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Finance Norway's response to the targeted consultation on competitiveness of the EU banking sector

Finance Norway refers to [the European Commission's targeted consultation on the competitiveness of the EU banking sector](#), launched on 11 February 2026, which seeks stakeholders' feedback on the state of the banking sector. Finance Norway welcomes initiatives aimed at simplifying the EU prudential framework, provided that such simplification strengthens efficiency and proportionality without undermining risk sensitivity, financial stability, or the level playing field.

Key Messages:

- Simplification should not come at the expense of materially lower risk sensitivity within the risk-weighted capital framework, nor be achieved through higher capital requirements or increased contributions to safety nets as a trade-off for simpler rules.
- The cumulative burden of reporting has become excessive. Supervisors should reassess what data are truly necessary, reduce overlaps, limit ad hoc requests and ensure that reporting requirements are proportionate to institutions' actual risk profiles and material risks.
- The EU should develop a more targeted and coherent proportionality regime by clarifying when low-risk or immaterial activities justify simpler reporting, reducing reporting requirements for small and non-complex institutions, and removing EU-specific requirements that add complexity without improving risk sensitivity. Any dedicated regime for small and non-complex institutions should focus on meaningful simplification of reporting and supervisory processes while fully preserving risk-based principles.
- A key driver of complexity in the EU framework is the interaction between multiple regulatory layers and the heterogeneous application of EU rules at national level. Effective simplification requires stronger harmonisation not only in legislation, but also in supervisory practices and national implementation. Divergent national approaches—particularly in the use of macroprudential instruments and supervisory add-ons—undermine consistency, increase complexity and weaken the level playing field. Several macroprudential measures applied in Norway illustrate such gold-plating of EU rules, including overlapping buffers, risk-weight measures and conservative supervisory add-ons that go beyond regulatory intent.
- Finance Norway calls for a more coherent and binding macroprudential framework at EU level. Automatic reciprocity of macroprudential measures would significantly improve consistency,

predictability and capital planning, provided it is accompanied by harmonised tools, metrics and methodologies, as well as stronger EU-level oversight to prevent overlaps and double counting of risks. Clearer safeguards are also needed to ensure that instruments such as the systemic risk buffer and Article 458 measures are used strictly in line with their defined purposes.

- Authorities should clearly communicate that capital buffers are intended to be used in downturns and provide explicit guidance on when buffers may be rebuilt. Restrictions beyond the MDA framework on banks that draw down buffers while still meeting minimum requirements should only apply if such breaches persist for a sufficiently long period.
- Pillar 2 Guidance should be removed, given its overlap with capital buffer requirements and its tendency to reduce buffer usability.
- The Pillar 2 framework should be improved to enhance transparency, predictability and consistency. All Pillar 2 Requirements should be grounded in objective principles and clearly defined criteria, using quantitative methods wherever possible and avoiding discretionary or opaque supervisory judgments.

(6) Do you consider that national promotional banks and public guarantee institutions provide a complementary contribution to the activities of commercial banks in financing the EU economy?

Yes, promotional banks and public financial institutions are mission-driven institutions which use financial instruments to pursue public objectives, promoting economic development, environmental sustainability and social equity. Their activities are guided by mandates set by their public owners and primarily finance the public sector, long term investment projects and small and medium-sized enterprises (SMEs). They play a key role in supporting the green and digital transition and intervene where market failures occur or where commercial financing alone is insufficient. Their activities are complementary to those of commercial banks, as they operate in segments that fall outside the primary focus of the commercial banks. They operate under a specific public mandate that guides their priorities and objectives.

These institutions are mission-driven and operate under non-profit maximisation principles, often with a longer investment horizon than private sector actors. This allows them to support projects that are economically and socially necessary but may not always attract sufficient private financing. The public ownership structure and statutory mandates of promotional and public banks ensure that their activities remain clearly targeted at public policy objectives. Their scope for expansion is limited by law and subject to strict public oversight.

(38) To what extent would further strengthening the protection of depositors provide reassurance on the stability and effectiveness of the EU crisis management framework and its ability to shield EU taxpayer money and therefore support the competitiveness and integration of banking markets? [Not at all]

As Finance Norway sees it, there is no need for further strengthening of the protection of depositors. Today's legislation is well aligned with the political ambitions of protecting taxpayer money and our impression is that the national deposit guarantee schemes are working well.

Finance Norway also wants to highlight that as the national deposit guarantee schemes (DGSs) have reached their target level, the payments to the DGS should stop. This is the case today for credit

institutions in the 21 Banking union countries that have contributed to the single resolution fund (SRF). Continued payments above the target level (with no cap) are deemed not economically optimal from a societal perspective. A stop in the payments would need to be accompanied by an annual assessment of the deposit level to see whether further payments are necessary.

(47) How would you evaluate the current regulatory framework for banking in terms of: ... proportionality (the extent to which the objectives of the framework are achieved at minimal cost) [Somewhat low]

While the current EU regulatory framework contains some proportionality mechanisms, the combination of detailed reporting requirements, complex prudential standards and multiple layers of EU and national requirements has become particularly burdensome for smaller and less complex institutions.

The Basel framework was originally designed for large, internationally active banks. Applying its full complexity to the entire European banking sector—combined with additional EU-specific extensions—has therefore created disproportionate compliance burdens for small and regional institutions, as well as for promotional and public banks.

Small European banks typically have a major share of stable deposit funding, geographically concentrated lending, and limited or no trading activity. Yet they must comply with a framework whose cost and complexity do not reflect their risk profile. Promotional and public banks may have large balance sheets due to their public mandate while maintaining low-risk profiles.

International experience, including the “small banking regimes” developed in jurisdictions such as the United States, the United Kingdom and Switzerland, indicates that meaningful simplification is possible without compromising prudential outcomes. Finance Norway has not, however, taken an explicit position on the detailed design of specific regimes.

Proportionality is an essential principle of risk-based supervision and must be aligned with the nature, scale and complexity of the entity. Factors such as business model, size of the organization, absence of trading activity, domestic focus, simplified resolution obligations, and supervisory risk assessments should also be systematically considered.

While the principle of proportionality is formally embedded in the EU prudential framework, it rarely leads to genuine simplification. Instead, proportionality is predominantly operationalised through reduced reporting frequencies, for example within the SREP cycle and certain supervisory reporting modules, limited adjustments to template granularity, or general statements indicating that supervisory expectations should be lower for small and non-complex banks. Such measures provide only marginal relief and do not materially simplify the underlying regulatory obligations. As a result, institutions with simple and low-risk business models remain subject to a regulatory architecture that is largely designed for banks with materially different risk profiles, and where proportionality delivers reduced intensity rather than genuine simplification.

The EU has largely operationalised proportionality through bank size and legal classification, rather than through the actual riskiness or materiality of activities. As a result, institutions with fundamentally simple business models are subject to the same reporting intensity as banks with large, diversified and risk-intensive portfolios. A more activity-based approach to proportionality is needed. For example, institutions with negligible interest rate risk in the banking book should not be required to produce the same level of granular IRRBB reporting as banks with structurally large

interest rate exposures. Similar considerations apply to credit risk, market risk and operational risk: where the underlying risk is low or immaterial, reporting and methodological requirements should be simplified accordingly.

The EU should therefore develop a more targeted and coherent proportionality regime by clarifying when low-risk or immaterial activities justify simpler reporting, reducing reporting requirements for small and non-complex institutions, removing EU-specific requirements that add complexity without improving risk sensitivity. All new regulatory initiatives should also be assessed for proportionality before being introduced. A more targeted and risk-sensitive approach would allow supervisors to focus on material risks, reduce unnecessary burdens on smaller institutions, strengthen competitiveness, support a diverse banking sector, and improve the overall efficiency of EU regulation in line with the aims of this consultation.

(49) Which type of instrument adds the most undue complexity to these parts of the frameworks?

International standards (Basel, FSB) [Somewhat high]

Level 1 EU legislation (i.e. regulation/directives) [High]

Level 2 EU legislation (i.e. technical standards) [High]

Level 3 EU measures (i.e. EBA guidelines, Q&As, etc.) [High]

Supervisory guidance/practices [High]

Implementation differences of EU legislation at national level [High]

Interaction with other national legislation [No opinion]

Interaction with other EU legislation [No opinion]

Other

While several components of the EU prudential framework contribute to undue complexity, the principal challenge arises from the interaction of multiple regulatory layers rather than any single instrument. International standards, EU legislation at Levels 1–3, supervisory expectations and national implementation practices accumulate in ways that reduce clarity and hinder harmonisation.

A first source of complexity stems from the way in which international standards are incorporated into EU law. The Basel framework was developed for large, internationally active banks, yet the EU frequently extends its scope to institutions with fundamentally simpler business models. At the same time, Level 1 legislation often reflects political compromise and therefore contains ambiguities that must subsequently be addressed through a substantial volume of Level 2 technical standards and Level 3 guidelines and Q&As, resulting in a complex regulatory structure.

A second source of complexity arises from divergent supervisory practices. Supervisors retain wide discretion—particularly in the calibration of Pillar 2 measures—and all EU requirements must ultimately be interpreted through the lens of domestic administrative and insolvency law. This produces heterogeneous supervisory outcomes even where the EU framework is formally harmonised.

In addition, the sheer volume and granularity of Level 2 and Level 3 measures contribute significantly to undue complexity. The extensive body of technical standards, guidelines and Q&As gives rise to a large number of detailed procedural and documentation requirements that institutions must comply with, irrespective of whether these requirements are materially relevant to the individual bank's specific risk profile. This results in a compliance-driven approach focused on formal adherence rather than substantive risk assessment, adding to operational burden without necessarily improving the risk sensitivity or effectiveness of the prudential framework. The constant increase in supervisory

activities and detailed requirements should be paused. Recalibrating supervisory intrusiveness towards a more risk-based approach would provide operational relief for banks without compromising financial stability. In addition, a systematic review of Level 1 mandates for Level 2 and Level 3 measures should be conducted, with a focus of removing unnecessary or outdated deliverables and introduce a more disciplined approach to limiting new mandates in future regulation.

Finally, a major driver of undue complexity concerns differences in national implementation, especially in the application of macroprudential instruments and in the assessment and approvals of internal models. Calibrations, methodologies and underlying justifications vary substantially across Member States, creating an inconsistent prudential landscape.

To ensure that similar risks are measured and treated consistently across banks and jurisdictions, further harmonisation is required. Achieving more uniform application of macroprudential instruments is particularly important for safeguarding a level playing field. In addition, the benchmarking of probability-of-default and loss-given-default parameters for common exposures, both domestically and across borders, would help ensure that comparable risks are assessed using comparable metrics. The same applies for benchmarking of MoC-levels and downturn adjustments. The determination of Pillar 2 capital expectations should rely on quantitative, transparent and replicable methodologies rather than discretionary or opaque supervisory judgments. Finally, stress tests used for capital purposes should be transparent and clearly explain the underlying assumptions, scenarios and methodological choices.

Together, these steps would strengthen consistency in risk measurement, reduce unnecessary complexity and support a more harmonised prudential regime across the EU.

**(50) Would you support less complexity in the bank regulatory framework even if this means...
“...less risk sensitivity within risk-weighted requirements” – [Fully disagree]**

Finance Norway does not support reducing complexity if this would result in materially lower risk sensitivity within the risk-weighted framework. Preserving risk sensitivity is essential to ensuring that capital requirements remain aligned with the actual underlying risks of institutions. Changes that weaken this link would undermine the effectiveness of the prudential regime and reduce incentives for sound risk management. Any efforts to streamline the framework must therefore retain the principle that capital requirements should reflect risk.

Furthermore, capital requirements that significantly exceed the fundamental risks create strong incentives for arbitrage driven instruments and increased lending in unregulated areas of the financial markets. History shows us that these types of arbitrages can give rise to significant financial instability.

For smaller and less complex institutions in particular, replacing risk-sensitive methodologies with a simplified but more conservative “small bank regime”—characterised by higher fixed capital levels—would be counterproductive. Such an approach would undermine the competitiveness of smaller banks in low-risk segments, distort the level playing field, and fail to reflect the simple and stable business models that characterise many regional institutions. Any such approach, if implemented, should be based on an opt-in mechanism. As outlined in our response to Question 47, proportionality

should be achieved through genuine simplification calibrated to the institution’s actual risk profile, not by substituting methodological complexity with higher, non-risk-based capital charges.

Complexity could be reduced by limiting national specificities and by amending overly complex elements of the regime. One particularly challenging element that should be amended is the detailed property valuation rules which requires banks to adjust the property value *“to take into account the potential for the current market value to be significantly above the value that would be sustainable over the life of the loan”*. This requirement is intended to ensure prudence in collateral valuation. However, it has proven extremely difficult to operationalise in a consistent and harmonised manner across Member States, given the absence of a clear methodology for determining long term “sustainable” values and the lack of alignment with national valuation standards. These challenges have also been recognised outside the EU. The UK Prudential Regulation Authority has decided not to implement the “sustainable value” adjustment in its Basel 3.1 package as it is complex to apply and risks generating inconsistent approaches among institutions.¹

Consequently, Finance Norway believes that it is entirely possible to simplify the regulatory framework while preserving risk sensitivity and without increasing capital requirements or contributions to safety nets.

(50) Would you support less complexity in the bank regulatory framework even if this means...

“...increase in capital requirements” – [Fully disagree]

Finance Norway does not support an increase in capital requirements as a trade-off for simplified rules. Overall capital levels in Europe are already high, and in Norway they are significantly above what empirical analyses suggest is economically optimal. [Research](#) by the Norwegian central bank indicates that the current capital adequacy of Norwegian banks lies in the upper end of an estimated range for optimal capital levels, implying that further increases would yield limited marginal benefits for financial stability while imposing higher costs on the real economy.

Moreover, the comprehensive crisis management and deposit insurance regime now in place in the EU—covering both the DGS and the resolution framework—has fundamentally strengthened protection in gone-concern situations. These mechanisms were not fully in place when capital requirements were substantially increased after the global financial crisis. The existence of an effective gone-concern framework, designed specifically to avoid placing the burden of bank failures on taxpayers, reduces the need for excessively conservative going-concern capital requirements. In other words, the strengthened safety net for non-viable institutions allows for a more proportionate and risk-sensitive approach to capital in going-concern situations, without jeopardising financial stability.

(50) Would you support less complexity in the bank regulatory framework even if this means...

“...higher contributions to safety nets (DGS and resolution funds)” – [Fully disagree]

Finance Norway does not support higher contributions to deposit guarantee schemes or resolution funds as a compensation mechanism for simplified prudential rules. The current crisis management and deposit insurance regime already provides robust protection in gone-concern scenarios and has significantly strengthened the EU’s ability to manage bank failures without recourse to public funds.

¹ See Bank of England (2024): [“PS9/24 – Implementation of the Basel 3.1 standards near-final part 2”](#) Policy statement 9/24.

As such, these frameworks reduce the need for excessive prudential conservatism in going-concern requirements.

Given the strength of the existing gone-concern framework, there is no prudential justification for offsetting simplification through higher contributions to safety nets.

(52) Do you have concrete examples of gold-plating of EU rules via transposition of EU directives, national options and discretions? If so, please list them here.

Finance Norway considers several of the macroprudential measures introduced by the Norwegian authorities as gold-plating of EU rules. This includes the systemic risk buffer, measures to increase IRB banks' risk-weight pursuant to Article 458 of [CRR](#), and the supervisory authority's imposition of margins of conservatism (MoC) related to the IRB approach. These measures are being applied more stringently than the associated risk would warrant and are – in our view – not consistent with the regulatory intent of the EU regulatory framework ([CRR/CRD](#) and level 2 and level 3 requirements).

The Norwegian systemic risk buffer (SyRB) is set at 4.5% for banks' domestic exposures, and no other EU/EEA country has imposed a general SyRB of a comparable level. This means that Norwegian banks are subject to the highest overall combined capital buffer requirement among EU/EEA jurisdictions. Finance Norway does not see evidence that Norwegian authorities have identified systemic risks in the Norwegian economy significantly higher than those in comparable economies. In fact, the key risk factors cited to justify the Norwegian SyRB have diminished. In particular, household indebtedness has declined in recent years – a factor which the authorities have highlighted as particularly significant and among the most serious vulnerabilities when calibrating the SyRB level. Moreover, Norwegian banks have demonstrated strong resilience to severe disturbances, such as oil price downturns and the COVID-19 pandemic. Results from stress tests and Norwegian banks' limited credit losses during the period of higher interest rates after the pandemic further underscore their robustness.

As of 1 July 2025, the IRB risk weight floor for residential mortgages in Norway was raised from 20% to 25%. However, this increase could not be justified by an increase in risk; on the contrary, the key risk indicators underlying the original 20% floor had decreased. Finance Norway considers this to be at odds with Article 458(2) of the Capital Requirements Regulation, which stipulates that national authorities may tighten risk weights only when they identify *“changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy”*. This is in line with the [Opinion](#) of European Banking Authority (EBA) published in May 2025, where *“the EBA notes that since the original activation of the measure and the first extension the relevant metrics used for measuring systemic risk do not show a significant change in the intensity of such risk.”*

Moreover, the household debt burden is used as a justification for both the systemic risk buffer and the above-mentioned IRB risk-weight floor. In the same [Opinion](#), the EBA cautions: *“A SyRB rate of 4.5% applies to credit institutions in Norway to tackle, among other risks, structural vulnerabilities related also to household indebtedness. Nevertheless, the Ministry considers the proposed measure and the SyRB as complementary. However, due to the potential overlap of identified risks, the EBA asks the Ministry to thoroughly investigate potential overlaps with the SyRB calibration and any unintended consequences on lending to households and credit institutions. Depending on the outcome of such investigation, the Ministry should stand ready to adjust its stance”*. In our view, an overlapping use of various measures contributes materially to regulatory gold-plating, and the same underlying

risks are typically addressed more than once in the Norwegian application of macroprudential instruments.

Over time, Norwegian supervisory authorities have pursued an extremely conservative supervisory practice regarding IRB models, in our view going beyond the requirements set out in Level 1, Level 2, and Level 3 rules. The imposed MoC add-ons weaken the link between actual risk and capital requirements, thereby reducing the usefulness of the models for risk management purposes. It is crucial for a level playing field that supervisory practices for the IRB approach are fully harmonised across the EU/EEA, and that adjustments are made to ensure that supervisory practices across jurisdictions align with common standards and regulatory intent.

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

Several sources of undue complexity in the prudential framework stem not only from the design of individual requirements, but also from differences in how EU banking rules are interpreted, applied and operationalised across jurisdictions. While the single rulebook has contributed significantly to financial stability, divergent national practices, including supervisory expectations, guidance, processes and the use of national discretions, add layers of complexity and weaken the level playing field within the internal market. Such divergent practices increase the risk of regulatory arbitrage, including through impacts on market behavior, ability to scale and may tamper with sound risk management. Furthermore, divergent practices complicates the process of reciprocating measures. From a prudential perspective, simplification initiatives that are not applied consistently across the internal market risk increasing fragmentation and creating an unlevel playing field rather than reducing complexity. This concern is particularly relevant for jurisdictions that have chosen a relatively strict application of EU banking rules where banks face a competitive disadvantage due to higher compliance costs and more restrictive requirements, without a corresponding prudential justification.

To reduce undue complexity in the prudential framework, it is crucial to streamline the application of the existing toolkit across all jurisdictions participating in the internal market. Furthermore, reform must simultaneously ensure more harmonised application of buffers to secure a level playing field for banks irrespective of home member state.

Against this background, effective simplification of the prudential framework requires a stronger emphasis on harmonisation not only at the level of legislation, but also in supervisory and implementation practices. Simplification measures should be designed and applied in a manner that ensures broadly equivalent outcomes across the internal market. Without such an approach, efforts to reduce complexity risk delivering uneven benefits and undermining both competitive neutrality and the credibility of the simplification agenda.

In this context, it is also essential that the European Commission bases its assessment of banking competitiveness, as well as any consideration of reforms or simplification initiatives, on data and evidence covering the internal market as a whole. We encourage the Commission to include analysis reflecting both EU and EEA jurisdictions when evaluating potential measures, so that policy decisions, impact assessments and simplification efforts are informed by the full competitive landscape of the internal market and do not inadvertently reinforce existing asymmetries.

Moreover, it is essential that the national implementation and application of CRR/CRD macroprudential and microprudential tools are addressed in parallel and viewed as part of a single framework. Measures that seek to harmonise only one part of the system will not deliver the intended effect. A holistic approach is required to ensure that reforms in one area are not offset by national gold-plating in another. Discretionary powers should operate within clearly defined parameters and under centralised coordination to prevent continued fragmentation and to ensure that the CRR/CRD framework functions as intended across the internal market.

(62) Do you think that the leverage ratio framework would need improvement? If yes, do you have any suggestions as to how to improve the leverage ratio framework?

Finance Norway considers that central bank deposits should be excluded from the exposure measure in the leverage ratio framework. This would promote harmonization and support financial stability and the monetary policy transmission. In jurisdictions like the UK, central bank deposits are exempted from the leverage ratio to avoid that regulatory requirements impair the transmission of monetary policy, particularly during periods of high liquidity or central bank asset purchases. Central bank deposits are considered risk-free. Hence, there should not be capital requirements for such exposures. Including such deposits in the leverage ratio could restrict banks' capacity to lend, hold deposits, or use central bank liquidity facilities, thus undermining financial stability.

(63) Do you think the Pillar 2 Requirement needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Requirement?

Yes. In our view, the Pillar 2 Requirement (P2R) should be improved to enhance transparency, predictability, and consistency across institutions. All Pillar 2 add-ons should be grounded in objective principles and clearly defined criteria, using quantitative methods as far as possible. Banks should receive sufficient information about the data, calculations, models, indicators, and threshold values used by supervisory authorities when setting Pillar 2 requirements. Such transparency is essential for banks to understand which risks are not fully captured under Pillar 1 and why additional capital is required. In practice, the current framework allows national competent authorities to determine Pillar 2 requirements to a considerable extent on the basis of discretionary assessments that are not always sufficiently transparent or predictable, making it difficult for institutions to understand how identified risks are translated into capital requirements.

Supervisors should also clearly communicate what constitutes a material deviation, and decisions should explicitly explain why certain risks are not adequately covered by Pillar 1. This aligns with sound administrative practices and strengthens the incentives for robust risk management. Moreover, banks should, as a general principle, be given the opportunity to remediate weaknesses before Pillar 2 add-ons are imposed.

With the introduction of CRR3, Pillar 1 will cover risks more comprehensively. This inherently argues for lower Pillar 2 requirements to avoid any double-counting of risks. Greater transparency around P2R would also improve banks' ability to make informed decisions on whether to reduce risks or hold additional capital, ultimately supporting more effective capital planning and enhancing market discipline through better public information.

(64) Do you think the Pillar 2 Guidance needs to be improved? If yes, do you have any suggestions as to how to improve the Pillar 2 Guidance?

Finance Norway is of the view that the Pillar 2 Guidance (P2G) should be removed. There is a clear overlap in purpose between the capital buffer requirements and the Pillar 2 Guidance. Both aim to strengthen banks' ability to absorb losses during periods of stress. For example, the capital conservation buffer provides "[*an additional layer of usable capital that can be drawn down when losses are incurred*](#)," whereas the Pillar 2 Guidance indicates the level of capital banks should "[*maintain in addition to their binding capital requirements to ensure they can absorb potential losses resulting from adverse scenarios*](#)". Together, they serve the common objective of safeguarding banks' resilience in downturns.

The existing structure of binding minimum requirements (Pillar 1), institution-specific Pillar 2 Requirements (P2R) and the combined buffer requirements already ensures that banks maintain adequate levels of capital, while preserving transparency and predictability. P2G, by contrast, is a non-binding supervisory expectation applied on top of these layers, derived primarily from supervisory stress tests, and adds an additional component to the capital stack without providing commensurate prudential benefits.

Banks are required—through the Internal Capital Adequacy Assessment Process (ICAAP)—to determine and maintain internal capital levels commensurate with their own risk profile and business model. This includes calibrating their own management buffers above the binding requirements, supported by forward-looking stress testing and sound capital planning. Allowing banks to determine the size of their own management buffer is a more proportionate and institution-specific approach than maintaining a supervisory expectation such as P2G.

If P2G is nevertheless retained, Finance Norway considers that the approach proposed by the ECB—based on a harmonised methodology anchored in the EU-wide stress tests and implemented through a transparent bucketing system—would be preferable to divergent national practices. In addition, the P2G should not be set higher than the capital ratio depletion in the stress test minus the sum of the capital buffer requirements. Such a methodology would strengthen the link between stress-test outcomes and the calibration of P2G, while improving consistency and supporting a level playing field across jurisdictions. Finally, national authorities' practices around publishing P2G vary greatly and should be more harmonized.

(65) What determines the level of the management buffer? How much does the management buffer weigh in the overall capital set aside by banks? Do you think there are unwarranted pressures to set such a buffer, if yes do you have any suggestions that would help reduce undue external incentives to set management buffers?

A central factor determining the size of management buffers is the degree of uncertainty about future capital requirements. If banks cannot anticipate when buffer requirements may be raised again— or whether additional supervisory restrictions will follow when buffers are used—they will be reluctant to allow their capital ratios to fall. This uncertainty creates a powerful incentive for banks to maintain management buffers well above the formal regulatory buffers, even during periods when capital is intended to be used to absorb losses and sustain lending.

This uncertainty is reinforced by national authorities' communication practices and policies. Although the EU framework already contains a calibrated mechanism governing buffer use—the Maximum Distributable Amount (MDA) in Article 141 of the [Capital Requirements Directive - CRD](#)—authorities frequently signal that additional supervisory measures could follow if banks draw down their buffers. Available supervisory actions outlined in article 104 of the CRD, as well as supervisory expectations

for rapid capital restoration, have contributed to the perception that regulatory buffers function as de facto minimum requirements. During the pandemic, several jurisdictions imposed distribution restrictions before banks had even begun to use their buffers, further reinforcing this behavioural response.

As a result, the management buffer has become a significant component of the total capital held by banks. This weakens the effectiveness of the macroprudential framework, as capital intended to be countercyclical is instead held due to regulatory uncertainty rather than risk-based considerations.

To reduce unwarranted pressures for holding such buffers, two improvements are essential: First, authorities should provide clearer and more explicit guidance on when increases in buffer requirements will be considered after a release. Second, authorities should not be permitted to impose restrictions on banks that draw down buffers while still meeting minimum requirements, unless such a breach persists for a sufficiently long period, for example at least three years. Together, improved forward guidance and stricter discipline around supervisory interventions would significantly reduce the banks' incentives to maintain excessive management buffers, thereby supporting the intended countercyclical function of the EU capital framework.

(66) Are, in your view, the various elements of the framework aimed at reducing NPLs working as intended? [No]

In the view of Finance Norway, several elements of the EU's NPL framework do not work as intended. While designed to address legacy NPL issues in parts of the euro area, the framework has added substantial complexity for banks, particularly in reporting. Moreover, it can create distortive incentives: banks may choose to sell or liquidate viable distressed exposures simply to avoid punitive capital treatment, even when borrowers could recover.

Asset quality has since improved markedly, and NPL levels across the Union have declined significantly. In this changed risk environment. The continued application of these requirements creates unnecessary rigidity and may hamper sound workout solutions that best preserve value, in particular in jurisdictions which have never faced structural NPL problems.

(68) What are your views on the following considerations regarding the EU implementation of the output floor?

The output floor should only apply at consolidated level [Fully agree]

The output floor should be applied only at consolidated level. Implementing the requirement at subsidiary level creates incentives to move capital within groups even though the binding constraint sits at the top, leading to unnecessary complexity in capital planning, governance, and reporting.

(68) What are your views on the following considerations regarding the EU implementation of the output floor?

The current rules introduced by CRR3 achieve the right balance - no need to revise the output floor framework [Somewhat disagree]

The framework is overly complex by granting lower capital requirements to rated corporates. Very few small and medium-sized enterprises in the EU and Norway have external ratings, and encouraging them to obtain one would add costs without providing any real economic benefit beyond reduced capital charges. A simpler, more proportionate approach would improve consistency and effectiveness. Such an approach should also be made applicable for banks using the standardized approach.

(69) In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

f. The decentralised macroprudential governance framework and prominent role of national macroprudential authorities in setting measures [Fully agree]

An important source of inefficiency in the current macroprudential framework may arise from how national authorities communicate and implement buffer requirements. Capital buffers are intended to ensure that banks have sufficient capital to absorb losses and continue providing credit during downturns. For this purpose to be achieved, authorities must clearly communicate that it is both expected and appropriate to use buffers in bad times.

The EU framework already contains thoroughly developed restrictions for banks dipping into their combined buffer requirements - the MDA mechanism of article 141 in the [CRD](#). These restrictions are calibrated to enable banks to use their capital buffers while maintaining their intermediation functions during economic shocks. Against this background, additional restrictions imposed on banks using their buffers can undermine the intention of counteracting procyclical effects from capital requirements.

During the pandemic, authorities imposed restrictions on distribution from banks before the banks had started to use their capital buffers. Article 104 of the CRD grants competent authorities the power to impose supervisory measures and restrictions on institutions that go beyond MDA restrictions. In addition, authorities like the [EBA](#) have advised competent authorities to “*use their broader supervisory powers and impose measures*” to support timely capital restoration plans. This practice and communication could make banks and market participants consider buffer requirements as de facto minimum capital levels rather than capital intended for use in stress. As a result, the MDA mechanism becomes ineffective, and banks may prioritise maintaining capital positions rather than supplying credit during economic shocks, which can amplify economic cycles.

To ensure that the capital buffer framework works as intended, authorities should not be allowed to impose restrictions beyond MDA restrictions when banks dip into their buffer requirements and still meet minimum requirements. Restrictions should only be permitted if a breach of buffer requirements has persisted for a sufficiently long time — for example, at least three years. The existing MDA framework already provides appropriate incentives and constraints for banks dipping into the buffer requirements.

Moreover, the authorities should be required to provide guidance on when they expect to reverse reductions in buffer requirements. Banks may be reluctant to reduce their capital buffers if there is uncertainty regarding when the buffer requirement will be raised, thereby undermining the effectiveness of the buffer release. An example of effective communication can be seen in the guidance provided by the Norwegian central bank in March 2020 in connection with the reduction of the Norwegian countercyclical capital buffer requirement from 2.5% to 1%. The authorities communicated that they did not expect an increase in the buffer requirement before the first quarter of 2021, thus indicating that a higher buffer requirement would not take effect until the first quarter of 2022. This clear advance guidance provided banks with sufficient certainty to use the released capital as intended, thereby supporting the effectiveness of the measure.

The Bank of England’s [updated assessment](#) of capital needs, published 2 December 2025, illustrates a more effective approach. The central bank emphasises that “*buffers are there to be used to absorb losses in a stress*” and that Bank of England does “*not oblige banks to have capital in excess of regulatory minima and buffer requirement*”. This type of communication strengthens the credibility of

the macroprudential framework and makes it more likely that buffers will work as intended—supporting the real economy through the cycle.

Furthermore, Finance Norway support setting the macroprudential buffers using common methodologies. This would ensure a harmonised use of the macroprudential tools. Macroprudential policy should be coordinated within the supervisory colleges to identify overlaps and inconsistent use of instruments. Home supervisors should be responsible for eliminating overlaps between tools.

(69) In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

The current reciprocity arrangements [Fully agree]

Under the current macroprudential framework, reciprocity is voluntary for several important instruments, resulting in uneven implementation across jurisdictions. Experience from the Nordic region shows that reciprocity of national macroprudential measures can take several years to materialise. Such prolonged delays distort competitive conditions between domestic and foreign banks operating in the same market and undermine the effectiveness of macroprudential policy. This argues strongly in favour of introducing automatic reciprocity, as [recommended by the European Central Bank \(ECB\)](#) on 11 December 2025. Automatic reciprocity would contribute to a level playing field and significantly reduce the risk of circumvention of national measures. It would also enhance predictability for banks and support more robust capital planning by ensuring that measures apply consistently and without undue delay across jurisdictions.

As highlighted by [the European Parliament](#) “Automatic reciprocation of heterogeneously designed tools could mechanically transmit national idiosyncrasies across jurisdictions, potentially leading to inconsistencies, overlaps or double counting of risks at group level”. Hence, automatic reciprocity must be accompanied by a clearer and more coherent framework governing the purpose and justification of macroprudential measures as well as fully harmonised tools, metrics and methodologies. Clearer guidance would support a more consistent application and ensure that measures are used in line with their objectives. A complementary review mechanism—where, for example, the ESRB systematically assesses national measures and rejects those that are not in line with the intended purpose—would further strengthen discipline in the use of macroprudential tools. Such a system would promote greater transparency, reduce double-counting risk and enhance the overall credibility of the macroprudential framework.

(69) In your view, which of the areas below create inefficiencies and undue complexity in the macroprudential framework?

The current number and scope of macroprudential buffers, some of which may potentially tackle similar risks. [No opinion]

The heterogeneous application of some tools like Other Systemically Important (O-SII) buffers across the EU [Fully agree]

A key source of inefficiency in today’s macroprudential framework stems from the substantial discretion granted to national authorities in the design, justification and communication of macroprudential measures.

The Norwegian experience illustrates several challenges arising from this decentralised approach. Norwegian authorities rely heavily on multiple macroprudential instruments to address the same vulnerabilities—notably high household indebtedness and elevated residential property prices. These risk factors are cited as justification for a broad set of measures, including the systemic risk buffer

(SyRB), the countercyclical capital buffer (CCyB), and the IRB risk-weight floor for residential mortgages. Applying several overlapping instruments to the same risks increases overall capital requirements in ways that go beyond what the underlying risk warrants and that contributes to undue complexity and inefficiency in the framework.

Overall, the decentralised governance framework, combined with broad national discretion, has led to heterogeneous practices and overlapping measures. Strengthening EU-level guardrails and limiting the scope for overlapping national measures would materially enhance consistency, reduce complexity and support the effective functioning of the macroprudential framework.

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

The banking industry considers the scope of the systemic risk buffer (SyRB) unclear - potentially a consequence of the SyRB being gold-plated over the Basel standard. [An overview from the European Systemic Risk Board \(ESRB\)](#) shows significant differences in how the systemic risk buffer (SyRB) is applied across Member States, reflecting very different interpretations of the scope of the SyRB. Some jurisdictions, like [Malta](#) and [Hungary](#), justify the SyRB—fully or partly—by referring to cyclical systemic risks which should instead be addressed by the countercyclical capital buffer. In other jurisdictions, like [Sweden and Romania](#), the SyRB is applied on a bank-specific basis, targeting systemic risks arising from individual institutions—risks already addressed through the dedicated G-SII and O-SII buffer requirements. This divergence in national practice leads to double-counting of risks and adds unnecessary complexity to the buffer framework.

To streamline the system and preserve its credibility, the regulatory framework should contain clearer and more binding safeguards to prevent the SyRB from being used to address risks that are already covered by other buffers. Article 133(1) of the CRD states that the SyRB may address “*macroprudential or systemic risks not covered by Regulation (EU) No 575/2013 and by Articles 130 and 131.*” However, this limitation has not proven sufficiently precise in practice. As a result, substantial overlaps persist between the SyRB and other macroprudential instruments.

The framework should therefore be strengthened by explicitly clarifying that the SyRB may only be activated to address systemic risk caused by persistent, structural features of national financial systems. The framework should also explicitly clarify that the SyRB should not be activated to address cyclical risks or risks associated with systemically important institutions. A more targeted scope and definition of the SyRB would help ensure that each buffer addresses a clearly defined category of risk. This will reduce double-counting, improve consistency across the EU, and support a more coherent and transparent macroprudential policy framework.

(72) What are your views on the identification of O-SIIs and the calibration of the buffer for systemically important banks?

A recent [research paper on O-SIII requirements](#) documents significant divergences in national practices for O-SII buffer requirements. The paper examines the EU legal framework for identifying “other systemically important institutions” and its application in seven EU or EEA Member States. It finds significant divergences in national practices for both O-SII identification and calibration of capital surcharges.

To address these divergences, the framework could be strengthened by introducing a more clearly specified guide for setting O-SII buffer requirements. Such a guide could define a common set of

indicators, minimum methodological standards and a narrower calibration range to ensure that buffer levels better correlate with measured systemic importance. In Addition, a more structured EU-level review process of national O-SII calibrations could further support convergence in national practices across Member States.

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

Article 458 of the [CRR](#) already contains several important safeguards to ensure that measures are only implemented when they are warranted by developments in systemic risk. National authorities may tighten risk weights only when they identify “*changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy*” (Article 458,2). Authorities must also demonstrate that alternative macroprudential tools “*would be less suitable and effective to deal with those risks*” (Article 458,2). Furthermore, increases in risk-weight requirements are subject to quantitative limits unless specific EU approval is granted (Article 458,10).

Despite these safeguards, national authorities have introduced measures that do not comply with these conditions, even in cases where the EBA has explicitly advised against them— see for example [EBA’s opinion on increased risk weight floor in Norway](#). This illustrates a weakness in the current framework: EU-level institutions lack sufficient authority to reject national measures that are inconsistent with the criteria in Article 458.

Under the current regulation, the Commission may only reject a draft national measure “*if there is robust, strong and detailed evidence that the measure will have a negative impact on the internal market that outweighs the financial stability benefits resulting in a reduction of the macroprudential or systemic risk identified*” (Article 458,4). In addition, the Council may only reject the measure if it determines that one or more of four specific substantive conditions are not met, and only after the Commission has taken the exceptional step of proposing rejection. This two-step structure reinforces that Article 458 sets a very high bar for any EU-level intervention. It limits the EU’s capacity to ensure that Article 458 is applied consistently, proportionately, and in line with its intended purpose.

Strengthening EU-level oversight would be particularly important in light of the Basel III objective to preserve and reinforce the risk sensitivity of capital requirements. Binding risk-weight floors undermine this objective by weakening the link between underlying risk and regulatory capital. When risk weights are restricted from falling below a fixed level, regardless of actual risk, banks may allocate credit toward riskier borrowers in exchange for higher returns without facing commensurately higher capital charges. This distortion reduces incentives for sound risk management and may ultimately increase risk rather than mitigate it. The risk of such distortions is further amplified where the same underlying risks are addressed simultaneously by several measures.

A more robust EU review mechanism—allowing for rejection of national measures that do not meet the requirements of Article 458—would help ensure that the risk-weight toolkit is applied consistently and remains aligned with the principles of risk sensitivity and proportionality. A more harmonised approach to the use of Article 458 measures would also help reduce overlap between different macroprudential instruments. With a more streamlined buffer framework, the targeted and exceptional nature of Article 458 measures becomes even more important, reinforcing the need for stronger EU-level safeguards to prevent inappropriate or overlapping use of risk-weight tools.

(78) Do you consider that the prior permission regimes for the redemption and replacement of MREL resources should be simplified? [Yes]

Yes. The prior permission regime should be simplified to ensure faster processes and increased predictability for banks. To redeem the relevant bonds is an expected action given the regulatory requirement of at least one year remaining of the bond's maturity. Hence, there is a potential for more automated processes and possibly a need for less information as the relevant competent authority may already have sufficient data.

(80) In your view, which of the areas below create inefficiencies and undue complexity in the interactions across the prudential, macroprudential and crisis management parts of the framework? 2. Limited buffer usability resulting from double counting CET1 both in macroprudential buffers and in other minimum requirements (leverage ratio, MREL) [Fully agree]

An important source of inefficiency arises from the way capital buffer requirements interact with other parts of the framework—particularly the leverage ratio and MREL. As shown in [research](#) from the Norwegian central bank, these interactions can significantly constrain the effective usability of capital buffers in a downturn.

The analysis demonstrates that banks with limited non-preferred senior debt may use a substantial share of their Common Equity Tier 1 (CET1) capital to satisfy MREL. This implies that banks may only be able to dip into parts of the combined buffer requirements without breaching MREL, thereby weakening the intended countercyclical function of the buffer framework.

Moreover, the overlap between buffer requirements and MREL can increase in bad times, especially if risk weights rise. If banks consider the consequences of breaching MREL to be more serious than those of dipping into the combined buffer requirements, MREL could prevent banks from using their buffers.

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

A more consistent application of macroprudential tools across the EU requires a clearer and more binding framework. Significant divergences in how Member States interpret the scope and purpose of key instruments—such as the SyRB and the Article 458 toolkit—highlight weaknesses in the current system of oversight and coordination.

First, the framework should provide more explicit and binding guidance on which types of systemic risks each macroprudential tool is intended to address. Experiences with the SyRB illustrate that broad and insufficiently defined mandates allow tools to be used interchangeably, leading to overlaps, double-counting of risks and unnecessary complexity. A clearer definition of instruments—combined with stronger requirements to justify why a specific buffer or measure is the appropriate tool—would help ensure greater cross-country consistency and support the credibility of the framework. This aligns with our view under question 70 that the scope of the SyRB has been interpreted too broadly in practice, contributing to heterogeneous and sometimes inconsistent national application.

Second, EU-level institutions should be given enhanced powers to conduct substantive quality control of national macroprudential measures. The experience with Article 458 measures demonstrates that, despite existing safeguards, national authorities have introduced measures that did not satisfy the conditions of the regulation—even in cases where EBA explicitly advised against their implementation. As noted in our answer to question 74, the current two-step EU review mechanism

sets a very high bar for intervention by the Commission or the Council, limiting the EU's ability to ensure that measures are proportionate and used as intended. Strengthening the authority of the ESRB or Commission to object to, or require modification of, national measures would help prevent inconsistent or inappropriate use of the framework.

Third, improving the governance of reciprocity arrangements is essential. As long as reciprocity remains voluntary for several key instruments, uneven implementation across Member States is inevitable. Automatic reciprocity and stronger EU-level oversight could support a more harmonised application of measures across jurisdictions.

Fourth, achieving greater consistency in macroprudential policy also requires a more harmonised toolbox at EU/EEA level. At present, similar systemic risks are addressed using different instruments, metrics and methodologies across Member States, including a mix of capital buffers, risk-weight measures and other tools. This fragmentation undermines transparency, complicates cross-border assessment and increases the risk of overlap or double counting. Developing more harmonised tools, common metrics for risk identification, and clearer methodological standards for calibration and application would strengthen comparability and support a more coherent use of macroprudential instruments across EU/EEA jurisdictions. Such harmonisation would also facilitate more effective EU/EEA level oversight and contribute to a more predictable and credible macroprudential framework.

Together, these steps would contribute to a more coherent and consistent macroprudential framework across the EU, while preserving national authorities' ability to address genuinely country-specific risks.

(84) Would you consider that the current bank regulatory framework is sufficiently proportionate for smaller banks? [Fully disagree]

See answer to question 47.

(85) Do you consider that the introduction of a dedicated regulatory and supervisory regime for small banks would be warranted in the EU? In your response, please assess in particular how such a regime could meaningfully improve proportionality and efficiency, without undermining financial stability, depositor protection, or the level playing field within the EU.

Finance Norway support the introduction of a dedicated regulatory and supervisory regime for small and non-complex institutions, provided that such a regime focuses on meaningful simplification of regulatory and supervisory requirements without reducing the level of risk sensitivity or departing from the risk-based principles underpinning the current standardised approach for credit risk. As set out in our responses to Questions 47 and 50, the existing framework imposes a disproportionate operational and administrative burden on smaller banks, largely because the Basel standards were designed for large, internationally active institutions and subsequently expanded through EU-specific requirements. This has resulted in a regulatory architecture that is unnecessarily complex for institutions with simple and low-risk business models.

A dedicated regime could meaningfully improve proportionality and efficiency if it targeted areas where simplification does not compromise prudential outcomes — for example, through streamlined reporting, simplified templates for immaterial risks, and clearer criteria for when lower-risk activities justify reduced methodological or reporting obligations. Such an approach would ensure that supervisory attention is focused on material risks while reducing compliance costs for smaller banks.

However, as emphasised in our response to Question 50, while Finance Norway has not taken an explicit position on the detailed design of specific regimes, we do **not** support any model of a “small bank regime” that achieves simplification by imposing higher, non-risk-based capital requirements or by reducing the level of risk sensitivity within the prudential framework. This would weaken the alignment between capital requirements and actual risk profiles, distort the level playing field, and harm the competitiveness of smaller and regional institutions. Any such approach, if implemented, should be based on an opt-in mechanism.

(92) What factors linked to reporting obligations in the regulatory framework contribute most to the compliance costs?

Number of data points [High impact]

Frequency of changes of the reporting obligations [High impact]

The difficulty of using regulatory reporting for internal risk management purpose [No opinion]

Ad hoc reporting requests from supervisory authorities [High impact]

Frequency of submission of reporting obligations [High impact]

Other [High impact]

Over time, the cumulative effect of reporting obligations has become extremely resource-intensive. The increasing number of data series, frequency of submissions, frequent changes to reporting requirements, ad hoc data requests and overlaps across requirements are among the main drivers of compliance costs. Changes to reporting requirements contribute substantially to compliance costs as each adjustment—whether in definitions, templates, or data granularity—forces institutions to update systems, rebuild quality checks, and retrain staff. This burden is amplified when reporting cannot be fully automated, for example where qualitative assessments or manual validation are required. The frequency of submissions also matters; even relatively simple reports become costly when they must be produced often and under tight deadlines.

Compliance costs are further exacerbated by the way in which validation rules are designed and applied, in particular in connection with EBA reporting frameworks and the new Pillar 3 data hub. Validation processes that return only one error at a time require institutions to go through a large number of iterative resubmissions, which can be highly resource-intensive given the very large number of data points involved. This significantly increases operational burden without necessarily improving data quality or supervisory insight.

Supervisors should therefore begin with a clearer assessment of what data are truly necessary. Too often, the default response to a perceived risk or analytical question is to introduce new reporting. A broader cultural shift is needed, where reporting is limited to information genuinely required for supervisory purposes. Authorities should also make greater use of existing data sources by better exploiting information already collected, rather than requesting ever more granular datasets, as illustrated by stress test exercises from EBA. New reporting requirements should avoid overlaps with existing requirements and existing overlaps should be eliminated.