# EU RegCORE Client Alert

**Financial Services**

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# The European Commission's Report on Banking Competitiveness: Charting a course for regulatory reform

## QuickTake

On 17 July 2026, the European Commission published its Communication and Report on the "Competitiveness of the Banking Sector and the Single Market in Banking" (COM(2026) 615 final and its more technical Staff Working Document (SWD(2026) 615 final)) and various supporting materials, delivering on the commitment made in the March 2025 Savings and Investments Union (**SIU**) Strategy. Banks play a vital role in the EU economy: they provide 75% of corporate debt financing and act as key intermediaries between savers and companies in capital markets. The Report serves as a diagnostic roadmap for sweeping legislative changes to the EU banking rulebook expected to be announced in Q1 2027 and marks arguably the most significant banking policy intervention since the completion of the Basel III legislative package.

For EU financial institutions, this signals a profound shift: from post-2008 risk-mitigation to maximising banks' capacity to finance growth, innovation and Europe's transition goals. Competitiveness now joins financial stability and consumer protection as an explicit, co-equal regulatory objective.

The Report's central diagnosis is straightforward: European banks are safe and well-capitalised (with an average starting Common Equity Tier 1 (**CET1**) ratio of

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15.8% and Liquidity Coverage Ratio (**LCR**)/Net Stable Funding Ratio (**NSFR**) at 163%/127% respectively as of Q4 2025) and have acted as shock absorbers rather than amplifiers of economic stress during the Covid-19 pandemic, the Ukraine-related energy shock and the 2023 US/Swiss banking turmoil. At the same time, they remain insufficiently competitive internationally because the Single Market in banking is still fragmented along national lines and the regulatory framework has become more complex than resilience alone requires.

Compared with the public consultation proposals, the final Communication goes further on two key issues: it commits to *removing* the Pillar 2 leverage ratio add-on (not merely flagging it for consideration) and explicitly identifies the 2015 European Deposit Insurance Scheme (**EDIS**) proposal as the one to be replaced. Both indicate heightened ambition between consultation and publication.

**Bottom line:** *The Report is less a deregulatory turn than a signal that Banking Union completion is increasingly framed as a competitiveness measure. Its more consequential proposals — particularly on capital and liquidity fungibility — cannot be achieved through simplification alone; they require a redesigned ECB/NCA supervisory architecture, a resolution framework capable of underwriting cross-border loss absorption and a deposit insurance architecture that can credibly back a pan-European balance sheet. The gap between diagnosis (July 2026) and legislative text (Q1 2027) is the window in which the specific architecture of reform will be shaped.*

This PwC Legal EU RegCORE Client Alert should be read in conjunction with further excellent publications from our PwC Risk & Regulatory colleagues notably from the EBA/SSM Office.

# Background and context

The Commission's Report intersects several high-level EU policy initiatives:

1. **SIU Strategy:** The March 2025 SIU Strategy committed the Commission to assess banking competitiveness. The Report fulfils that commitment, framing banking reform as integral to mobilising European savings for productive investment.

2. **The Draghi Report ("The future of European competitiveness" 2025):** Identified fragmented financial markets as a principal constraint on EU industrial competitiveness, calling for deeper capital markets integration and more efficient banking intermediation.

3. **The Letta Report ("Much more than a market" 2024):** Advocated for completing the Single Market in services, including financial services and for removing the national barriers that prevent genuine cross-border economic activity. [1]

4. **EU Competitiveness Compass, the Single Market Strategy, the "One Europe, One Market" roadmap and the Regulatory Deep Cleaning Action Plan:** Provide the broader political framework within which banking reform is situated.[2]

The Report is explicitly framed as a preparatory diagnostic rather than a legislative proposal. A comprehensive legislative package is expected in Q1 2027. The Commission's Q&A confirms that no single measure is anticipated to be sufficient on its own; the Commission envisages a holistic package addressing

[1] See analysis on the Draghi and Letta Reports here.
[2] See analysis on the Competitivenes Compass here.

prudential, structural and supervisory dimensions simultaneously. The package will also need to complement the separate securitisation framework proposal and the ongoing implementation of the Fundamental Review of the Trading Book (**FRTB**), the Basel Committee's comprehensive overhaul of market risk capital requirements.

Notably, on or around the same date, the grouping of Member States known as the "**E6**" — comprising France, Germany, Italy, the Netherlands, Poland and Spain — submitted a joint communication to the Commission on its Report on the Situation and Competitiveness of the Banking Sector (the **E6 Communication**). These six Member States account for approximately 85% of euro-area banking assets, giving their endorsement significant political weight. The E6 Communication signals broad support for the Commission's diagnostic framework while advancing specific policy proposals for the forthcoming legislative package across four areas: framework simplification, prudential-requirement review, international level playing field and home-host issues.

# The Report identifies three core challenges

The Report diagnoses three structural and regulatory bottlenecks hindering EU banks from scaling and competing internationally:

## 1. Persistent market fragmentation

Despite a decade of the Banking Union, the single market remains fragmented along national lines. Key findings include:

a. Cross-border corporate lending within the euro area is only approximately 16% of total corporate lending, with similar shares observed for household lending.

b. Capital and liquidity requirements apply at both consolidated and subsidiary level, trapping resources at subsidiary level (a practice known as national ring-fencing). Removing constraints on liquidity held in cross-border subsidiaries could release approximately EUR 230 billion of high-quality liquid assets (**HQLA**). The Commission observes that this 'dual-level' approach reflects incomplete Banking Union: absent a fully operational EDIS and cross-border resolution credibility, host Member States insist on local buffers to protect domestic depositors.

c. The five largest EU banks hold a cumulative 31% market share versus 45% for the five largest US banks, evidencing the sub-scale nature of European banking consolidation. Relatedly, there are close to 5,700 credit institutions operating within the EU, with total assets of approximately EUR 38.3 trillion (Q4 2024), suggesting that many institutions operate at sub-optimal scale.

d. EU banks have approximately 22% of exposures outside the EU versus 21% within the EU (excluding home state), evidencing that intra-EU expansion faces barriers similar to third-country expansion.

e. National gold-plating (i.e., the practice of Member States implementing EU rules more stringently than required), divergent transposition and national interventions blocking cross-border M&A (a recent Italian/German transaction being the most recent example) compound fragmentation.

f. Non-prudential barriers — including anti-money laundering (**AML**) rules, civil law, data protection, taxation, insolvency law, foreclosure rules and consumer protection rules — further inhibit integration.

The Commission does not attribute the competitiveness gap to prudential rules as such, but to structural and architectural fragmentation — national ring-fencing, divergent insolvency and taxation regimes, supervisory fragmentation — layered on Basel III implementation that may have become more complex than necessary. This is, in substance, an endorsement of deeper Banking Union integration rather than retreat from it.

## 2. Gold-plating of international standards

The Commission acknowledges that the EU has applied full Basel III standards uniformly without adequate proportionality for smaller, regional or specialised business models — adding administrative weight the underlying international standard does not require. The framework does not adequately recognise diversification benefits and asymmetrically treats non-EU branches versus EU subsidiaries, creating competitive disadvantage. Stakeholders have called for raising the small and non-complex institution (**SNCI**) threshold from EUR 5 billion to EUR 8–10 billion, or indexing it to 0.10–0.15% of EU GDP (approximately EUR 22–33 billion).

The Commission signals it will consider adapting standards to better reflect EU specificities, including size and business model, in the forthcoming legislative package.

## 3. Undue regulatory complexity

A dense overlap of microprudential, macroprudential and resolution requirements has produced a bureaucratic framework that consumes operational bandwidth better directed toward credit intermediation in the real economy. The Commission estimates that total reporting costs for EU banks — comprising all expenditure related to the operation of reporting systems (staff, IT, legal, accounting, auditing and consultancy services) — amount to approximately EUR 11.2 billion per year. Specific items include:

a. Heavy reporting burdens (CRR amended 21 times and BRRD 11 times since 2015).

b. Extensive Level 2/3 measures (i.e., delegated and implementing acts, regulatory and implementing technical standards, and guidelines adopted by the European Supervisory Authorities) and reliance on soft law and supervisory guidance treated as de facto binding.

c. Overlapping buffer requirements with limited overall coherence.

# Principal reform themes

The Report sets out four principal thematic pillars:

1. **Scale**: The Report treats the sub-scale nature of European banking groups as a structural, not merely regulatory, problem — one rooted in fragmented markets, national ring-fencing and obstacles to cross-border mergers rather than capital requirements alone. Fragmentation, ring-fencing and cross-border merger obstacles, not capital rules, are identified as the primary constraint on EU bank scale.

2. **Simplification, not deregulation**: The Commission is explicit that simplification should not mean abandoning prudential standards. Candidate reforms include rationalised reporting (targeting 50% cut in data points by 2027), removal of duplicated requirements, simplified capital calculations and review of overlapping buffers — rebalancing administrative burden rather than rolling back Basel III.

3. **Capital and liquidity mobility**: This may prove the Report's most consequential theme. The Commission argues banking groups should deploy capital and liquidity across Member States far more efficiently — through greater recognition of parent-level capital, more flexible intra-group liquidity management and reduced national ring-fencing, underpinned by stronger supervisory coordination.

4. **Cross-border consolidation**: The Report acknowledges, more candidly than prior Commission communications, that political intervention continues to impede cross-border mergers and proposes using enforcement tools against Member States that intervene without justification.

Beyond these four thematic pillars, the Report and Staff Working Document flag a wider set of regulatory and structural issues that will shape the Q1 2027 package:

5. **Investment banking and capital markets intermediation**: The Commission acknowledges that EU banks have lost significant market share in investment banking and capital markets activities over the past two decades. Structural disadvantages include sub-scale platforms, dependence on USD funding and FX swap intermediation (concentrated in five euro-area G-SIBs accounting for ~80% of reverse repo claims on NBFI entities), lower IT investment budgets and constrained remuneration flexibility limiting talent attraction. These factors compound the competitiveness gap in the highest-margin segments of the industry.

6. **Non-bank financial intermediation (NBFI) and private credit**: The Staff Working Document notes that the share of non-banks in corporate credit provision has roughly doubled since the global financial crisis (**GFC**) — from approximately 15% to 30% by 2021 — as banks deleveraged under stricter prudential requirements. Private credit and NBFI entities operate under lighter or more fragmented regulatory regimes, raising concerns about risk migration, systemic interdependencies and competitive asymmetry. Stakeholders have called for a "same activity, same risk, same rules" framework and stronger macroprudential oversight of systemic NBFI risks. The structural interdependence between euro-area G-SIBs and the NBFI sector — particularly via repo and FX swap markets — creates mutually reinforcing vulnerabilities that the Report does not fully address.

7. **Securitisation and capital markets development**: Respondents and the Commission identify the underdevelopment of EU securitisation markets as a constraint on banks' ability to recycle capital, diversify funding and scale lending. The EU's total outstanding securitisation issuance remains just 10% of US volumes. Debt securities and listed shares comprise only 3% and 14% respectively of corporate debt in the EU, compared with 7%/31% in the UK and 6%/38% in the US. Deeper securitisation markets are seen as essential complements to bank balance sheets and as enablers of the SIU's broader capital-markets objectives.

8. **Digitalisation, FinTech and BigTech**: The consultation reveals broad consensus that digitalisation is reshaping EU banking but also introducing structural challenges. Regulatory asymmetries may place banks at competitive disadvantage relative to FinTech and BigTech entrants operating under lighter oversight. Significantly, stakeholders observe that the only payment solutions currently operational across the entire EU are US-based, highlighting a critical gap in European digital payments infrastructure. Concerns include cybersecurity risks, over-reliance on third-party providers (especially non-EU cloud and AI providers), concentration risk and financial exclusion for vulnerable customers. The Financial Data Access (**FiDAR**) framework remains contested, with some stakeholders seeing opportunity in open finance while others warn of additional complexity. Stakeholders call for harmonised prudential rules for non-bank activities, a level playing field under a risk-based framework and targeted regulatory adjustments — including revisiting punitive CET1 deductions for software investments — to foster innovation while preserving stability. The Commission signals it will continue monitoring digitalisation implications to ensure the framework is sufficiently agile to support more digitalised banking services.

9. **Sovereign exposures and bank–sovereign nexus**: Home bias in sovereign holdings persists, though declining. The Commission's Q&A indicates sovereign exposure is "less of a prudential concern today than a decade ago" but will assess whether further measures are needed. Stakeholder views diverge: banks and ministries largely consider the current framework effective; NCAs and central banks argue sovereign exposures are not risk-free and the bank–sovereign nexus cannot be fully broken without direct prudential treatment. Completing Banking Union — including EDIS — is widely cited as a structural complement to any sovereign-exposure reform.

10. **ESG and sustainability reporting**: Banks report that environmental, social and governance (**ESG**) disclosure requirements have become overly complex, poorly aligned with the Corporate Sustainability Reporting Directive (**CSRD**) and European Sustainability Reporting Standards (**ESRS**) and constrained by limited available data. Stakeholders call for alignment with International Sustainability Standards Board (ISSB) standards, limiting disclosures to ESRS content and frequency and better use of existing data to reduce duplicative reporting. Similar concerns arise regarding Digital Operational Resilience Act (**DORA**) requirements, where overlapping obligations and fragmented cybersecurity standards create compliance burdens.

11. **Cross-border retail banking and payments**: Stakeholders flagged IBAN discrimination as a barrier to cross-border retail payments. Concerns were also raised regarding Article 21c CRD VI and its potential disruption of cross-border banking services.

12. **Access to finance for unrated corporates**: A significant concern is the Article 465(3) CRR transitional treatment for unrated corporates, expiring 2032, which raises risk weights from 65% to 100%. Stakeholders argue this will materially constrain SME lending unless extended or made permanent.

13. **Non-performing loan (NPL) framework and Additional Tier 1 (AT1) instruments**: Banks argue that the prudential backstop for NPLs is too rigid in the current low-NPL environment, constraining proactive engagement with distressed borrowers. Separately, stakeholders raised concerns about the credibility of AT1 instruments' loss-absorption mechanisms following the Credit Suisse episode, with some calling for enhanced clarity on trigger events and write-down mechanics.

14. **European Market Infrastructure Regulation (EMIR) reporting transformation**: Stakeholders called for a transition from dual-sided to single-sided EMIR reporting to reduce duplicative compliance burdens, particularly for smaller institutions with limited reporting infrastructure.

# Specific regulatory ideas in play for the Q1 2027 legislative package

Ahead of the anticipated Q1 2027 legislative package, the following are flagged as live topics:

| Reform area | Commission's indicated direction |
|---|---|
| **Output floor** | Clarifying the output floor (the Basel III requirement that risk-weighted assets (**RWA**) calculated using internal models must not fall below a specified percentage of RWA calculated using standardised approaches) and transitional arrangements for unrated corporates and mortgage lending (currently floors RWA at 72.5% of standardised calculations, phased in to 2030); reviewing FRTB implementation timelines; reviewing the treatment of specialised lending |
| **Pillar 2** | Removing Pillar 2 capital requirements (i.e., bank-specific capital add-ons imposed by supervisors under the Supervisory Review and Evaluation Process (**SREP**) to address risks not fully captured by minimum Pillar 1 requirements) related to the leverage ratio; encouraging supervisors toward a more flexible, materiality-based and proportionate Pillar 2 posture while stopping short of touching core capital adequacy |
| **Capital buffers** | Simplifying the interaction between overlapping capital buffers (microprudential, macroprudential, systemic) |
| **Reporting** | Streamlining supervisory reporting — European Banking Authority (**EBA**) target: 50% cut in EU harmonised reporting data points by 2027; ECB's Integrated Reporting Framework (**IReF**) and Joint Bank Reporting Committee (**JBRC**) as vehicles; total EU bank reporting costs estimated at EUR 11.2 billion per year |
| **Deposit insurance** | Replacing the 2015 EDIS proposal with a new proposal to simplify the deposit insurance framework, building on existing national and central safety nets; aligning crisis management and deposit insurance governance and financing; addressing DGS liquidity vulnerabilities; ensuring equal deposit protection throughout the Banking Union |
| **Intra-group fungibility** | Enabling greater capital and liquidity fungibility within banking groups; greater recognition of parent-level capital; applying the same regulatory treatment to intragroup exposures at domestic and EU level |
| **EBA mandate** | Reconsidering aspects of EBA's mandate through a competitiveness lens; the Q&A notes a specific competitiveness mandate "is a complex question requiring more analysis" before Q1 2027 proposals |
| **Software assets and intangibles** | Revising prudential treatment of software asset investments (currently deducted from CET1, creating competitive disadvantage vis-à-vis US peers); exploring capacity-building, valuation frameworks and risk-sharing mechanisms for IP-intensive lending |
| **Remuneration framework** | Assessing remuneration rule adjustments for material risk-takers — including bonus cap flexibility, deferral periods and instrument requirements — to reduce unnecessary burden, address unintended pay-structure effects and improve talent attraction vis-à-vis US and UK peers |
| **Investment firms (IFR/IFD)** | Targeted amendments to the prudential framework for investment firms under the Investment Firms Regulation (**IFR**) and Investment Firms Directive (**IFD**) — including threshold structures, K-factor calibration (the IFR's risk-based capital metrics for investment firms), governance and remuneration requirements and capital/liquidity calibration — following EBA/European Securities and Markets Authority (**ESMA**) joint advice |
| **MREL/TLAC simplification** | Addressing duplication between minimum requirement for own funds and eligible liabilities (**MREL**) and total loss-absorbing capacity (**TLAC**) capital stacks; streamlining prior-permission regimes for buybacks and liability management; improving calibration predictability |

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|---|---|
| **NPL framework** | Reviewing the calibration of the prudential backstop and definition of default in the current low-NPL environment to allow earlier proactive engagement with distressed borrowers |
| **Liquidity in resolution** | Strengthening credible backstop funding mechanisms for the provision of liquidity in resolution — short-term, collateralised, last-resort, banking-sector-funded — with adequate safeguards and operational playbooks, potentially building on the Single Resolution Fund (**SRF**) |
| **Unrated corporates** | Reviewing Article 465(3) CRR transitional arrangements for unrated corporates (65% risk weight expiring 2032, rising to 100%); stakeholder calls to extend or make permanent to preserve SME lending capacity |
| **EMIR reporting** | Potential transition from dual-sided to single-sided EMIR reporting to reduce duplicative compliance burdens |
| **AT1 instruments** | Reviewing loss-absorption mechanics and trigger event clarity following the Credit Suisse episode; addressing stakeholder concerns about credibility of contingent capital instruments |

# Initial industry and stakeholder reaction

The Commission's publication has produced a predictably polarised response, evident from both the February–April 2026 targeted consultation (227 stakeholder responses across 22 EU and 7 non-EU countries) and the February–March 2026 call for evidence (44 responses). The call for evidence drew contributions primarily from Belgium (23%), Germany (20%), France (20%) and the Netherlands (14%), followed by Italy and Sweden (5% each):

| Stakeholder group | Position |
|---|---|
| ***Banks and business associations (EBF/BPI-type)*** | Broadly welcome the initiative as overdue recognition that regulatory complexity and cautious supervisory culture have constrained lending capacity. Call for a financial services omnibus, small-bank regime, freeze or softening of output floor and reduced gold-plating. Specific proposals include raising SNCI threshold to EUR 8–10 billion or indexing to EU GDP and creating narrow banks exempt from certain RWA calculations. Some caution the Report remains inward-looking and underdeveloped on global market interface. |
| ***Civil society / NGOs (Finance Watch-type)*** | Welcome competitiveness initiative in principle but firmly oppose simplification that weakens safeguards, particularly on climate risk. Reject claims that EU–US profitability gaps stem from banking regulation. Warn that pushing for larger EU banks could increase systemic risk and create too-big-to-fail dynamics. Flag risks from concentrated ownership by major US asset managers in EU banks, raising strategic autonomy questions. |
| ***National authorities and smaller-Member-State regulators*** | Emphasise that local capital/liquidity requirements remain essential absent completed Banking Union (including EDIS and harmonised insolvency). Solo safeguards prevent contagion and protect depositors even at cost of group-level optimisation. Note supervisory expectations on DGS liquidity shortfall coverage vary significantly — from 6% to 200% of covered deposits across Member States — illustrating ongoing depositor protection fragmentation. |
| ***Academic / research institutions*** | Support full market integration and harmonisation of micro/macroprudential rules. |
| ***Investment firms and their associations*** | Stress that investment-firm prudential treatment should remain distinct from credit institutions; emphasise that Class 1/Class 1 minus classifications and certain K-factors may be insufficiently risk-sensitive; call for greater proportionality in governance and remuneration requirements. |

| | |
|---|---|
| ***Stakeholders on digitalisation*** | Broad consensus that digitalisation is reshaping banking but creating regulatory asymmetries vis-à-vis FinTech and BigTech; concerns over cyber risk, third-party concentration (especially non-EU providers), DORA compliance burden and punitive software asset treatment. |
| ***Stakeholders on ESG*** | ESG disclosure requirements seen as overly complex and poorly aligned with CSRD/ESRS; calls to limit banking disclosures to ESRS content and frequency and to align with International Sustainability Standards Board (ISSB) standards; concerns over data availability and duplicative reporting; some stakeholders warn against 'ESG backlash' approach that could undermine transition finance objectives. |
| ***Stakeholders on FiDA/Open Finance*** | Financial Data Access (**FiDA**) framework contested: some see opportunity in open finance and data-driven business models, while others warn of additional complexity, cybersecurity risks and concerns over third-party data concentration. Calls for regulatory clarity before implementation. |
| ***Stakeholders on deposit insurance*** | Divergent views: large cross-border banks argue current MREL/SRF framework sufficient for significant institutions (**SIs**, i.e., banks directly supervised by the ECB); some advocate full EDIS; smaller Member States emphasise DGS liquidity concerns; broad consensus on need for European-level coordination but disagreement on architecture and urgency. |

# What the Report leaves unsaid: the supervisory architecture gap

From an institutional-architecture perspective, the more revealing feature of the Report is what it does **not** address. It is largely silent on some of the most hotly debated themes in markets:

A. The future allocation of supervisory powers between the ECB and national competent authorities (**NCAs**);

B. How Banking Union governance itself should evolve to support the capital and liquidity mobility the Report envisions;

C. The supervisory implications of tokenised deposits and digital money;

D. AI-enabled supervision;

E. The interaction between prudential supervision and market supervision;

F. How Banking Union should interface with the wider SIU.

G. The prudential framework for investment firms and its interaction with the CRR/CRD banking regime;

H. The structural interdependencies between banks and non-bank financial intermediaries, particularly in repo and FX swap markets;

I. The implications of risk migration to private credit and less-regulated NBFI entities as banks continue to deleverage;

J. How securitisation markets should develop alongside bank balance sheets to support the SIU's capital-markets objectives;

K. The competitive implications of digitalisation, including regulatory asymmetries between banks, FinTechs and BigTechs and EU dependence on non-EU technology providers; and

L. The alignment of ESG disclosure requirements with the banking prudential framework and the broader sustainable-finance regime.

M. The prudential framework for investment firms (IFR/IFD) and its upcoming mandatory review, including threshold structures, K-factor calibration, governance and remuneration requirements.

In other words, the Report focuses on regulatory "simplification" (not to be confused with deregulation per se) while largely bracketing the architecture of supervision that would need to change for its more ambitious proposals — particularly capital and liquidity fungibility — to function in practice.

# Competitiveness as an architecture question not a burden question

This gap is where we think the more durable contribution lies and where the Report's framing understates the scale of what it is actually proposing.

Treating competitiveness primarily as a question of regulatory burden invites a narrow legislative response: trim reporting, adjust buffers, ease a few Pillar 2 practices. But the Report's own headline idea — genuine capital and liquidity fungibility across a banking group's European footprint — is not achievable through simplification alone. It requires:

I. A redesigned allocation of supervisory authority between ECB and NCAs giving the consolidated supervisor genuine teeth over subsidiary-level capital deployment;

II. A resolution framework capable of underwriting cross-border loss absorption without triggering national ring-fencing reflexes — requiring resolution credibility that only completed Banking Union can provide; and

III. A deposit insurance architecture (whether through revised EDIS or functional equivalent) that can credibly back a genuinely pan-European balance sheet.

**EDIS reform: the current landscape**

The Commission's Q&A confirms it will replace the 2015 EDIS proposal with a new proposal reflecting the progress made over the past 10 years. The aim is to strengthen depositor protection regardless of whether a failing bank is handled through resolution or national insolvency, better align governance and financing of crisis management and deposit insurance within the Banking Union and address remaining vulnerabilities of deposit guarantee schemes. The new approach will build on existing safety nets at both central (Single Resolution Fund) and national (DGS) levels, rather than creating an entirely new supranational structure. Critically, it will ensure that cross-border bank failures are handled at European level so that individual Member States do not bear costs alone.

**Stakeholder positions on deposit insurance**

The targeted consultation revealed divergent views on deposit protection. A majority of cross-border banks, industry associations, EU-level authorities, some ministries, NGOs and academia acknowledge that stronger European-level depositor protection would enhance confidence and reduce fragmentation. However, views diverge on urgency and ambition. Some advocate fully-fledged EDIS as a Banking Union completion goal, while a larger group argues the current framework — MREL buffers, resolution planning and SRF access — already ensures substantial resilience for significant institutions, making liquidity provision in resolution the priority.

# Deep-dive: bank's role in capital markets and CIB competitiveness

The Staff Working Document provides granular analysis of EU banks' declining position in corporate and investment banking (CIB). Key findings include:

- **Market-share erosion:** EU banks have lost significant ground to US peers in high-margin investment banking segments. In M&A advisory, EU banks' share declined from 45% to 36% over the past two decades; in ECM underwriting, from 58% to 36%; and in global equity market-making, from 35% to 20% over the past decade. In bond underwriting, EU banks now handle only about 20% of EU corporate issuance, down from approximately 48% prior to the GFC. The top 10 league tables for M&A advisory, ECM and debt capital markets (**DCM**) activity are dominated by US institutions, with only one or two EU banks typically present.

- **USD funding dependence:** Euro-area G-SIBs' intermediation role requires them to raise significant USD funding, with approximately 17% of funding denominated in US dollars. This funding is sourced predominantly from wholesale markets and total outstanding USD repo volumes have nearly doubled since 2022 (reaching EUR 1.6 trillion). Five euro-area G-SIBs account for approximately 80% of banks' total reverse-repo claims on NBFI entities, creating concentrated structural vulnerability.

- **IT investment gap:** In the three years 2019–2022, the average annual IT investment budget of the largest US G-SIBs was around 0.5% of total assets, compared with less than 0.2% for EU G-SIBs. This underinvestment constrains EU banks' ability to compete in technology-intensive trading, risk management and client-facing digital services. The punitive CET1 deduction for software assets — which does not apply in the US prudential framework — compounds this gap by increasing the capital cost of technological investment.

- **Talent and remuneration constraints:** EU remuneration rules — including the bonus cap, deferral requirements and instrument pay-out rules — are widely cited as constraining talent attraction and retention vis-à-vis US and UK peers. The Commission is assessing possible adjustments to reduce unnecessary burden, address unintended effects on pay structures and adapt the framework to systemic risks while preventing distortions in competition for specialised talent.

- **Trading and clearing concentration**: The Staff Working Document identifies significant concentration in euro-denominated derivatives clearing and USD intermediation. The top four euro-area G-SIBs now account for approximately 60% of FX swap market volumes, up from 50% five years ago. This concentration creates systemic vulnerability: if even one major dealer were to retrench, it could impair USD liquidity provision across the entire European NBFI sector.

# Deep-dive: Non-bank financial intermediation and structural interdependencies

One of the most consequential yet underexplored dimensions of the Commission's package is the relationship between banks and non-bank financial intermediaries (**NBFI**). The Staff Working Document reveals significant structural interdependencies:

- **Credit migration:** The share of non-banks in the provision of credit to corporates has grown from approximately 15% at the time of the GFC to approximately 30% by 2021, driven in part by banks' deleveraging under stricter prudential requirements. Private credit markets have expanded significantly, raising concerns about risk migration to less-regulated entities.

- **Repo and FX swap intermediation:** Euro-area G-SIBs serve as structural intermediaries redistributing dollar liquidity toward the European NBFI sector. Net FX swap positions vis-à-vis euro-area non-banks have tripled over five years, with positions to investment funds increasing up to fivefold and to pension funds up to threefold since 2018. This creates mutually reinforcing vulnerabilities: on the liability side, approximately 60% of deposits and repos with NBFI entities are short-term, rendering G-SIBs structurally exposed to outflows; on the asset side, around 26% of total identifiable exposures to NBFI entities involve firms using leveraged strategies.

- **Concentration risk:** The repo and FX swap markets are highly concentrated, with the top four euro-area dealers now accounting for about 60% of the FX swap market (up from 50% five years ago). The failure or retrenchment of even one G-SIB could impair the proper functioning of USD intermediation across the European financial system.

- **Stakeholder calls for parity:** The consultation revealed widespread calls for a "same activity, same risk, same rules" framework, stronger NBFI transparency and enhanced macroprudential oversight of systemic NBFI risks. Banks and business associations argue that regulatory asymmetries place them at competitive disadvantage where non-banks perform bank-like activities under lighter requirements.

- **Regulatory asymmetry vis-à-vis FinTech/BigTech**: The consultation revealed that the only payment solutions currently operational across the entire EU are US-based, underscoring the competitive gap in pan-European digital payment infrastructure. Stakeholders observe that regulatory asymmetries may place banks at a competitive disadvantage relative to FinTech and BigTech entrants operating under lighter oversight, particularly in areas such as digital wallets, instant payments and embedded finance.

# What firms should consider doing now

1. **Engage in the policy dialogue now.** The window between July 2026 and Q1 2027 is when the specific metrics of reform — particularly on cross-border capital management and reporting simplification — will be shaped. Institutions should use trade associations and direct submissions to influence this window rather than respond after the fact. The Commission's consultation processes have already demonstrated that stakeholder input shapes the framing of legislative proposals.

2. **Model strategic scale.** Institutions currently constrained by national ring-fencing should begin scenario-planning how prospective easements on cross-border liquidity and capital mobility could alter mid-to-long-term M&A and expansion strategy within the Single Market. Even partial relaxation of intragroup constraints could enable more efficient deployment of capital across the eurozone footprint.

3. **Track the architecture question, not just the burden question.** The most consequential outcome of this process may not be a specific capital or reporting change, but a reallocation of supervisory competence between the ECB and national authorities. Institutions should monitor how Banking Union governance evolves as closely as the headline prudential metrics.

4. **Anticipate supervisory tension.** Watch how the ECB and NCAs navigate the political push for competitiveness alongside their core financial-stability mandate. The ECB's prudential orientation is unlikely to shift simply because the Commission has declared competitiveness a policy priority. This tension is likely to shape supervisory practice — including SREP outcomes, Pillar 2 calibrations and on-site inspection priorities — well before any legislative text is finalised.

5. **Prepare for the consultation window.** The Commission will almost certainly launch targeted consultations on specific legislative proposals in late 2026 or early 2027. Institutions that have already mapped the intersection between the Report's proposals and their own cross-border operating models will be best positioned to provide substantive input.

6. **Assess NBFI interdependencies and private credit exposure.** Institutions should map their structural linkages to non-bank financial intermediaries — particularly repo, FX swap and prime brokerage exposures — and scenario-test how stress in the NBFI sector could transmit to their balance sheets. The Commission's silence on this dimension suggests it may be addressed in a separate workstream, but institutions should not wait for regulatory clarity before understanding their own vulnerabilities.

7. **Model the digitalisation dimension.** Institutions should assess how proposed regulatory changes — including the treatment of software assets and potential adjustments to DORA implementation — could affect IT investment decisions, partnership strategies with FinTech and BigTech providers and competitive positioning in digital banking segments. The Commission's signalled willingness to revisit CET1 deductions for software may offer a near-term opportunity.

8. **Review investment-firm structures.** Groups with significant investment-firm subsidiaries or affiliates should analyse how proposed IFR/IFD amendments — including threshold revisions, K-factor recalibrations and governance changes — could affect capital allocation, business-model viability and competitive positioning vis-à-vis both banks and third-country investment firms.

9. **Stress-test sovereign-exposure strategies.** Institutions should evaluate how potential reforms to the prudential treatment of sovereign exposures — including changes to concentration-risk treatment or extension of preferential treatment for euro-denominated non-euro-area sovereign debt — could affect liquidity management, primary-dealer obligations and portfolio-diversification strategies.

10. **Plan for ESG and DORA alignment.** Institutions should monitor how the Commission addresses stakeholder calls to align banking ESG disclosures with the CSRD/ESRS framework and to streamline DORA implementation. The potential for reduced reporting burdens may depend on active engagement in the consultation process to shape the specific metrics and timelines.

# The E6 communication: Member State political endorsement and specific policy proposals

On or around 17 July 2026, the E6 — France, Germany, Italy, the Netherlands, Poland and Spain — submitted a joint communication to the Commission on its Report on the Situation and Competitiveness of the Banking Sector. The E6 Communication broadly welcomes the Report and its main messages, representing a significant political signal from the six largest euro-area Member States that the Commission's diagnostic framework has secured cross-Member State endorsement at the highest level.

The E6 stresses that, over the past decade, substantial progress has been made in strengthening the regulatory framework, improving resilience and reinforcing consumer protection, but notes that the increased requirements in the European banking framework have also made the framework complex, affecting banks of all sizes. The E6 observes that resilience objectives have been achieved and that limited progress has been achieved on cross-border activity of banks, leaving room for solutions to regulatory, supervisory and non-prudential impediments. In this environment, the E6 observes that the EU banking sector continues to face persistent competitiveness challenges that pose risks to the EU's strategic autonomy, while recent decisions taken in other jurisdictions — including the US and the UK — could have further implications for the international level playing field.

The E6 considers that the upcoming proposal, together with existing FRTB and securitisation framework proposals, could meaningfully contribute to tackling regulatory challenges by building on the Draghi and Letta reports, ECB High Level Taskforce on Simplification and national central bank proposals.

The E6 communication advances specific policy proposals across four principal areas:

1. **Simplify the European framework and enhance predictability and legal certainty, without compromising on resilience.** Notably, the E6 proposes:

   - Strengthening the framework for Pillar 2 requirements, to focus on identifiable risks not already covered by Pillar 1, in a transparent and predictable manner and improve SREP.
   - Reviewing and simplifying the capital buffer framework to enhance buffer usability in a capital-neutral way, increasing transparency and predictability and improving cross-Member State consistency.
   - Creating a more coherent and simpler regulatory environment for ESG risks with reduced overall reporting burden.

- Clearer ESA mandates in Level 1 regulation and more simplicity and proportionality in Level 2/3 regulation, with more comprehensive and independent impact assessments.
- Reviewing the SNCI regime to enhance proportionality, simplify the framework and reduce administrative cost, while maintaining robust prudential standards. Current SNCI thresholds may be too restrictive for certain regional and specialised banks posing limited systemic risk.
- Simplifying the MREL framework, without lowering important standards.
- Strengthening the Commission's role in Level 2 rulemaking and Level 3 standard-setting, with more meaningful co-legislator scrutiny of Level 2 acts.
- Streamlining reporting and disclosure requirements.

2. **Ensure that the overall level of prudential requirements for European banks does not hinder the financing of the EU economy, without compromising on resilience.** Notably, the E6 proposes:

   - Securing access to bank funding for companies, particularly those without external ratings, for infrastructure, sustainable/digital transition and trade, including reassessing output floor transitional arrangements for residential mortgages and unrated corporates (Article 465(3) CRR) and the treatment of unconditionally cancellable commitments.
   - Reviewing EU-specific requirements or implementation choices stricter than Basel standards to ensure they remain justified, proportionate and consistent with competitiveness and financial stability objectives.
   - Identifying and reducing double counting of risks.
   - Supporting discussion on a competitiveness mandate for the ESAs with stakeholder participation and impact assessments reflecting it. The E6's position suggests a competitiveness mandate should be embedded in ESA working methods, impact assessments and cost-benefit analyses.

3. **Ensure a level playing field in activities where European banks face intense international competition.** Notably, the E6 proposes:

   - Monitoring global implementation of international standards and, where necessary, creating instruments to react to developments impacting the level playing field between European and non-European banks.
   - Assessing where direct competition from non-EU banks exists and how the regulatory framework affects it.
   - Creating better incentives for technological and digital innovation, particularly by revisiting software asset treatment.

4. **Explore safeguards for cross-border banking group subsidiaries while strengthening the internal market**

The E6's fourth area is perhaps the most politically sensitive: exploring in a consensual manner whether appropriate safeguards to address concerns in respect to the resilience, early intervention and crisis management of subsidiaries of cross-border banking groups, while ensuring that losses are borne by shareholders and creditors and moral hazard risks and too-big-to-fail challenges are minimised, can be a way to strengthen the internal market.

This final area directly addresses the home-host tensions (i.e., the competing interests between the home Member State of a banking group's parent company and the host Member States where its subsidiaries operate) that have long impeded Banking Union completion. The E6's use of the phrase "in a consensual manner" reflects the reality that smaller Member States remain concerned about losing local supervisory control over subsidiaries of large cross-border groups, while larger Member States — home to the parent institutions — seek greater flexibility in capital and liquidity deployment.

**Significance of the E6 communication**

The E6 Communication is significant for several reasons. First, it represents a coordinated political position from the six largest euro-area Member States, accounting for the vast majority of euro-area banking assets. Second, it provides specific, actionable policy proposals that go beyond the Commission's own diagnostic framework. Third, it signals where the political centre of gravity is likely to lie as the Q1 2027 legislative package is negotiated.

The E6's focus on the output floor, unrated corporates, software assets and the MREL framework aligns closely with the key pressure points identified by the Commission. The E6's explicit support for a competitiveness mandate for the ESAs and for strengthening the Commission's role in Level 2 rulemaking signals a broader political shift toward constraining regulatory agency autonomy in favour of greater political accountability. Notably, the E6 proposes reviewing EU-specific requirements or implementation choices that are stricter than Basel standards to ensure they remain justified and proportionate — effectively endorsing a systematic review of gold-plating across the CRR/CRD framework.

For financial institutions, the E6 communication provides an important signal of the likely Q1 2027 package scope and direction. Commission diagnostic ambition combined with E6 political endorsement suggests forthcoming legislative proposals will be substantive rather than cosmetic.

# Practical and documentation considerations

The following analysis identifies key documentation and contractual priorities that may arise from the Commission's reform proposals. These considerations are necessarily preliminary and contingent: the specific scope, calibration and timing of reforms will depend on how the Q1 2027 legislative package develops through the co-decision process, as well as on subsequent Level 2 rulemaking and supervisory guidance. Institutions should treat this analysis as a framework for early-stage planning and internal discussion rather than as a definitive compliance roadmap. The priorities below will require ongoing refinement as the legislative text emerges and as implementation timelines become clearer.

**1. Intragroup agreements and capital/liquidity arrangements**

The Commission proposes enabling greater capital and liquidity fungibility within banking groups and applying the same regulatory treatment to intragroup exposures at domestic and EU level. If enacted, firms should review existing intragroup loan agreements, capital support agreements and liquidity facilities to ensure they are structured to benefit from anticipated liberalisation. Parent-subsidiary funding arrangements should be documented with clear subordination, transferability and early termination provisions. Group treasury policies and intragroup exposure management frameworks will require updating to reflect any new regulatory treatment.

**2. MREL and loss-absorbing capacity documentation**

The Commission will propose revising the MREL framework to bring it closer to international TLAC standards and streamlining the prior permission regime for redemption and replacement of MREL instruments. Firms should review MREL-eligible instrument documentation (subordinated debt, senior non-preferred notes) to ensure terms align with anticipated simplified eligibility criteria. Internal policies governing the issuance, redemption and replacement of loss-absorbing instruments will require updating, along with liability management procedures to reflect streamlined prior permission processes.

**3. Resolution planning documentation**

The Commission will propose that certain assessments in the resolution planning phase are made more proportionate, given that resolution planning activities have matured since the framework was introduced. Firms should review and potentially simplify resolution plan documentation, including operational continuity playbooks. Service level agreements with critical service providers and financial market infrastructure access agreements should be assessed for alignment with resolution planning requirements.

**4. Pillar 2 and SREP documentation**

The Commission will propose measures to enhance the functioning of Pillar 2 guidance to ensure targeted application and proposes to remove Pillar 2 capital requirements related to the leverage ratio. Firms should review internal capital adequacy assessment process (**ICAAP**) documentation to ensure clear linkage between risk identification and capital allocation. Internal policies governing remediation of supervisory findings and capital planning policies should be updated to account for enhanced coordination mechanisms between microprudential, resolution and macroprudential authorities.

**5. Cross-border M&A and structural documentation**

The Commission will use its enforcement toolkit where it identifies breaches of Union law by Member States regarding interventions in mergers and acquisitions. Firms contemplating cross-border transactions should review share purchase agreement templates and merger documentation. Due diligence frameworks should be updated to address regulatory approval timelines and supervisory expectations. Governance documentation for banking groups with cross-border subsidiaries should be reviewed, along with documentation for potential branchification strategies (i.e., converting subsidiaries into branches, which are not separately capitalised legal entities but rather extensions of the parent bank).

**6. Reporting and disclosure documentation**

The Commission is targeting a 50% cut in reporting data points by 2027. Firms should review data sharing agreements with third-party service providers to align with anticipated reporting simplification. Internal policies governing data governance, validation processes and reporting controls should be updated. Service contracts with reporting agents and data providers should be reviewed, including in preparation for potential transition from dual-sided to single-sided EMIR reporting.

**7. Recovery plan documentation**

The Commission will propose stronger coordination mechanisms between authorities responsible for implementing microprudential, resolution and macroprudential rules. Firms should review recovery plan documentation to ensure alignment with crisis management expectations. Early warning indicator frameworks and escalation procedures should be updated, along with policies governing interactions between group recovery planning and subsidiary-level contingency arrangements.

**8. Deposit insurance and DGS documentation**

The Commission will replace the 2015 EDIS proposal with a new proposal to review and simplify the structure of the deposit insurance framework. Firms should review deposit product documentation and terms and conditions, as well as policies governing deposit guarantee scheme contributions and reporting. Customer communications and disclosure documentation regarding deposit protection should be reviewed in preparation for potential changes.

**9. Governance and internal policies**

The Commission promotes a shift in supervisory culture towards a more materiality-based and proportionate approach, with compliance grounded on underlying substance rather than approached as a tick-the-box exercise. Firms should review compliance policies and procedures to emphasise substance over form. Risk appetite statements and internal control frameworks should be updated, along with documentation governing requests for regulatory guidance.

**10. ESG and sustainability documentation**

The E6 proposes creating a more coherent and simpler regulatory environment for ESG risks, including with regard to the ESRS, with a reduction in overall reporting burden. Firms should review sustainability-linked loan documentation and green bond frameworks. Client onboarding procedures and KYC documentation for ESG data collection should be updated, along with supply chain and counterparty sustainability covenants.

# Outlook

The Commission's Report should be read as an opening position in a negotiation that will run through 2027, not as a settled policy programme. Its diagnosis of fragmentation, gold-plating and complexity is unlikely to be seriously contested. Its prescriptions — particularly on capital and liquidity mobility — are more ambitious than their "simplification" framing suggests and will ultimately require the EU to confront questions of supervisory architecture that this Report has, for now, left to one side. The Commission notes the ambition of the co-legislators, referring to the European Council conclusions of December 2025 and March 2026 and the European Parliament's annual report on the Banking Union.

Our thesis, consistent with our recent work on the SIU, Banking Union completion and cross-border supervisory cooperation, is this:

> *The next phase of Banking Union is not primarily about reducing regulation. It is about designing the supervisory, prudential and capital-allocation architecture that allows European banks to compete globally while preserving financial stability.*

Read this way, the Report is less a deregulatory turn than a recalibration of the competitiveness objective alongside — not at the expense of — financial stability and consumer protection. Banking Union completion is increasingly being framed as a competitiveness measure in its own right, rather than a residual crisis-management project — and the Commission's evident willingness to revisit post-crisis prudential design, provided resilience is maintained, marks a genuine shift in policy tone from the past decade.

The question that the Q1 2027 legislative package will ultimately have to answer is not "how much regulation can we remove?" but rather "what institutional architecture is required to make a genuinely pan-European banking market function credibly?" That is a fundamentally different — and more consequential — question.

The direction of travel is clear: the political centre of gravity in EU banking policy has (in welcomingly in parts even refreshingly) shifted from crisis-prevention to growth-enablement. The legislative package expected in Q1 2027 will test whether this shift can be translated into concrete reforms that simultaneously enhance competitiveness, preserve financial stability and advance the long-delayed completion of Banking Union. As President von der Leyen stated: “Getting capital flowing is how we will get Europe growing. Our Savings and Investments Union needs a strong, competitive banking sector at its heart.” Institutions that engage now — both in the policy dialogue and in their own strategic planning — will be best positioned to navigate the resulting changes.

It is also worth noting that parts of the Communication remain deliberately conceptual. This is likely to leave significant room for the Commission’s incoming leadership at DG FISMA to shape the detailed legislative proposals expected in Q1 2027.

# About us

PwC Legal is assisting a number of financial services firms and market participants in forward planning for changes stemming from relevant related developments. We have assembled a multi-disciplinary and multi-jurisdictional team of sector experts to support clients navigate challenges and seize opportunities as well as to proactively engage with their market stakeholders and regulators.

Moreover, we have developed a number of RegTech and SupTech tools for supervised firms, including PwC Legal's Rule Scanner tool, backed by a trusted set of managed solutions from PwC Legal Business Solutions, allowing for horizon scanning and risk mapping of all legislative and regulatory developments as well as sanctions and fines from more than 2,500 legislative and regulatory policymakers and other industry voices in over 170 jurisdictions impacting financial services firms and their business.

Equally, in leveraging our Rule Scanner technology, we offer a further solution for clients to digitise financial services firms' relevant internal policies and procedures, create a comprehensive documentation inventory with an established documentation hierarchy and embedded glossary that has version control over a defined backward plus forward looking timeline to be able to ensure changes in one policy are carried through over to other policy and procedure documents, critical path dependencies are mapped and legislative and regulatory developments are flagged where these may require actions to be taken in such policies and procedures.

The PwC Legal Team behind Rule Scanner are proud recipients of ALM Law.com's coveted "2024 Disruptive Technology of the Year Award" and the "2025 Regulatory, Governance and Compliance Technology Award in 2025".

If you would like to discuss any of the developments mentioned above, or how they may affect your business more generally, please contact any of our key contacts or PwC Legal's RegCORE Team via de_regcore@pwc.com or our website.


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