

Banking competitiveness



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Summary

The European Commission's Banking Competitiveness initiative provides an important opportunity to strengthen Europe's banking sector while supporting the development of deeper and more liquid capital markets. ICMA argues that reform should focus on overcoming regulatory and operational fragmentation, reducing overlapping prudential requirements and increasing banks' usable balance-sheet capacity without weakening resilience. Particular attention should be given to the leverage ratio, output floor, the importance of bond and repo markets and cross-border banking activity. A more coherent, risk-sensitive framework would enhance banks' ability to underwrite, make markets, hedge risk and provide repo financing, helping to build a more integrated and competitive European capital market.

In pursuit of its ambition to strengthen capital market development and deliver the objectives of the Savings and Investment Union (SIU), the European Commission published its Communication on Banking Competitiveness on 17 July 2026, just seven months after proposing the Market Integration and Supervisory Package (MISP). Complementing the capital markets pillar of the SIU, the initiative seeks to reinforce the role of European banks by enhancing their competitiveness, facilitating the freer circulation of capital, promoting a more tailored implementation of global standards, and simplifying the increasingly complex regulatory framework.

Competitive banks and deep capital markets are mutually reinforcing. Europe will not develop larger and more liquid debt capital markets unless banks retain both the ability and the commercial incentive to intermediate. Banks underwrite new issuance, make secondary markets, warehouse risk, hedge exposures and use repo to finance inventories and mobilise collateral.

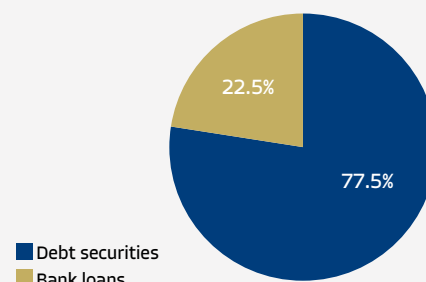
These functions require usable balance-sheet capacity. The objective of prudential reform should therefore not be deregulation, but better calibration: preserving the resilience of the banking system while ensuring that capital, leverage and liquidity requirements do not unnecessarily constrain economically important intermediation.

This is particularly important for European bond and repo markets. Repo finances dealer inventories, supports market liquidity and enables collateral mobility.

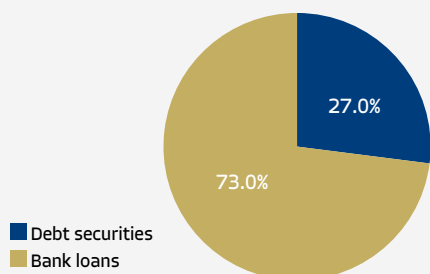
A prudential framework that constrains repo or makes market-making uneconomic will ultimately impede the development of Europe's debt capital markets.

ICMA strongly supports the Banking Competitiveness initiative and has identified a range of technical and policy recommendations to complement the legislative measures that are expected to be proposed in early 2027, with the objective of maximising the initiative's success. In this context, it is useful to consider other jurisdictions that have traditionally benefited from deep, integrated and dynamic capital markets. Although it has evolved under different historical and institutional circumstances, the US capital market is significantly more developed than that of the European Union, particularly in the area of corporate bond markets.

US Corporate Financing (non-financials), Q4 2025



Euro area corporate financing (non-financials), Q4 2025



The European Commission has correctly identified the key challenges facing the European banking sector. The most significant obstacle to greater competitiveness, including increased cross-border activity, is fragmentation, both regulatory and operational.

From a regulatory perspective, fragmentation arises from differences in the calibration of capital and liquidity requirements. Operationally, banks often remain reluctant to expand cross-border activities because of the higher costs, risks and administrative burdens involved. This challenge is exacerbated by diverging national legislation, including gold-plating, the inconsistent application of EU rules across Member States, and varying supervisory and administrative practices. Together, these overlapping and often inconsistent approaches undermine the competitiveness of the European banking sector.

The second major obstacle is the implementation of international standards. Deviations from, and delays in, the implementation of internationally agreed standards, particularly Basel III, in some major jurisdictions have heightened concerns about the global competitiveness of EU banks. As a leading international standard-setting body for financial markets, ICMA stands ready to share its expertise and experience to help address these challenges.

Thirdly, undue complexity within the regulatory framework remains a significant concern. A combination of highly granular rules, complex reporting and disclosure requirements, and overlapping microprudential, macroprudential and resolution frameworks has created a regulatory landscape that is increasingly difficult to navigate. The absence of a holistic perspective further complicates implementation, given the large number of actors involved in the regulatory process.

Where greater harmonisation is required, directly applicable EU Regulations should generally be preferred to Directives.

A key challenge is that the cumulative interaction of capital, leverage, liquidity and resolution requirements may unintentionally constrain banks' ability to intermediate in bond and repo markets. Policymakers should assess whether

the overall prudential framework preserves resilience while still providing sufficient balance-sheet capacity for market-making, underwriting, hedging and repo activity.

The Commission explicitly acknowledges that various elements of the capital framework have been developed "in silos and in different sequences", resulting in requirements that may overlap or address the same risks. Many of the Commission's observations are consistent with findings from ICMA's work on European bond, repo and hedging markets, as well as with the conclusions of the European Commission Expert Group on Corporate Bond Markets (2017).

A particular concern is the reduced capacity of banks to warehouse risk and provide intermediation during periods of market stress. At the same time, market structures are evolving, with hedge funds and other alternative trading firms playing an increasingly important role in market-making activities.

Three priorities are central to preserving banks' capacity to support European capital markets: *scale, simplicity, and capacity*.

Scale

European banks must be able to deploy capital, liquidity and operational resources efficiently across the Single Market. National fragmentation, duplicated subsidiary-level requirements and inconsistent supervisory practices prevent banking groups from achieving genuine European scale. This, in turn, limits their ability to compete internationally in activities where scale is critical, including market-making, sovereign and corporate bond underwriting, primary dealing, derivatives and risk management.

The European Commission is right to propose measures aimed at supporting scale and competitiveness for EU banks, including initiatives to optimise the allocation of capital and liquidity through prudential waivers, intragroup large exposure exemptions and internal MREL arrangements.

To be effective, however, these measures must be sufficiently ambitious. They should build on the high degree of resilience and soundness already achieved by the European banking sector, as well as on the Single Rulebook and the demanding EU supervisory framework, while avoiding overly restrictive conditions that could undermine their intended benefits.

Simplicity

The future prudential framework should be coherent, predictable and sufficiently transparent for firms, supervisors and investors alike. Simplification should not be confused with a reduction in resilience. Rather, it means eliminating overlapping requirements, double counting, unnecessary reporting obligations and national divergences, while ensuring that regulation remains focused on material risks.

The Commission itself acknowledges that interactions between microprudential, macroprudential and resolution requirements can lead to duplicative capital demands and reduce the usability of capital buffers. Addressing these overlaps would improve both the effectiveness and efficiency of the prudential framework.

Capacity

Resilient banks require adequate capital and liquidity. Capital that is trapped, duplicated or effectively rendered unusable through the interaction of multiple regulatory constraints cannot support its intended economic purpose of market intermediation. The key test for future reforms should therefore be whether the overall framework continues to safeguard resilience while, at the same time, enabling banks to commit balance sheet capacity to economically important activities.

These activities include market-making, repo transactions, hedging and underwriting, all of which are essential to the efficient functioning of capital markets and to the financing of the real economy.

A critical priority will be to simplify the capital stack and supplementary requirements in order to increase usable balance-sheet capacity. The hierarchy of regulatory capital requirements and instruments should be streamlined, with fewer layers, less overlap and greater transparency, making it easier to understand and manage. This means reducing overlapping capital and loss-absorbing requirements and clarifying the hierarchy of buffers. Reassessing the leverage ratio (LR) should be a central element of this process, so that it operates as a credible backstop rather than a binding, risk-insensitive constraint.

The Banking Competitiveness initiative, together with MISP, provides an important opportunity to address structural constraints on European bond and repo market intermediation.

The following areas offer particular potential for progress.

1. Banks' role as market makers and market intermediaries

The ability to make markets depends on usable balance sheet capacity to warehouse risk, a functioning repo market to finance long and short positions, deep and liquid hedging markets and, to a lesser extent, a well-calibrated post-trade transparency deferral regime. All these aspects are directly impacted by the application of capital and liquidity rules. Bond market liquidity and resilience are heavily dependent on the ability and willingness of dealer banks to act as market makers.

Repo performs three connected functions in debt capital markets: it finances dealer inventories and short positions; it enables banks and investors to manage liquidity; and it mobilises the collateral required for margining, hedging,

and risk management. Frictions in repo therefore translate directly into reduced market-making capacity and weaker bond-market liquidity.

Banks' capital stacks should be simplified, and the prudential requirements facing EU banks should be more closely aligned with those applicable to their global competitors. This would increase underwriting capacity and help EU banks support large corporate capital-market transactions more efficiently. Simplifying the capital stack could help lower funding costs by reducing unnecessary pillar II add-ons.

In addition, deeper securitisation markets are essential. Reforms should allow banks to recycle exposures and free balance-sheet capacity through securitisation. Simplifying the bank capital structure, reducing its associated costs, and enhancing banks' balance sheet and trading capacity would have clear positive implications for the development of a more efficient and effective securitisation market.

Consideration should also be given to the various regulatory barriers and disincentives to the adoption of central clearing for the EU's government bond and repo markets, particularly with respect to non-banks. This includes MMF and UCITS rules that restrict the re-use of collateral, as well as MMF haircut requirements for third-country CCPs. More specifically, from a banking competitiveness perspective, the Commission's initiative should be an opportunity to review the capital rules as they apply to EU sponsor or agent clearing banks and to explore the potential for cross-product netting for counterparty credit risk capital under both the standardised approach and banks' internal models.

2. Enhancing the repo market's depth and efficiency

The repo market is already central to market functioning, and its importance is likely to increase as the ECB and the Eurosystem gradually withdraw liquidity from the financial system. While central-bank balance sheets remain substantial, the liquidity previously provided through central-bank facilities will increasingly need to be replaced by market-based sources. Repo is the natural channel through which much of this adjustment can occur, particularly as liquidity constraints emerge within the banking sector.

It is critical that regulators acknowledge the vital link between repo and collateral. While collateral, both in the form of cash and HQLA, is increasingly central to de-risking the financial system, repo is the means by which collateral is priced, transformed, and mobilised. Any unnecessary frictions imposed on the repo market are therefore a risk to financial stability.

3. International standards and the output floor

In terms of Basel III standards, a critical element is the output floor (OF). The OF can become overly binding and insufficiently risk-sensitive, particularly for sophisticated

European banks whose internal models have already been subject to extensive supervisory scrutiny. Targeted adjustments are needed to avoid disproportionate increases in financing costs for households, SMEs and green investment. Making permanent the transitional arrangements for certain residential mortgages and investment-grade exposures to unrated corporates would help to protect credit availability and EU competitiveness.

Using its empowerment under CRR, in June 2026 the Commission adopted targeted, temporary adjustments to the EU implementation of the Fundamental Review of the Trading Book (FRTB), including a multiplier to offset certain capital impacts. These measures are intended to maintain an international level playing field and the competitiveness of EU banks, given divergent implementation in other major jurisdictions.

Internal model-based approaches, including the Internal Model Method (IMM) for counterparty credit risk and the Internal Models Approach (IMA) for market risk, can provide greater risk sensitivity than standardised approaches. This is particularly relevant for repo and bond market intermediation, where factors such as low credit risk, short maturities, collateralisation, legally enforceable netting and hedging can materially reduce risk. The OF limits the aggregate capital benefit from internal models by linking minimum RWAs to those calculated using standardised approaches, which may provide less recognition of these risk-reducing characteristics.

International consistency is particularly important for FRTB, given that wholesale banking and trading are areas of direct competition between EU and US G-SIBs. Under the US framework proposed in March 2026, US banks would continue to be able to use internal models for market-risk RWAs, without these being subject to the Basel output floor. Ceteris paribus, this could place EU banks at a competitive disadvantage in internationally contested trading and market-making activities.

FRTB and the OF should also be considered as part of a broader assessment of prudential calibrations affecting repo and bond market intermediation, including counterparty credit risk, the leverage ratio and liquidity requirements. ICMA supports measures that preserve robust prudential standards and the EU's Basel III commitment, while ensuring that the framework remains appropriately risk-sensitive and does not unnecessarily constrain capital market intermediation.

The need to go further

Europe must take decisive and coordinated action to overcome market fragmentation. Harmonising rules and market practices requires both strong political commitment and a change in mindset among banks and market participants. Regulation is not always the primary obstacle, nor can legislation alone solve these challenges. Greater

cooperation between policymakers and practitioners is essential, alongside measures that support more cross-border banking activity within a truly integrated EU market. Taken together, these considerations point to five priorities for a holistic review of the prudential framework:

- Reassessing the leverage ratio;
- Adjusting the output floor;
- Providing greater usable balance sheet capacity;
- Fully recognising the role of repo markets as a key source of liquidity;
- Increasing cross-border banking activity within the EU.

For each proposed reform, the Commission should distinguish between:

- regulatory barriers, where EU or national requirements directly inhibit cross-border activity or market intermediation; and
- business or market-practice barriers, where activity is legally possible but does not develop because of commercial incentives, operational fragmentation, documentation or market structure.

This distinction will help ensure that legislation is used where necessary, while market-led solutions are applied where they can achieve integration more effectively.

Europe's ambition to deepen its debt capital markets depends on the strength of its intermediation ecosystem. Banks remain central to that ecosystem as underwriters, market makers, risk managers and providers of repo financing.

The objective should not be to weaken prudential standards. It should be to ensure that capital, leverage, liquidity and resolution requirements work coherently, reflect economic risk and leave banks with sufficient usable capacity to support bond and repo markets. This requires a holistic review of the cumulative framework, together with measures that allow capital and liquidity to move more efficiently across the Single Market.

Banking competitiveness and capital-market development should therefore be treated as a single policy challenge. A more integrated European market will require not only a supervisory union, but a genuine business union in which resilient banks are able and willing to intermediate across borders.



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