concise disclosures make investing more customer-friendly. Also embrace digital-first disclosures, while maintaining paper options for those who prefer them.
- Simplify the distribution process. The EU's current complex process, including extensive client-facing disclosure requirements or the complex acquisition of sustainability preferences in the context of suitability assessments, can deter retail investors and push them towards unregulated sources or keep savings in traditional bank accounts.
- Conduct customer testing before implementing new requirements to assess the cumulative impact and coherence of the regulatory framework, ensuring the changes truly benefit retail investors and meet their needs. Such tests should be impartially conducted by supervisory authorities/regulators.

[13] European Commission, Monitoring the level of financial literacy in the EU – Eurobarometer survey – 18 July 2023

- Improve transparency for investor protection, providing clear, simple information about product features, risks, costs, and benefits. Any new transparency requirements should be balanced with simplifying other information to avoid overwhelming investors.

Education is another key component: low levels of financial literacy, engagement, and trust in the financial industry in Europe (along with a cultural reluctance to talk about money) translate into low levels of financial wellbeing, confidence, and resilience. The EU and many member states have done some great work in developing a framework around financial literacy, but this needs scale and consistency to have a big impact. More needs to be done. It is important here that the work of financial literacy starts at an early stage, already in school and continues as part of a life-long learning process.

RECOMMENDATION 23.

Foster a more attractive environment for retail investors by ensuring free competition between different distribution models as part of the retail investment strategy, and by simplifying and streamlining the distribution process. This includes streamlining and simplifying disclosure requirements to enhance transparency and prevent information overload.

RECOMMENDATION 24.

Further develop, promote and support financial education initiatives at EU and national level. Develop a coordinated and ambitious approach at EU level.

Exploring a more bottom-up approach to the Capital Markets Union

Traditionally, the CMU has focused on harmonization efforts at EU level. However, there is a recognition that moving forward, it might be beneficial to enhance buy-in and ownership of capital markets initiatives at the domestic level. Focus could here be more on 'capital markets' than 'capital markets union', and more on outcomes than legislative initiatives; and more on what individual member states can and should do themselves than on EU-wide solutions. Ultimately, the CMU needs not just EU policies that enable integration (the cross-border dimension) but also more developed, deeper, more liquid markets (the development dimension), based on expanded supply and demand of capital. This would also involve further dialogue with both private and public stakeholders in individual member states.

Enhancing Member State awareness of the benefits of a well-functioning capital market – and their role in its development – is crucial. National governments, playing a pivotal role in completing the Capital Markets Union (CMU) project, need a clearer understanding of the gains their companies, investors, and ultimately citizens can reap from increased capital markets financing. Furthermore, they should be aware of their potential actions to deepen and develop these markets. Thus, fostering a clear "capital markets mindset" among Member States is essential. In this context, it might also be opportune to have a closer look at some member states which have succeeded to develop deeper capital markets and to draw good practices from their more recent experiences.

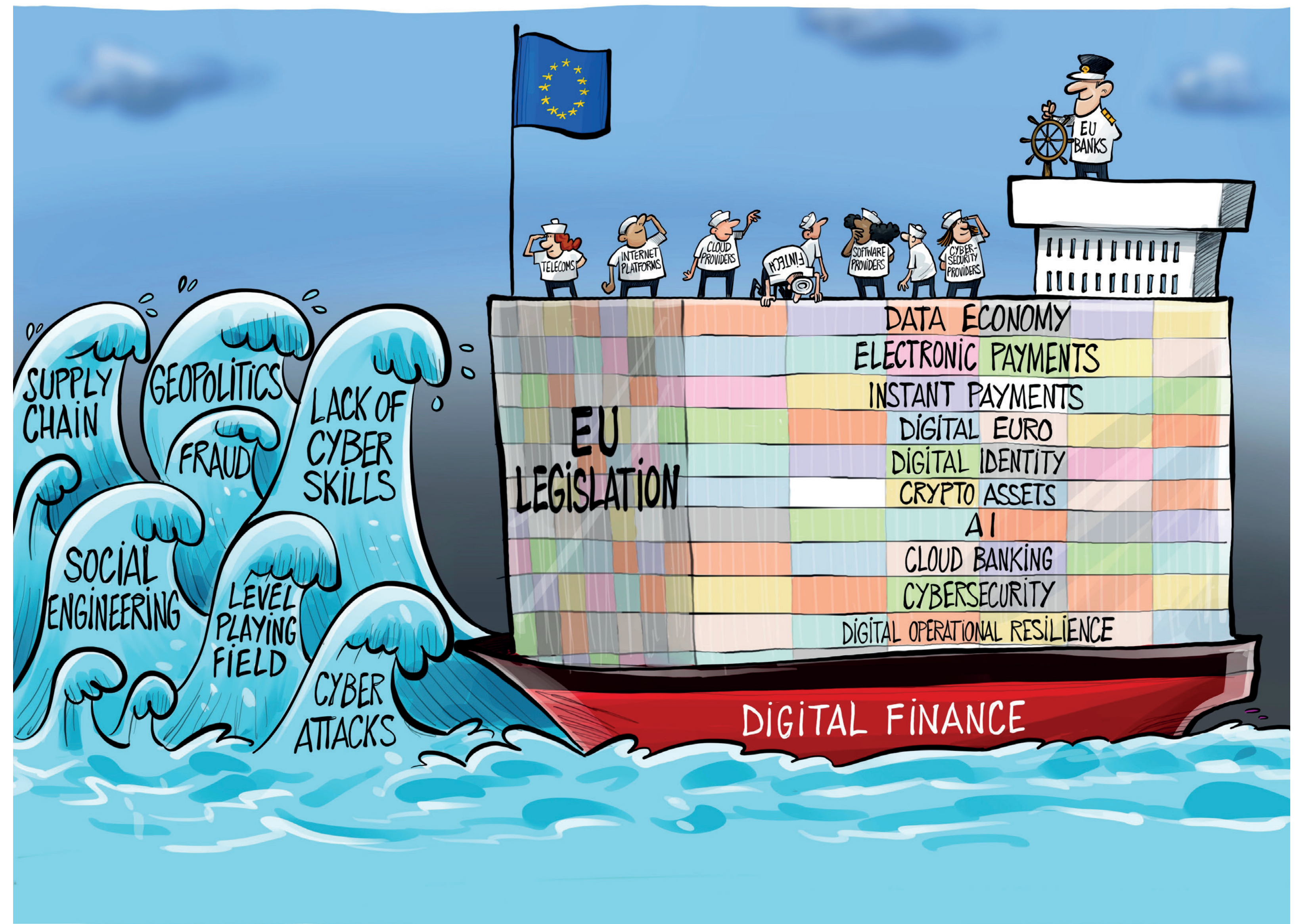
Key points of this approach include:

- **Fostering national innovation:** by adopting a bottom-up approach, member states could share best practices and engage in peer-to-peer learning. This would encourage innovation at the national level and cater to the unique characteristics of each member state's capital market structures and funding sources. The European Commission could encourage Member states to conduct a social and economic impact assessment of their existing capital market systems to inform the developments and prioritisation of bottom-up measures.
- **Transparency and coordination:** under this approach, transparency and coordination among member states should be facilitated, ensuring they are aware of each other's progress and plans in developing their capital markets.
- **Monitoring progress:** to track the progress of the CMU agenda and assess the impact of legislative initiatives, a regular monitoring mechanism could be established with the use of key performance indicators defined by the European Commission.

RECOMMENDATION 25.

Enhance the EU capital markets agenda by involving member states more actively in the development of their national capital markets, promoting innovation, and ensuring transparency and coordination among EU countries. Regular monitoring would help evaluate the effectiveness of CMU initiatives.

5. Digital finance: innovative, competitive and cyber resilient European banks to boost Europe's digital future



Before looking into specific aspects of digital finance and related suggestions for the next legislature, we need to take a pause and reflect on what's happened in digital and cyber-related policymaking in the past five years: **an overwhelming production of horizontal and sectoral policies on all things digital. Four proposals on a data-driven economy:** the Data Governance Act, the Digital Markets Act, the Data Act, the Financial Data Access Regulation; three proposals for payments: instant payments, PSD3 and PSR, legal tender of euro banknotes and coins; four proposals for cyber security and resilience: the NIS2 directive, the Cyber Resilience Act, the Cyber Solidarity Act, the Digital Operational Resilience Act; the Regulation for the establishment of the Digital Euro; the Markets in Crypto Assets Regulation (MiCA) ; the Regulation for the Digital Identity; the AI Act. And these are only the highlights.

The intention to regulate multiple aspects of digitalisation is understandable and welcome in view of the sometimes completely new opportunities but also sometimes unprecedented, disproportionate and wide-spread risks that can come from it. However, the fragmentation or overlaps caused by multiple efforts for the same topic (e.g. cybersecurity), the lack of well-thought timing, synergies and consistency (e.g. open finance/horizontal data sharing, or payments/digital euro), and the often vague or broad scopes and definitions (e.g. AI), coupled with an underestimation of implementation complexities and costs vs expected benefits (e.g. FIDA, digital euro), are bound to produce a result that is very hard to predict and not always better for European citizens. Time is needed in the next 5 years to let the dust settle, help the market clarify what is required, and let it assimilate what has been put in place. Then, **assess together with the industry if there are shortcomings, overlaps, excessive interventions or omissions and recalibrate accordingly.**

Speeding up the digitalisation of trade finance

Both the G7 and the EU have approved the need to digitise the documentary chain of international trade. This requires adaptation of national legal frameworks. While non-EU countries are gradually adapting their legal framework, the EU is lagging behind. A legislative initiative is needed to implement the adaptation of the European regulatory framework to facilitate and accelerate the digitalization of international trade document flows. International trade is indeed built on a complex documentary chain, which is under-digitalised. The United Nations Commission on International Trade Law (UNCITRAL) has set a benchmark with its Model Law on Electronic Transferable Records (MLETR), guiding the adaptation of legal frameworks for transferable electronic records used in international trade. Implementing a European directive based on UNCITRAL's principles will ensure uniformity across Member States, aligning with steps already underway in countries like the US,UK, Singapore and Japan.

The benefits of digitalizing trade documents include cost reduction, supporting stakeholders' financing; enhanced security, simplification, and efficiency in supply chains, aiding exporters and importers; increased trade transparency and traceability; and improved access to trade finance and security tools for businesses of all sizes. Additionally, further efforts should support the creation of a framework at the EU level for digitalizing international trade documents, especially regarding certification and the management of open and interoperable ledgers. Developing interoperable platforms for managing data exchange, secure storage, and traceability would benefit both public and private entities.

RECOMMENDATION 26.

To develop a strategic and holistic vision for Europe's digital financial services, active engagement with the banking industry is essential before proposing any new regulations. This should include a comprehensive review of the impact of existing and upcoming legislation on innovation and cybersecurity, identifying and addressing any gaps, overlaps, or excessive interventions, and making necessary adjustments. The goal is a balanced legislative framework that fosters European innovation and strategic autonomy.

RECOMMENDATION 27.

Streamlining supervision by simplifying and consolidating supervisory structures and processes. The current array of agencies and authorities across sectors and member states leads to inefficiencies and hampers timely responses to technological challenges and cyber risks. Establishing clear, streamlined structures is essential for effective regulation.

RECOMMENDATION 28.

Considering an EU directive to speed-up the digitalisation of Trade Finance (full recognition of the electronic form of transferable documents according to the principles of UNICITRAL's MLETR.

Enable a sovereign, competitive, safe and resilient EU payments landscape

Payments are facing a significant transformation accelerated by the emergence of innovative technology, new market participants and evolving user needs. The EU has an efficient, secure and well-functioning electronic payments market, where substantial efforts have been deployed to create a Single Market for payments. Today, for their retail payments, European consumers and businesses have access to a variety of methods and instruments to cover their different payment needs, including (instant) credit transfers and direct debits, debit and credit cards, and cash. They can initiate payments through a multitude of solutions and channels, for instance mobile banking, wallets, mobile payments, contactless payments, through Payment Initiation Service Providers and more. This reflects an active, competitive, and continuously developing field, with new business models and new entrants becoming part of the ecosystem.

However, the EU payment landscape is partially dominated by non-EU payment providers. To challenge this overreliance and to enable the creation of 'homegrown' pan-European payment champions, the following considerations are essential:

- **A full alignment between different policy and legislative initiatives, most importantly between instant payments and the digital euro.** These are projects that are largely aimed at the same political objectives, and it is paramount that concrete synergies are defined, so that overlaps and double investment are avoided. In addition, the introduction of a digital euro, which would become a new means of payment to be accepted by all merchants, poses a real challenge in terms of fair competition with current and future commercial offers. The EU payments industry cannot afford two major and competing mandatory projects – there is need to define a coherent and efficient common project to enhance strategic autonomy in payments.

- **Enable and leverage market-driven solutions and sustainable business models:** Europe seemingly has all the necessary assets to further develop private European payment systems and solutions (e.g. standard transfers, instant payments, and direct debits) used by all stakeholders and operating on either private or public European payment infrastructures. Private initiatives are emerging from this basis which would be opportune to support and capitalize on, especially if, as European authorities have indicated, there is a desire to strengthen the sovereignty of the European payment system. It's also clear that all payment solutions need a market-based compensation model that allows for sustainable and innovative payment solutions.
- **Foster market-driven innovation:** create sufficient room for the market to develop attractive, user-friendly and innovative payment solutions suited to users' needs. The open banking framework should strike a fair balance, both in the distribution of value and the allocation of risk. It should also provide the possibility for financial compensation to market participants who share their data, ensuring that the system incentivizes fair and equitable participation.

To ensure **reliable and safe payments,** effective measures against emerging fraud types, such as those resulting from social engineering, are essential. Banks are heavily investing in the prevention and fight against fraud. **This level of commitment needs to be mirrored by all parties in the fraud chain, especially telecom companies and internet platforms.** These entities should also be legally mandated to implement fraud prevention measures and collaborate with other parts of the payments value chain. Consumers also must maintain some form of responsibility, as it's important not to create an environment where they become less vigilant towards potential fraud, under the assumption that they will be refunded regardless. Additionally, Payment Service Providers (PSPs) should be granted legal tools to protect and recover funds fraudulently transferred, preventing criminals from seizing them. These points should be addressed in the context of discussions on PSD3 (Payment Services Directive 3) and PSR (Payment Services Regulation) and on subsequent, level 2, work.

RECOMMENDATION 29.

The EU institutions should support and capitalize on private initiatives, such as some currently being developed and implemented, and enable sustainable business models to meet the objectives of sovereignty of the European payment system as desired.

RECOMMENDATION 30.

All parties in the chain leading to fraud in payments, especially telecom companies and internet platforms, should be legally required to implement fraud prevention measures and collaborate with others in the chain and take their liability in reimbursing victims of fraud. The rules on fraud victim reimbursement need to be clearly framed to essentially protect consumers from giving up vigilance and the market from moral hazard.

Digital euro

In recent years, the topic of Central Bank Digital Currencies (CBDCs) globally and the digital euro in Europe have become a prominent part of discussions on the future of the role of national currencies, banking, the payments market and the digital transformation of financial services. It is understandable that the ECB/Eurosystem explore the option of a digital euro, as they must duly consider their role in the age of the digital economy, especially in terms of how to ensure the stability of the euro and of the monetary system. The ECB digital euro project – complemented by the European Commission proposal for a Regulation on the Establishment of a Digital Euro – is progressing rapidly.

The creation of the digital euro is a complex undertaking with profound implications for society and economic actors, including the banking sector. If not properly framed, it could inadvertently cause significant damage to the European financial system. Indeed, it introduces a new concept that interacts with private electronic payment methods and necessitates an in-depth exercise to balance various impacts on the economy as a whole and on financial intermediation in particular. There are three areas of possible impacts that should be counterbalanced from the start:

a. the risk of displacement of bank deposits, with the potential consequences of a massive adoption of the digital euro: increase of funding costs, reduction of credit for the economy, especially long-term financing that is backed with stable deposits, potential inability to replace the lost deposits from the market especially in times of stress;

b. the investment and recurring costs of implementation of such a complex and large-scale project (especially if not leveraging existing structures), with a consequent reduction of innovation capacity and therefore of competitiveness for banks;

c. the overlap with existing payment means and the possibly fundamental alteration of the retail banking model, with a consequent erosion of related revenue streams that may affect the profitability of banks, which is vital for their resilience.

As the digital euro project has entered the preparation phase, the EBF considers it vital to **pursue a constructive dialogue between the co-legislators, the ECB and the banks, to find together the balance that will ensure the success of the digital euro, along with the introduction of robust mitigating measures for all the above risks.**

RECOMMENDATION 31.

The decision to eventually issue the digital euro should be subject to scrutiny by the European Parliament, the Council and the Commission based on a report by the ECB that demonstrates that the issuance of the digital euro will create concrete benefits both to end-users, intermediaries and the economy as a whole, while having mitigated ex ante any adverse effects on financial stability (especially in periods of stress) or on existing payment solutions.

6. A European data-driven economy

The potential for data-driven innovation in all sectors of the economy is significant. The same applies for the financial sector where financial institutions are already delivering new services, products and experiences to their customers and data is a key element for this. In terms of policy initiatives, banks have gone through the introduction of mandatory data sharing with third parties under the revised Payment Services Directive (PSD2). As a next step, the Commission is expanding open banking through the Review of PSD2 (PSD3) and moving towards Open Finance with the introduction of the Financial Data Access Framework (FIDA) proposal. This mandates access to data from a broader range of products than just payment accounts, encompassing mortgages, savings, investments, and insurance. A voluntary approach to data sharing would have allowed for a true market-driven implementation and is still preferred. Having said that, **a positive aspect of the FIDA proposal is the delegation of implementation to market participants through data sharing schemes. These schemes must adhere to principles like compensation,** acknowledging the crucial role of incentives for data holders to invest in and contribute to the data economy – a key lesson learned from PSD2. These principles should also be applied to payment data.

Whether FIDA will deliver opportunities for all market participants, including banks, will depend on several factors; realistic timelines for the establishment of schemes that respect all the Regulation's principles, a clear scope of data that needs to be shared, a gradual approach to dataset opening so that the market can adapt, and a clear interplay with other relevant regulation, such as the Data Act. In the long term however, **the success of data sharing will depend on the ability to share data across sectors** – that is where the greatest potential for new services lies. This underlines the importance of getting the implementation of the Data Act right when it comes to sharing of connected product data, and the DMA, when it comes to data from designated gatekeepers, especially in terms of interoperability between the different initiatives, including FIDA.

RECOMMENDATION 32.

The FIDA framework should strike a fair balance in value distribution and risk allocation, providing not only for financial compensation for data sharing but also for realistic timelines and a phased deployment.

RECOMMENDATION 33.

The principle of compensation should also be applied to payment data.

RECOMMENDATION 34.

Cross-sectoral data sharing initiatives need to be implemented in parallel as this is the true value of the data sharing economy.

7. Cyber security and resilience

Consolidate legislation and structures

Cybersecurity and digital operational resilience are the cornerstone and foundation of the sustainable digital transformation of banks and society as a whole. It has become increasingly important for banks' overall resilience, while cyber threats have been multiplying in recent years, no less due to the geopolitical developments affecting Europe.

Criminals constantly seek new ways to achieve their objectives, making use of technological developments and exploiting extreme situations, such as the recent pandemic. Adding to this the state-sponsored actors that are driven by geostrategic and political objectives and putting it into the context of a continuously growing and interconnected financial ecosystem, it becomes apparent that maintaining the financial sector **secure and resilient requires vigilance and action from all actors: banks, third party providers, regulators, legislators, supervisors, providers of critical services.** The importance of **cooperation among them, coupled with fit-for-purpose regulation** cannot be stressed enough to achieve this goal.

Banks are among the most cyber mature sectors and have in place cyber risk management frameworks and policies to **safeguard their clients' trust,** a fundamental element in the provision of financial services. Adopting rules for managing cyber risk is equally important as doing so in a **harmonized way, providing a clear legislative framework without duplications and overlaps** in different legislative texts, sectorial or horizontal. Regulation has already played an important role, such as through DORA, a European regulation that aims to ensure that financial organisations improve the controls of their IT risks and thus become more resilient against cyber threats. More emphasis should be given to streamlining processes and frameworks in cyber (e.g. cyber incident reporting), instead of adding sporadic provisions in every legislative initiative regulating digital aspects of banking and services in general.

RECOMMENDATION 35.

Harmonise and streamline requirements, processes and structures in cybersecurity.

RECOMMENDATION 36.

Nurture a culture of partnership between private and public sector.

RECOMMENDATION 37.

Continue in every possible way to support and implement cyber risk awareness to all the segments of the population. Enhance cooperation at the international level.

RECOMMENDATION 38.

Promote a holistic approach to ensure cyber resilience requirements across the value and supply chain around banks: all actors should play their part in keeping systems, data and customers secure (e.g. telecoms companies, internet platforms).

8. Combating financial crime

Info sharing as key successful factor

Europe is facing a growing threat from organized crime, including an increase in human trafficking exacerbated by the conflict in Ukraine. Additionally, various criminal activities such as financial fraud, corruption, trade-based money laundering, counterfeiting, smuggling, illegal drug crimes, and terrorism are on the rise in Europe and globally. Money laundering poses a significant threat to society and is a major source of risk for financial institutions, jeopardizing their integrity and stability. Therefore, it is crucial to effectively combat financial crime at both European and international levels.

Authorities heavily rely on banks to help fight financial crime through client due diligence at on-boarding, ongoing due diligence during business relationships and transaction monitoring , and the reporting of suspicious activities. The banking sector is, in fact, the primary contributor to the detection of money laundering operations. Consequently, the banking sector has supported the revision of the AML/CFT legal framework by introducing a new AML package during the current legislative term, including the establishment of a new European AML authority (AMLA). **To make the system truly effective, it is essential that the new framework allows for the use of the most appropriate means and tools to effectively combat money laundering. This includes creating an enabling data protection framework and conditions for effective partnerships of public and private parties and for information sharing.**

While fully respecting personal data protection requirements, there is a need to harness new technologies and AI to facilitate the exchange of relevant operational information between public parties (e.g. law enforcement) and banks, enabling further collaboration and joint analytics. This represents a significant paradigm shift away from technical compliance towards a more effective intelligence-led approach to AML. Additionally, strengthening the Risk-Based Approach (RBA) and reinforcing Ultimate Beneficial Owners (UBO) registers will improve proportionality of AML/CFT process, reduce impact for clients and increase relevance and effectiveness of SAR filing . Establishing the right regulatory and supervisory framework, by getting the single EU AML Rulebook right, properly implemented, and supplemented by clear Regulatory Technical Standards (RTS) proportionate to the risks, will support banks in their risk-based execution of AML/CFT controls to combat money laundering and terrorist financing.

RECOMMENDATION 39.

Policymakers at EU and national level should ensure that the legal framework enables, with greater legal certainty across Europe, the sharing of information between the public and private sectors and among banks. This should also facilitate the development of collaborative tools and joint initiatives, leveraging technology, to enhance Know Your Customer (KYC) processes such as CDD, screening and transaction monitoring.

AML Authority (AMLA) effectiveness & partnership

The establishment of the new AML Authority is a unique opportunity for improving effectiveness of the AML/CFT framework and AML supervision. A clear and proper definition of its role and mandate will help prevent the creation of overlaps. Duplications in terms of reporting and levies should also be avoided and a level-playing field across sectors should be ensured. The AMLA should play a pivotal role in the new EU AML landscape, coordinating the work of Financial Intelligence Units (FIUs) at EU level, serving as a hub for information exchange between supervisors, FIUs and law enforcement agencies, as well as with Financial Institutions through public private partnerships (PPPs). AMLA and, in the interim period, the Commission need to develop adequate regulatory technical standards (RTS) supporting risk-based AML framework and AML supervision, which should start with the adoption of proper risk criteria for the selection of directly supervised entities.

RECOMMENDATION 40.

AMLA should serve as a central AML supervisory body, coordinate with FIUs, and facilitate information sharing among all AML stakeholders, especially through Public-Private Partnerships (PPPs). AMLA should create risk-based supervisory standards, define criteria for directly supervised entities, and modernize regulatory technical standards to establish a risk-based EU AML/CFT framework.

9. A suitable tax framework

Bank levies, windfall taxes, financial activities tax and financial transaction tax

Specific levies on the banking sector and specific taxes on financial activities should be avoided as the former distort competition and negatively impact banks' profitability and loss-absorbing capacity while the latter put a strain on the liquidity and efficiency of financial markets.

RECOMMENDATION 41.

The Commission should consider removing undue tax disincentives on financial institutions and financial activities, such as bank levies, windfall taxes, Financial Activities Tax and Financial Transaction Tax (FTT), and should refrain from introducing any such measures either as own resources or as a means to regulate financial markets.

Corporate income tax

When developing new international tax standards in the context of the digitalisation and globalisation of the economy, the OECD has taken into consideration the specifics of the banking sector, which is already subject to regulatory standards that obviate many of the risks identified concerning base erosion and profit shifting. When implementing these standards and developing its BEFIT (Business in Europe -Framework for Income Taxation) initiative, it is crucial for the EU to ensure administrability and consistency with OECD standards and guidelines, to take banks' specificities into consideration in order to foster growth and innovation, and to support the digital and green transition.

RECOMMENDATION 42.

EU initiatives in the field of corporate taxation should remain consistent with OECD standards and guidelines especially by taking into account banks' specifics recognised therein and applying appropriate carve-outs and safe harbours. BEFIT should not unduly restrict Member States' ability to incentivise investments necessary to achieve the twin transition.

Value-added tax

The VAT treatment of financial services (exemption regime), which bears a so-called "hidden VAT cost" for banks and insurance companies, is a factor of distortion and of legal uncertainty and shall be reviewed.

RECOMMENDATION 43.

The VAT treatment of financial services should be reviewed to achieve greater neutrality for relevant taxpayers and to remove barriers to economic efficiency.

Automatic exchange of Information

While banks as taxpayers already significantly contribute to public finance, they are requested, under FATCA, the OECD Common Reporting Standard (CRS) and the EU Directive on Administrative Cooperation (DAC), to support the information exchange efforts by acting as auxiliaries to the tax authorities. Such obligations must be efficient, well-calibrated, clearly framed and coordinated.

RECOMMENDATION 44.

A more proportionate, principle-based approach to the automatic exchange of financial account information is required. A permanent solution to the issue of Accidental Americans under FATCA is needed.

Withholding tax procedures

Complex withholding tax procedures with respect to cross-border securities income remain a major obstacle to the completion of a single market for capital.

RECOMMENDATION 45.

The proposed "FASTER" Directive should be reviewed accordingly to yield genuine simplifications both for investors and financial intermediaries.

1. Competitiveness, open strategic autonomy, regulatory efficiency & simplicity	
The banking sector is a strategic industry	
RECOMMENDATION 1.	The EU should recognize the banking sector as a strategic sector, also in the context of its open strategic autonomy vision. A high-level dialogue is suggested to define a shared vision and actions for the global competitiveness of the European financial sector, benefiting businesses and citizens.
An enabling regulatory framework	
RECOMMENDATION 2.	The European Commission should initiate a comprehensive assessment of the existing regulatory framework, including level 2 standards, to assess the impact and efficiency of regulations, not only in terms of stability and resilience but also concerning the objectives of effectiveness, competitiveness, and support for sustainable growth in Europe. This analysis could serve as the basis for adjusting or recalibrating existing requirements if they are found to be contrary to the objectives or inefficient.
RECOMMENDATION 3.	Submit all legislative and regulatory proposals concerning the banking sector to a serious impact assessment on the sector's competitiveness (competitiveness test).
RECOMMENDATION 4.	Assess whether the current multilevel EU regulatory framework decision-making system (especially level 1 and 2), as established by The Lisbon Treaty, is still fit for purpose.
RECOMMENDATION 5.	Introducing a secondary competitiveness ad growth objective within the objectives of the European supervisory authorities (ESAs) in the regulations of November 2010 establishing the EBA, ESMA and EIOPA, as well as for the single supervisor in the Regulation of 15 October 2013, which sets out the ECB's objectives for the prudential supervision of credit institutions.
RECOMMENDATION 6.	Strengthen the existing ability of the ESAs to allow the issuance of binding supervisory recommendations to national competent authorities (NCAs) when issuing no-action letters.
RECOMMENDATION 7.	Avoiding the inclusion of pre-determined review periods in legislative texts as a measure of legislative restraints.
Fair competition and level playing field	
RECOMMENDATION 8.	Re-assess the regulatory perimeter regularly to ensure that it captures adequately non-banks offering financial services.
RECOMMENDATION 9.	Ensure an effective implementation of the Digital Markets Act obligations by the designated gatekeepers, including on data portability for individuals and firms. A Commission Implementing Act could help to support this and ensure a more harmonized approach by gatekeepers.

2. Stability Banking Union, and integrated European reporting	
	Be prepared to extend – if necessary – the delegated act on market risks (FRTB – Fundamental Review of the Trading Book) at the European level to ensure a Level Playing Field (LPF) at the international level, notably with the US.
Completing the Banking Union, considering it as a single jurisdiction	
	Keep on working to complete the Banking Union by initiating a structured dialogue with the banking sector to advance the recognition of the Banking Union as a single jurisdiction across all its prudential components (capital, liquidity, MREL) and towards addressing the third pillar of the Banking Union.
A predictable and usable macroprudential framework	
	Ensure that the upcoming review of the macroprudential framework enhances predictability, and better usability of buffers, while clarifying the risks covered by them to avoid overlaps – all without resulting in heightened capital requirements for banks and ensuring harmonisation in the use of tools to tackle similar risks.
Towards an integrated European reporting system	
	Ensure a full and true collaboration between authorities and industry in the design phase of the new regulatory reporting ecosystem.

3. Sustainability - EU's leading role at risk

Focus on climate and biodiversity transition

RECOMMENDATION 14.	EU institutions should establish a clear and orderly transition finance framework at the EU level, outlining sectoral transition pathways and roadmaps against which companies can benchmark their transition plans. The revision of the Taxonomy should also incorporate the transitional aspect into the existing taxonomy of sustainable activities. It's imperative to define the thresholds and timelines that each activity must adhere to in order to achieve the targeted sustainability objectives.
RECOMMENDATION 15.	Transition pathways should be defined for both climate considerations and impact and dependency on biodiversity. These pathways should be aligned with information required by the Corporate Sustainability Reporting Directive (CSRD) while also considering voluntary market-driven initiatives such as GFANZ and NZBA for climate, and PBAF and TNFD for biodiversity. These pathways should not be drafted in isolation and should feed into each other as much as possible.
RECOMMENDATION 16.	To enable banks to best support their clients' transition, it is crucial that corporates publish their transition plans following the standards outlined by the ESRS (European Single Reporting Standard). Therefore, it is essential that companies in the scope of the CSRD are required to produce a high-quality transition plan, encompassing at least the information stipulated in the ESRS. There should also be clear guidance and tools for SMEs that wish to produce a transition plans.

Towards a usable sustainability framework

RECOMMENDATION 17.	A 'usability' omnibus legislative proposal early in the next legislature should be considered given the immediate and pressing need to simplify and address misalignments and inconsistencies at existing level 1 regulatory framework. The following thematic areas could be included in the proposal: a clarification and harmonisation of definitions across the framework ; an alignment of timing and sequencing, to also grant sufficient time to the market to implement any changes or guidance, the explicit integration of the transition framework and the elimination of the unintended consequences and dispensable complexities.
RECOMMENDATION 18.	The pursuit and implementation as soon as possible of the initiative launched by President Ursula von der Leyen to simplify reporting requirements (incl. sustainable reporting requirements). The reduction of reporting burdens for corporates should be accompanied by equivalent alleviations in disclosure obligations for the users of such data, such as financial institutions (e.g. under SFDR, Pillar 3).

Enhancing data accessibility and closing the data gap

RECOMMENDATION 19.	As an immediate step, public agencies and authorities should be encouraged to disclose relevant ESG data centrally, where already collected, to reduce individual information requests towards companies. Regarding access to future databases such as those containing energy performance data of building as envisaged in the EPBD. The EBF strongly advocates for the rapid establishment of these databases at the national level and ensuring free access to financial institutions.
RECOMMENDATION 20.	EU (EFRAG) to develop a voluntary, harmonized, simple standard as well as guidance for unlisted SMEs.

4. Urgent push ahead needed on European Capital Markets	
Securitisation	
RECOMMENDATION 21.	Urgentl reform of the securitisation framework, involving the removal of existing unnecessary regulatory and supervisory constraints.
Deeper and more integrated capital markets	
RECOMMENDATION 22.	Continue with a number of reforms that are yet to be launched and/or completed, and build consensus around prioritizing the next-generation reforms.
Attracting retail investors	
RECOMMENDATION 23.	Foster a more attractive environment for retail investors by ensuring free competition between different distribution models as part of the retail investment strategy, and by simplifying and streamlining the distribution process. This includes streamlining and simplifying disclosure requirements to enhance transparency and prevent information overload.
RECOMMENDATION 24.	Further develop, promote and support financial education initiatives at EU and national level. Develop a coordinated and ambitious approach at EU level.
Exploring a more bottom-up approach to the Capital Markets Union	
RECOMMENDATION 25.	Enhance the EU capital markets agenda by involving member states more actively in the development of their national capital markets, promoting innovation, and ensuring transparency and coordination among EU countries. Regular monitoring would help evaluate the effectiveness of CMU initiatives.

5. Digital Finance: a European banking sector that is innovative, competitive and resilient to boost Europe's digital future	
RECOMMENDATION 26.	To develop a strategic and holistic vision for Europe's digital financial services, active banking industry engagement is essential before proposing new regulations. This should include a comprehensive review of the impact of current and future legislation on innovation and cybersecurity, identifying and addressing any gaps, overlaps, or excessive interventions, and making necessary adjustments. The goal is a balanced legislative framework that fosters European innovation and strategic autonomy.
RECOMMENDATION 27.	Streamlining supervision by simplifying and consolidating supervisory structures and processes. The current array of agencies and authorities across sectors and member states leads to inefficiencies and hampers timely responses to technological and cyber risks. Establishing clear, streamlined structures is essential for effective regulation.
RECOMMENDATION 28.	Considering an EU directive to speed-up the digitalisation of Trade Finance (full recognition of the electronic form of transferable documents according to the principles of UNCITRAL's MLETR.
Enable a sovereign, competitive, safe and resilient EU payments landscape	
RECOMMENDATION 29.	Enable, capitalise and leverage European private market-driven payment solutions and sustainable business models.
RECOMMENDATION 30.	All parties in the chain leading to fraud in payments, especially telecom companies and internet platforms, should be legally required to implement fraud prevention measures and collaborate with others in the chain and take their liability in reimbursing victims of fraud. The rules on fraud victim reimbursement need to be clearly framed to essentially protect consumers from giving up vigilance and the market from moral hazard.
Digital euro	
RECOMMENDATION 31.	The decision to eventually issue the digital euro should be subject to scrutiny by the European Parliament, the Council and the Commission based on a report by the ECB that demonstrates that the issuance of the digital euro will create concrete benefits both to end-users, intermediaries and the economy as a whole, while having mitigated ex ante any adverse effects on financial stability (especially in periods of stress) or on existing payment solutions.

6. A European data-driven economy

RECOMMENDATION 32.	The FIDA framework should strike a fair balance in value distribution and risk allocation, providing not only for financial compensation for data sharing but also for realistic timelines and a phased deployment.
RECOMMENDATION 33.	The principle of compensation should also be applied to payment data.
RECOMMENDATION 34.	Cross-sectoral data sharing initiatives need to be implemented in parallel as this is the true value of the data sharing economy.

7. Cyber security and resilience

RECOMMENDATION 35.	Harmonise and streamline processes and structures in cybersecurity.
RECOMMENDATION 36.	Nurture a culture of partnership between private and public sector.
RECOMMENDATION 37.	Continue in every possible way to support and implement cyber risk awareness to all the segments of the population. Enhance cooperation at the international level.
RECOMMENDATION 38.	Promote a holistic approach to ensure cyber resilience requirements across the value and supply chain around banks: all actors should play their part in keeping systems, data and customers secure (e.g. telecoms companies, internet platforms).

8. Combating financial crime

Info sharing as key successful factor

RECOMMENDATION 39.	Policymakers at EU and national level should ensure that the legal framework enables, with greater legal certainty across Europe, the sharing of information between the public and private sectors and among banks. This should also facilitate the development of collaborative tools and joint initiatives, leveraging technology, to enhance Know Your Customer (KYC) processes such as CDD, screening and transaction monitoring.

AML Authority (AMLA) effectiveness & partnership

RECOMMENDATION 40.	AMLA should serve as a central AML supervisory body, coordinate with FIUs, and facilitate information sharing among all AML stakeholders, especially through Public-Private Partnerships (PPPs). AMLA should create risk-based supervisory standards, define criteria for directly supervised entities, and modernize regulatory technical standards to establish a risk-based EU AML/CFT framework.

9. A suitable tax framework

Bank levies, windfall taxes, financial activities tax and financial transaction tax

RECOMMENDATION 41.	The Commission should consider removing undue tax disincentives on financial institutions and financial activities, such as bank levies, windfall taxes, Financial Activities Tax and Financial Transaction Tax (FTT), and should refrain from introducing any such measures either as own resources or as a means to regulate financial markets.

Corporate income tax

RECOMMENDATION 42.	EU initiatives in the field of corporate taxation should remain consistent with OECD standards and guidelines especially by taking into account banks' specifics recognised therein and applying appropriate carve-outs and safe harbours. BEFIT should not unduly restrict Member States' ability to incentivise investments necessary to achieve the twin transition.

Value-added tax

RECOMMENDATION 43.	The VAT treatment of financial services should be reviewed to achieve greater neutrality for relevant taxpayers and to remove barriers to economic efficiency.

Automatic exchange of information

RECOMMENDATION 44.	A more proportionate, principle-based approach to the automatic exchange of financial account information is required. A permanent solution to the issue of Accidental Americans under FATCA is needed.

Withholding tax procedures

RECOMMENDATION 45.	The proposed "FASTER" Directive should be reviewed accordingly to yield genuine simplifications both for investors and financial intermediaries.

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