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Financing the Future

Nordic position on the Commission's Communication on Competitiveness of the Banking Sector and the Internal Market for Banking and input for upcoming Banking Package

Foreword

Europe faces an unprecedented investment challenge. Delivering on the Union's ambitions for competitiveness, defence, energy security, digital leadership, and the green transition will require the mobilisation of investment on a scale not seen in decades. Recent estimates suggest that Europe's annual investment gap may exceed €1 trillion, reflecting both rising financing needs and the growing urgency of strengthening Europe's resilience, productivity, and strategic autonomy.

Closing this gap will depend on a financial sector that is capable of financing the future. Banks remain the primary source of external financing for European businesses, particularly small and medium-sized enterprises that form the backbone of the economy. A strong, competitive, and integrated banking sector is therefore not only a prerequisite for financial stability, but also a critical driver of growth, innovation, and economic resilience. If Europe is to achieve its strategic objectives, banks must be able to fully perform their role in financing households, businesses, and long-term investment.

The Nordic Banking Associations of Denmark, Finland, Norway, and Sweden therefore welcome the European Commission's Report on the Competitiveness of the Banking Sector and the Single Market in Banking. The report rightly recognizes the need to reassess whether the current regulatory framework strikes the appropriate balance between resilience, competitiveness, innovation, and growth. Financial stability remains fundamental, but sustainable growth requires investment, and investment requires prudent risk-taking. A well-functioning financial system should be able to assess, price, and absorb risk in support of economic activity, rather than seek to eliminate it altogether.

Europe's future investment needs are increasingly concentrated in long-term, capital-intensive projects such as renewable energy, electricity grids, industrial decarbonisation, digital infrastructure, artificial intelligence, cybersecurity, semiconductors, and defence capabilities. These investments are essential to Europe's future prosperity and security, yet current regulatory and supervisory frameworks do not always create the right conditions for banks to support them efficiently. Excessive complexity, overlapping requirements, regulatory fragmentation, and unintended constraints on lending capacity can limit banks' ability to channel capital towards projects that are central to Europe's strategic priorities.

The next phase of financial regulation should therefore focus on better regulation rather than more regulation. There is considerable scope to simplify the regulatory framework while maintaining robust safeguards and financial stability. A more proportionate, predictable, and growth-supportive framework would strengthen banks' capacity to finance investment, deepen the Single Market, and improve the allocation of capital across Europe.

From a Nordic perspective, the objective is clear: a banking sector that is safe but not risk-averse, resilient but not constrained, and fully capable of financing Europe's long-term ambitions. Achieving this will require a regulatory framework guided by proportionality, simplification, and a balanced approach to risk-taking, recognising that prudent risk-taking is not a threat to prosperity, but a prerequisite for it.

We are looking forward to engaging in the discussions of the upcoming Banking Proposal. The need for swift action in our view also merits a discussion of the need for advancing parts of the package in a "competitiveness track" that could be implemented relatively fast.

Nordic recommendations for the upcoming Banking Proposal

The report on Competitiveness of the Banking Sector and the Internal Market for Banking sets out three areas where a number of initiatives should be taken, and which will be addressed in the upcoming Banking Package.

1. Fragmentation along national borders
2. Implementing international standards taking into account EU specificities
3. Undue complexity in the regulatory framework

Below, the Nordic Banking Federations have listed our recommendations for the upcoming Banking Proposal.

1. Fostering market integration

Despite significant progress, the European banking market remains fragmented along national lines. This limits the efficient allocation of capital and liquidity and constrains banks' ability to operate at scale. A key driver is the heterogeneity in national implementation of directives and supervisory practices. While the EU single rule-book provides a common foundation, national discretions and supervisory approaches have led to diverging requirements across Member States. In practice, this has resulted in gold-plating and regulatory fragmentation that undermine the level playing field and create "supervisory risk" for cross-border activity.

The economic cost of fragmentation is significant. Banks operating across multiple Member States face higher compliance costs, legal uncertainty and additional operational complexity compared to operating in a genuinely integrated market. This reduces incentives for cross-border expansion and limits the emergence of pan-European banking groups that could support investment, innovation and economic growth across the Union. While appropriate safeguards remain necessary, the current framework limits the efficient movement of capital and liquidity within cross-border banking groups. Reducing unnecessary barriers would allow banks to deploy resources more efficiently and better support households and businesses across the Union.

Nordic Recommendations

- **Remove national gold-plating of EU rules**
 - Gold-plating risks creating higher costs, lower competitiveness, reduced financing capacity, and greater market fragmentation while delivering only limited additional prudential benefits. A harmonised and proportionate regulatory framework is an effective way to support both financial stability and economic growth.
- **Facilitate the efficient transfer of capital and liquidity within cross-border banking groups**
 - Reducing unnecessary ring-fencing and promoting a more harmonized supervisory approach would support cross-border banking activity and improve the allocation of financing across the Union.

2. Implementing international standards while taking account of EU specificities and ensuring proportionality

The EU has consistently supported the development and implementation of international regulatory standards as a cornerstone of global financial stability and a level playing field. The European financial system remains more bank-based than in other major economies, with companies — particularly SMEs — relying primarily on bank financing. At the same time, the EU banking sector is highly diverse, encompassing institutions with different sizes, business models, and risk profiles. Against this backdrop, the implementation of international standards does not always sufficiently reflect European specificities. This can result in disproportionate impacts on certain activities and create disincentives for banks to engage in financing that is critical for Europe's growth and competitiveness, particularly for long-term and capital-intensive investments.

A particular example is the implementation of the Output Floor. The impact is particularly significant in Nordic countries due to the treatment of unrated corporate exposures and the on-balance sheet mortgage model with lending to SMEs and businesses secured by commercial real estate and lending to homeowners secured by residential real estate. While a much larger share of US corporates is externally credit rated, the vast majority of European companies are not. This reflects the structure of the European economy, where companies rely predominantly on bank financing rather than capital market funding. Under the standardized approach, unrated corporate exposures are generally assigned higher risk weights than rated exposures. As a result, the Output Floor significantly increases capital requirements for lending to European businesses, despite no corresponding evidence of higher underlying risk. The framework therefore risks penalising the traditional European financing model and constraining banks' ability to provide credit to the companies that are expected to drive Europe's green, digital, and industrial transformation.

Mortgage lending in the Nordics and in most of Europe is an on-balance sheet-based business model. Meanwhile in the US, low-risk mortgage loans are removed from the bank's balance sheet and moved to government sponsored entities. Left on the balance sheet of the US banks are the less conforming loans with higher risk and loans above the maximum loan limits for transfer. Furthermore, in Europe mortgage loans are predominantly dual recourse loans, meaning that the borrower has personal liability and no walk-away option. Consequently, EU mortgage loans show a lower risk profile than non-recourse mortgage loans in the US. These structures justify lower risk weighting for mortgage loans in the EU, compared to the risk weighting of mortgage loans in the US. The impact of the Output Floor is not limited to residential mortgage lending. In several Nordic countries, lending secured by commercial real estate also forms an important part of the traditional bank lending model and is characterized by long experience, detailed borrower information and historically low loss rates in certain segments. Where empirical loss data consistently indicates lower risk than assumed by the current framework, this should be reflected in the prudential treatment. A more risk-sensitive approach would support financing of productive investments while maintaining financial stability.

Differences in implementation across jurisdictions further risk undermining the global level playing field. If other major economies adopt more flexible approaches, European banks may face a structural disadvantage in both domestic and international markets. A balanced implementation of international standards, which re-

mains risk-sensitive and proportionate while reflecting European market conditions, is therefore essential to support both financial stability and competitiveness. As regards proportionality, the initiative to strengthen the proportionality regime by adjusting the eligibility criteria and thresholds for Small and Non-Complex Institutions (SNCIs) is much welcomed. The size criterion should serve as the sole element, while the threshold value should be increased to EUR 10 billion in total assets as the current system excludes many small and non-complex banks due to national characteristics. We must, however, acknowledge that over time inflation will undermine a fixed nominal threshold.

Nordic Recommendations

- **Implement international standards while taking into account EU specificities**
 - Make the Output Floor's transitional arrangements for unrated corporates and residential real estate exposures permanent at the current level and extend them to the standardised approach.
 - Introduce an analogous, separately calibrated treatment for low-risk commercial real estate exposures where justified by robust loss data and prudent loan-to-value thresholds.
 - Make the arrangements prescribed in the FRTB Delegated Act permanent and adjust the output floor to ensure that the Internal Models Approach (IMA) for market risk remains relevant and feasible from a capital perspective for European banks relative to the Standard Approach
 - Adjust the definition of trade finance so that it is not tied to specific maturity caps.
 - Align the prudential treatment of software investment with key global peers to incentivise the modernisation of banking infrastructure, facilitating further investment in cyber security and creating economies of scale.
- **Avoid gold-plating of international standards**
 - Remove buffer requirements that are not prescribed by Basel standards such as the Systemic Risk Buffer and the use of a 'positive-neutral' Counter-Cyclical Buffer
- **Proportionality for Small and non-complex institutions**
 - Raise the threshold for small and non-complex institutions (SNCIs) from EUR 5bn to EUR 10bn in total assets.
- **Align MREL with TLAC standards**
 - Recalibrate the MREL subordination requirements.
 - Abolish the market confidence charge and national add-ons.

3. Simplifying the regulatory framework, streamlining reporting and improving supervision

The need for culture change

Over the past decade, the EU has significantly strengthened its regulatory and supervisory framework, resulting in a more resilient banking sector. While these reforms have been necessary, they have also contributed to increasing complexity. The current framework is characterized by multiple layers of regulation, guidance, and supervisory practices, which often interact in overlapping and, at times, inconsistent ways. This increases compliance costs, reduces transparency and predictability, and absorbs significant resources within banks that could otherwise be deployed to support lending and investment.

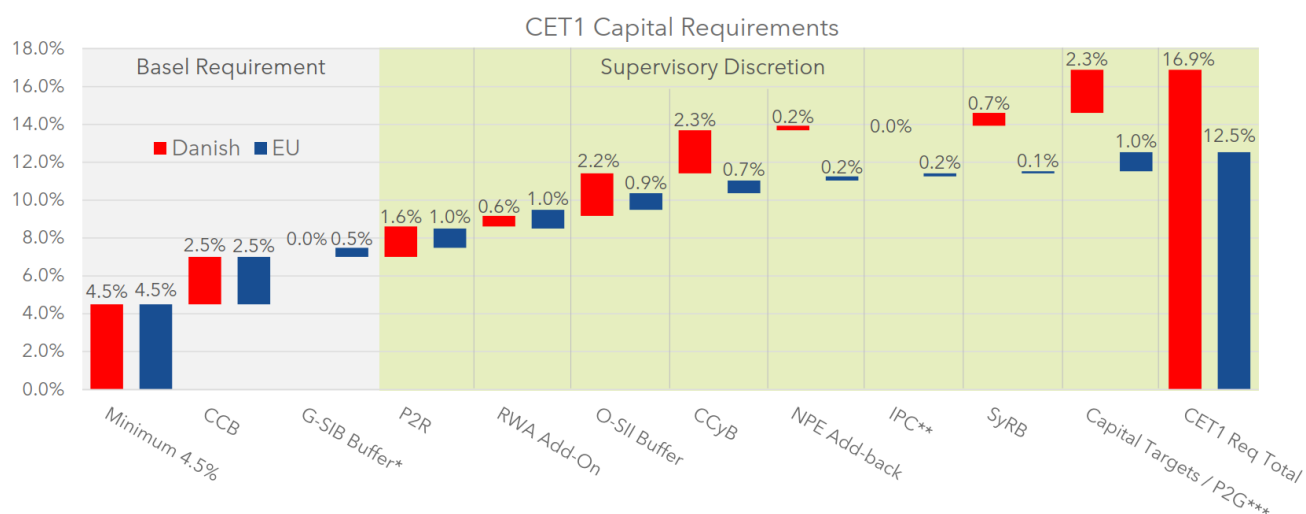
The objective going forward should not merely be to simplify today's framework, but to establish a legislative and supervisory culture that prevents unnecessary complexity from accumulating in the future. Without such an approach, periodic simplification exercises will only address the symptoms rather than the underlying causes. Future regulation should therefore be guided by clear principles of proportionality, coherence, and cumulative impact, ensuring that every new requirement creates demonstrable value and does not unintentionally add to an already complex framework.

Microprudential, macroprudential, and resolution requirements lead to overlaps

In particular, the interaction between microprudential, macroprudential and resolution requirements has led to duplication and unintended constraints. This limits banks' ability to efficiently allocate capital and, in some cases, reduces the effective usability of buffers in times of stress. The cumulative effect is a regulatory environment that, in certain areas, goes beyond what is necessary to achieve its prudential objectives, while at the same time constraining banks' ability to support the real economy. Differences in the calibration of combined buffer requirements are particularly important. The current framework allows for significant national discretion in buffers such as the countercyclical capital buffer, the systemic risk buffer, and the O-SII buffer. We therefore consider that capital-based macroprudential measures stemming from CRR and CRD should be reviewed. Risk-weight floors (Article 458 CRR) overlap functionally with the output floor. They also create a double counting effect when they are combined with an O-SII buffer or a systemic risk buffer. These should be abolished to avoid double counting of risks, unnecessary complexity and diverging national solutions for internal model constraints.

In the Nordic countries, combined buffer requirements are among the highest in Europe, despite strong economies and resilient banking sectors. While macroprudential flexibility is important, such divergences can discourage cross-border expansion, distort competition, and limit banks' ability to scale. We therefore welcome the Commission's intention to review the macroprudential framework, including the proposal to simplify and potentially consolidate remaining buffers into a more coherent structure. A more streamlined approach to the combined buffer requirement could reduce complexity, improve transparency and support greater consistency across Member States. We also welcome the Commission's focus on the O-SII framework, where further harmonization can help address unwarranted divergences. The divergent macroprudential requirements are illustrated by the analysis from the Global Association of Risk Professionals (GARP), which shows that Danish banks

are required to hold an additional 4.4% of risk weighted assets in CET1 capital due to supervisory discretions¹. The situation is similar in other Nordic countries.



Coordinated supervision with focus on competitiveness

A more integrated European banking market requires not only harmonized rules, but also more consistent and coherent supervision. Greater cooperation among national supervisors, the ECB and among the European Supervisory Authorities, combined with a clear competitiveness mandate, would help strengthen Europe's financial sector while preserving high standards of financial stability and consumer protection. Supervisory authorities play a significant role in shaping the business environment for financial institutions. While financial stability and consumer protection must remain primary objectives, supervisors should also be required to consider the impact of their decisions on competitiveness, growth, and the ability of the financial sector to support the real economy.

A competitiveness mandate would encourage supervisors to:

- Ensure that supervisory actions are proportionate and risk-based.
- Consider the cumulative burden of regulation and supervision.
- Facilitate timely approvals and supervisory decisions.
- Promote efficient markets that can finance investment and growth.

Smarter and more coordinated reporting

Banks and other financial institutions are often required to submit overlapping and highly detailed data to multiple national and European authorities, creating significant administrative costs and diverting resources away from serving customers and financing economic growth. A more streamlined reporting framework, based on the principle of collecting data once and sharing it across authorities where possible, would reduce unnecessary burdens while maintaining supervisory oversight. This would improve data quality, increase efficiency for both institutions and supervisors, and free up resources that can be directed towards lending, innovation, digitalisation, and supporting Europe's investment needs.

¹ * The G-SIB Buffer has 0 impact on CET1 requirements for the banks in this study as there are currently no Danish G-SIBs.

** Irrevocable Payment Commitments (IPC) are not present as a legal obligation in Denmark; however, credit institutions have already fully paid in all resolution scheme obligations

***"Capital Targets" refers to the Danish buffer 'Kapitalmålsætningen', to which the closest comparison in the EU is P2G. However, 'Kapitalmålsætningen' defines an overall target CET1 requirement, including a stress scenarios buffer, rather than being an incremental buffer which is the case for P2G.

Nordic Recommendations

- **A thorough review of macroprudential tools**
 - Reduce the number of buffers, harmonizing metrics and methodologies across member states.
 - The framework for Countercyclical Capital Buffer should be clarified to ensure that the buffer is only activated in response to an identified build-up of systemic risk.
 - The methodology for the Other Systemically Important Institution Buffer should be harmonised, with clear floors and caps
 - The Systemic Risk Buffer Buffer should be removed.
- **Enhance coordination and accountability between national financial supervisory authorities**
 - To reduce complexity and avoid overlaps in the capital framework, authorities should be tasked to quantitatively assess and eliminate all overlaps present in a bank's capital stack. This requires enhanced coordination between microprudential, macroprudential and resolution authorities across member states.
 - For banks present in multiple member states, the home competent authority should be tasked with assessing the appropriateness of the overall capital requirement for the bank in proportion to its overall risk profile
 - The home competent authority should bear the ultimate responsibility eliminating overlaps between the different layers of the capital stack.
- **Introduce a competitiveness mandate for European Supervisory Authorities, ECB and National Competent Authorities**
 - Financial supervisors and European Supervisory Authorities should consider not only financial stability objectives, but also the cumulative impact of regulation on banks' ability to finance households and businesses as part of their regulatory mandate. This would help ensure that prudential objectives are pursued in a proportionate manner while supporting growth and competitiveness.
 - Banking supervision should be readjusted to be more risk-based and bank-specific, inspecting banks based on the materiality of their individual risk profile. Duplication of measures and data requests should be avoided.
- **Further reduce and optimize reporting requirements**
 - Smarter and more coordinated reporting can deliver the same supervisory outcomes at a lower cost than the current setup, strengthening both financial stability and the competitiveness of the European financial sector.
 - One possibility could be to ban national authorities to request new national level bank reporting as a rule; new reporting proposals would be subject to a "comply or explain" process by the EBA. The EBA could also be tasked to monitor the discontinuation of existing national reporting.
- **Improve the functioning of Pillar 2 Requirements and Guidance**
 - Clarify that Pillar 2 Requirements are limited to clearly identified risks not adequately covered by Pillar 1.
 - Overlaps and double counting in the capital stack must be eliminated by requiring financial authorities to provide sound documentation for the risk coverage of the Pillar 2 Requirements

add-ons, ensuring that the risks addressed are not already covered by other parts of the framework such as Pillar 2 Guidance and the macroprudential buffers

- Measures to increase transparency and predictability of Pillar 2 requirements and guidance should be implemented to facilitate sound risk management and capital planning,