ICMA
International Capital Market Association

EU Banking Competitiveness

ICMA's position paper on the role of capital markets in the context of the EU banking competitiveness agenda[1]

November 2026



1 European Commission Communication on the competitiveness of the EU banking sector – 17 July 2026

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Executive summary

Europe cannot develop deeper, more liquid and resilient debt capital markets without strong bank intermediation. Banks underwrite issuance, make secondary markets, warehouse risk, provide hedging and use repo to finance inventories and mobilise collateral. These functions are essential to efficient bond markets in both normal and stressed conditions and require sufficient usable balance sheet capacity and a regulatory framework reflecting the economic substance and actual risk of the underlying activity.

Banking competitiveness and capital market development should therefore be treated as a single policy challenge. Measures to increase issuance or investor participation will not, by themselves, create deep and liquid markets. Europe also needs resilient banks with the capacity and commercial incentive to intermediate across the capital market ecosystem. Supporting bank market-making and repo should consequently be explicit priorities of the European Commission's banking competitiveness reforms and the Savings and Investments Union (SIU).

The objective should not be weaker prudential standards, but a more coherent, risk-sensitive and internationally consistent regulatory and supervisory framework. The cumulative interaction of capital, leverage, liquidity and resolution requirements can constrain banks' ability to commit balance sheet to underwriting, market-making, hedging and repo. Requirements developed separately may overlap, duplicate risks or prevent capital buffers from being used as intended. National divergences and inconsistent supervisory practices can further increase costs and impede the efficient deployment of capital and liquidity across the Single Market.

Repo warrants particular attention. Repo performs three connected functions: financing dealer inventories and short positions; enabling banks and investors to manage funding and liquidity; and mobilising collateral for margining, hedging and risk management.

Constraints on repo therefore affect bond market liquidity, hedging capacity and financial stability. As Eurosystem liquidity is withdrawn, private markets will become increasingly important in redistributing liquidity and collateral.

The Commission's reforms should be guided by three mutually reinforcing objectives:

- **Scale:** banks should be able to deploy capital, liquidity and operational resources efficiently across the Single Market to support activity seamlessly across jurisdictions;
- **Simplicity:** the prudential framework should minimise unnecessary overlap, duplication and national divergence while remaining focused on material risks; and
- **Capacity:** resilient banks should have sufficient usable balance sheet capacity to underwrite issuance, make markets, provide repo financing and support client hedging.

Scale and simplicity are not ends in themselves. They matter because they support banks' capacity and willingness to intermediate in European capital markets.

Priority recommendations

ICMA recommends that the Commission:

1. **Assess the cumulative effect of prudential requirements on capital market intermediation.** The Commission should assess holistically how capital, leverage, liquidity and resolution requirements interact and affect banks' capacity to support bond and repo markets, focusing on binding marginal constraints rather than requirements in isolation.
2. **Increase usable balance sheet capacity for market-making and underwriting.** The Commission should reassess constraints that make low-risk but balance sheet-intensive activities uneconomic, including the leverage ratio (LR), the

usability and interaction of capital buffers, temporary market-making inventory, hedged positions, and the treatment of capital and liquidity within cross-border banking groups.

3. **Improve the risk sensitivity of the prudential treatment of repo.** The framework should recognise the short effective maturity, collateralisation and legally enforceable netting of repo transactions. Particular attention should be given to the Standardised Approach for securities financing transactions, counterparty credit risk, netting and matched books, cross-product offsets, and the treatment of repo under leverage and liquidity requirements.
4. **Remove specific regulatory disincentives to efficient repo and collateral management.** The Commission should clarify that an open reverse repo which a bank has an unconditional contractual right to terminate within the 30-day Liquidity Coverage Ratio (LCR) horizon is treated according to its earliest contractual termination date, subject to appropriate safeguards. It should also consider barriers to central clearing and the treatment of sponsoring and agent clearing banks.
5. **Maintain international consistency in market-risk and counterparty-credit risk requirements.** The final EU treatment of the output floor, the Fundamental Review of the Trading Book (FRTB) and related standardised approaches should take account of implementation in other major jurisdictions. EU banks should not face a structural disadvantage in internationally contested underwriting, trading, market-making and hedging activities.

For each reform, the Commission should distinguish between regulatory barriers requiring legislative or supervisory action and business or market-practice barriers better addressed through industry-led solutions. ICMA standards, rules and documentation can complement regulation by reducing legal and operational fragmentation and supporting consistent cross-border market practices. Market-led standards can also be updated more responsively than formal legislation or regulatory technical standards, allowing market practice to adapt to technological, operational, and structural change while remaining subject to appropriate regulatory oversight.

The central test should be whether reforms preserve banking system resilience and prudential rigour while increasing banks' capacity and willingness to support bond and repo markets. A more coherent and risk-sensitive framework would strengthen market liquidity and resilience, improve financing channels for European businesses and help mobilise European savings for productive investment. Bank intermediation is not secondary to Europe's capital market ambitions. It is a necessary condition for achieving them.

Introduction

The European Commission's Communication rightly recognises that a competitive banking sector is essential to supporting growth, investment, and a more integrated European financial system. ICMA supports these objectives and welcomes the Commission's focus on scale, competitiveness, and market integration. This response considers the proposals through the lens of debt capital markets, with particular attention to the role of banks in underwriting, market-making, hedging, and repo. The central question is whether the broader regulatory and supervisory framework preserves resilience while providing banks with sufficient capacity and incentive to support deeper, more liquid, and more resilient European capital markets.

Guiding considerations of this position

ICMA's recommendations are guided by three considerations.

First, banks' ability to support European capital markets depends on **usable balance sheet capacity**. Capital, leverage, liquidity and resolution requirements should work coherently and reflect the economic risks of the activities to which they apply. The objective is not deregulation but better calibration, preserving banking system resilience while avoiding unnecessary constraints on economically important intermediation. An appropriately calibrated securitisation framework can contribute by enabling banks to recycle exposures, release balance sheet capacity and redeploy capital towards new lending and capital market intermediation.

Second, the framework should recognise the close relationship between **bond markets, repo and hedging**. Market-making requires dealers to warehouse risk, finance long and short positions and manage the resulting exposures. Repo supports these functions by financing inventories, enabling liquidity management and mobilising collateral. Constraints on one part of this interconnected system can therefore affect liquidity and resilience across the wider debt capital market.

Third, banking competitiveness should be assessed by reference to the **economic functions** banks perform. Banks act as issuers, underwriters, market makers, investors, risk managers, structurers and custodians. The relevant policy question is whether the regulatory and supervisory framework allows resilient banks to perform these functions efficiently and across borders, particularly where they support the Savings and Investments Union.

The relative depth of the US debt securities market illustrates the scope for developing Europe's market-based financing. The following data compare the shares of debt securities and bank lending in the euro area and the United States. They underline the opportunity to deepen Europe's debt capital markets, while highlighting the continued importance of bank intermediation.

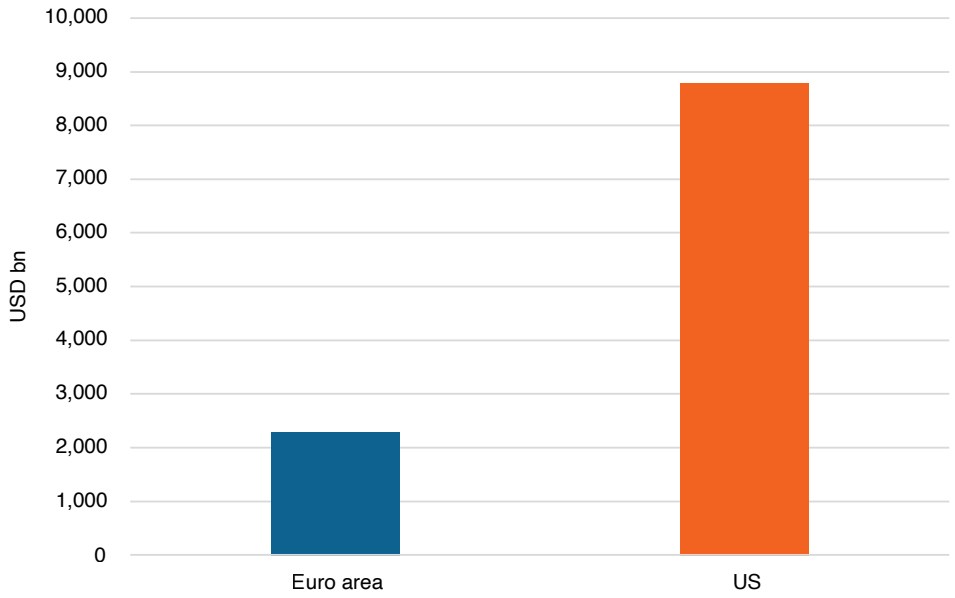
Debt securities outstanding: euro area and United States

The substantially larger stock of debt securities in the United States illustrates the greater depth of US market-based financing and the scope for further development of European debt capital markets.

	Euro area, USD bn	US, USD bn
Debt securities outstanding[2]	2,295.2	8,788.0
Bank loans outstanding	6,200.4	2,556.7
Total	8,495.6	11,344.7
Debt securities share (%)	27.0%	77.5%
Bank loans share (%)	73.0%	22.5%

2 Nota bene: Debt securities include both commercial paper and bonds.

Debt securities outstanding issued by non-financial corporation (NFC), 2025 Q4

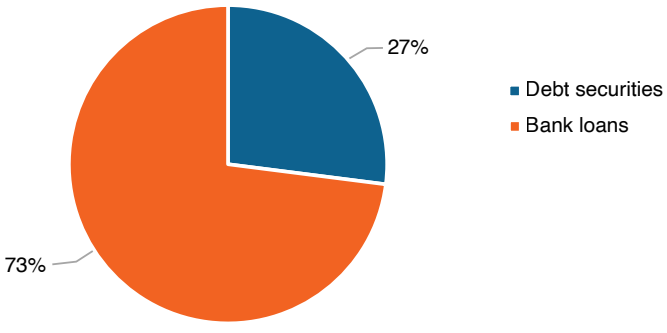


*Source: European Central Bank; Federal Reserve. For the **debt securities** outstanding in the Euro area, the number represents bonds, commercial paper, and other short-term paper issued by non-financial corporations (https://data.ecb.europa.eu/data/datasets/QSA/QSA.Q.N.I9.W0.S11.S1.N.L.LE.F3.T._Z.XDC._T.S.V.N._T). For the US, it includes commercial paper, Industrial revenue bonds and corporate bonds of non-financial corporate business (https://www.federalreserve.gov/releases/z1/20260611/html/s11_1_s.htm, June 2026 release). Both figures are the outstanding negotiable debt securities of non-financial corporations in the respective region as of the end of December 2025.*

Composition of financing in the euro area

Bank lending accounts for a significantly larger share of financing than debt securities, underlining both Europe's continued reliance on bank finance and the opportunity to deepen its debt capital markets.

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

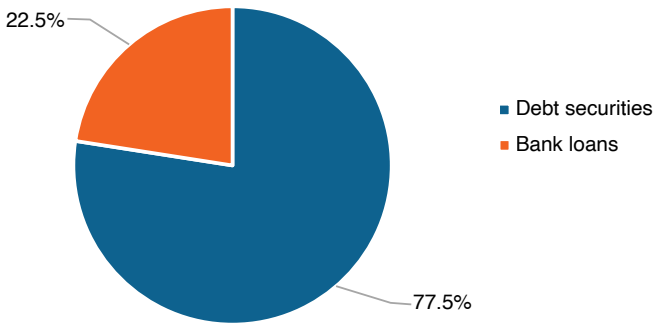


Source: European Central Bank

Composition of financing in the United States

Debt securities account for a substantially larger share of financing than bank lending, illustrating the depth and importance of US market-based financing.

US corporate financing (non-financials), Q4 2025



Source: Federal Reserve
For the bank loans outstanding, it is the loans on the balance sheets of euro area's Monetary Financial Institutions (MFIs) lending to domestic non-financial corporations (https://data.ecb.europa.eu/data/datasets/BSI/BSI.M.U2.N.A.A20.A.1.U2.2240.Z01.E). In the US, the figure includes domestic depository institution loans and mortgages (https://www.federalreserve.gov/releases/z1/20260611/html/s11_1_s.htm, line 35 plus line 36 in the Fed published table). Both figures are the outstanding non-negotiable loans owed by domestic non-financial corporations in the respective region as of the end of December 2025.

Principal constraints on bank intermediation

The European Commission has correctly identified several challenges facing European banking. From a capital market perspective, four are particularly important: regulatory and operational fragmentation, inconsistent implementation of international standards, regulatory complexity and the cumulative effect of prudential requirements on intermediation. While many of the issues discussed in this paper relate to prudential requirements, competitiveness and market integration are also influenced by broader regulatory, supervisory and operational factors.

Regulatory and operational fragmentation

Regulatory fragmentation arises from differences in the calibration, interpretation and application of EU requirements, including capital and liquidity requirements.

Operationally, banks may be reluctant to expand across borders because of the associated costs, risks and administrative burdens. Diverging national legislation, including gold-plating, inconsistent application of EU rules and varying supervisory and administrative practices compound these challenges and undermine competitiveness.

Where divergent national rules create material barriers to cross-border activity, directly applicable EU regulations should generally be preferred to directives. However, a common rule does not by itself ensure consistent outcomes. Greater convergence in supervisory interpretation, administrative practice and the exercise of national discretion is also required, supported by a stronger commitment to applying the framework from a European rather than solely national perspective.

International inconsistency

Deviations from, and delays in, implementing internationally agreed standards, particularly Basel III, in some major jurisdictions have heightened concerns about EU banks' global competitiveness. As a leading international standard-setting body for financial markets, ICMA stands ready to share its expertise and experience in addressing these challenges.

Regulatory complexity

Regulatory complexity arises from the volume and granularity of rules, overlapping requirements, different definitions and calculation methodologies, complex reporting and disclosure obligations, evolving supervisory interpretations and the interaction of microprudential, macroprudential and resolution frameworks. It is compounded by fragmented decision-making and by reforms being developed at different times without sufficient consideration of their cumulative effect.

Cumulative constraints on intermediation

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 providing sufficient usable balance sheet capacity for market-making, underwriting, hedging and repo.

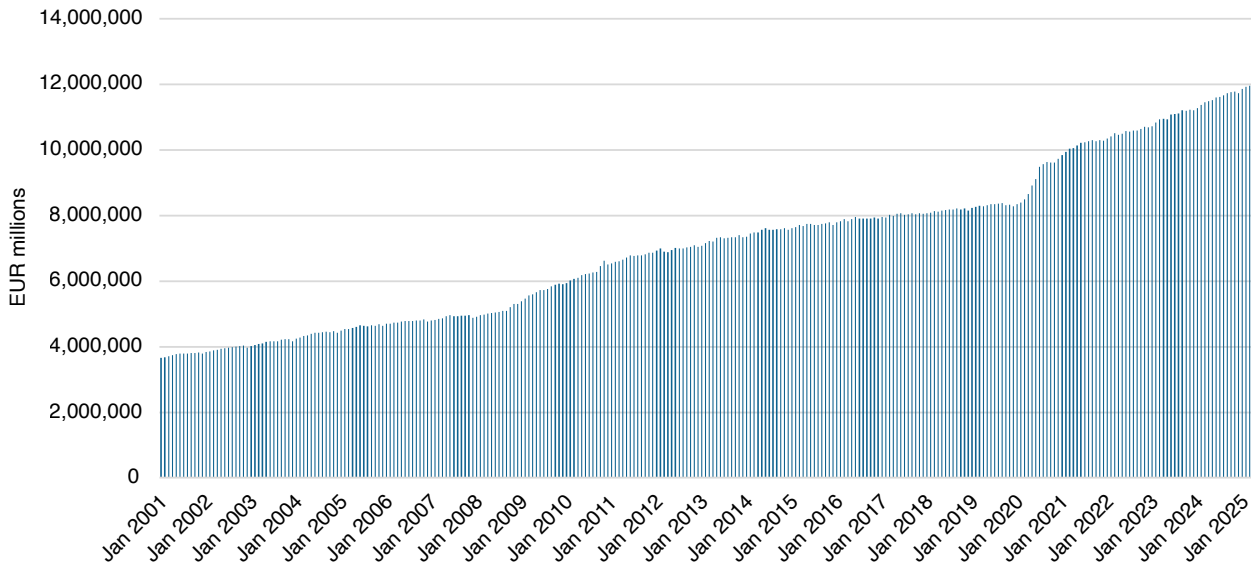
The Commission acknowledges that elements of the capital framework have been developed "in silos and in different sequences", allowing requirements to overlap or address the same risks. These observations are consistent with ICMA's work on European bond, repo and hedging markets and the conclusions of the European Commission Expert Group on Corporate Bond Markets in 2017.

A particular concern is banks' reduced capacity to warehouse risk and intermediate during market stress. Hedge funds and other alternative trading firms are increasingly active in market-making, but a more diverse intermediary base does not remove the need for resilient banks with sufficient capacity to support bond and repo markets.

Outstanding euro area government bond market (notional value)

The expansion of sovereign debt outstanding has increased the scale of the market that dealers and other intermediaries are required to support.

Outstanding eurozone government debt (€million)



Source: ECB Data Portal, October 2026

Framework for reform: scale, simplicity and capacity

Addressing these constraints requires action in three mutually reinforcing areas: scale, simplicity and capacity. Scale allows banks to deploy resources efficiently across the Single Market. Simplicity reduces unnecessary overlap, uncertainty and fragmentation. Together, they should support the central objective: ensuring that resilient banks have sufficient usable capacity to intermediate in European bond and repo markets.

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 impede genuine European scale and limit international competitiveness in activities where scale is critical, including market-making, sovereign and corporate bond underwriting, primary dealing, derivatives and risk management.

The Commission is right to propose measures to support scale and competitiveness, including more efficient allocation of capital and liquidity through prudential waivers, intragroup large exposure exemptions and internal Minimum Requirement for own funds and Eligible Liabilities (MREL) arrangements.

To be effective, however, these measures must be sufficiently ambitious. They should build on the resilience of the European banking sector, the Single Rulebook and EU supervisory framework without overly restrictive conditions undermining their intended benefits.

Simplicity

The future prudential framework should be coherent, predictable and transparent for firms, supervisors and investors. Simplification does not mean reduced resilience. It means eliminating unnecessary overlap, double counting, reporting obligations and national divergences while focusing on material risks.

Simplification should operate both retrospectively and prospectively. Existing requirements and their interactions should be reviewed periodically to identify overlap, duplication and unnecessary complexity. Future reforms should apply “simplicity by design”, supported by practical impact assessments that consider their interaction with the existing framework and their cumulative effect on market intermediation.

The Commission acknowledges that interactions between microprudential, macroprudential and resolution requirements can create duplicative capital demands and reduce the usability of buffers. Addressing these interactions would improve the framework’s effectiveness and efficiency.

Capacity

Resilient banks require adequate capital and liquidity. Resources trapped, duplicated or rendered unusable by interacting regulatory constraints cannot support market intermediation. The central test should therefore be whether the framework safeguards resilience while allowing sufficient balance sheet capacity for market-making, repo, hedging and underwriting.

Simplifying the capital stack and supplementary requirements is a priority. It will not itself create capacity, but it is an important enabler: fewer overlaps, a clearer hierarchy and more usable buffers would allow resilient banks to deploy capital more efficiently. The hierarchy of regulatory capital and loss-absorbing requirements should therefore be streamlined, with fewer layers, less overlap and greater transparency, while the interaction and intended usability of buffers should be clarified.

The LR should also be reassessed to ensure that it operates as a credible backstop rather than a binding, risk-insensitive constraint on economically important intermediation.

The Banking Competitiveness initiative, together with the Market Integration and Supervision Package (MISP), provides an opportunity to address these structural constraints on European bond and repo intermediation.

Policy considerations and recommendations

A diverse intermediary base can strengthen competition and capacity. Hedge funds and other alternative trading firms are increasingly active in some market-making activities, but this is not a substitute for resilient banks with sufficient balance sheet capacity to underwrite issuance, make secondary markets, provide hedging and support repo.

The regulatory framework should increase predictability and reduce fragmentation, national gold-plating and inconsistent supervisory practices. Directly applicable EU regulation can help where it genuinely limits divergence. The central consideration, however, is whether the framework preserves resilience while enabling banks to perform the functions required for deeper European capital markets.

The Commission's reforms should focus on five connected priorities:

1. strengthening bond market-making and underwriting capacity;
2. enhancing the depth, efficiency and resilience of repo;
3. improving the coherence and risk sensitivity of the prudential framework;
4. maintaining international consistency and EU banks' competitiveness; and
5. supporting integration through regulation and market-led standardisation.

For each reform, the Commission should assess its cumulative effect on capital market intermediation. The ultimate test should be a pragmatic one: not only whether an individual requirement can be justified in isolation, but whether the framework as a whole preserves resilience while leaving banks with sufficient capacity and commercial incentive to support bond and repo markets.

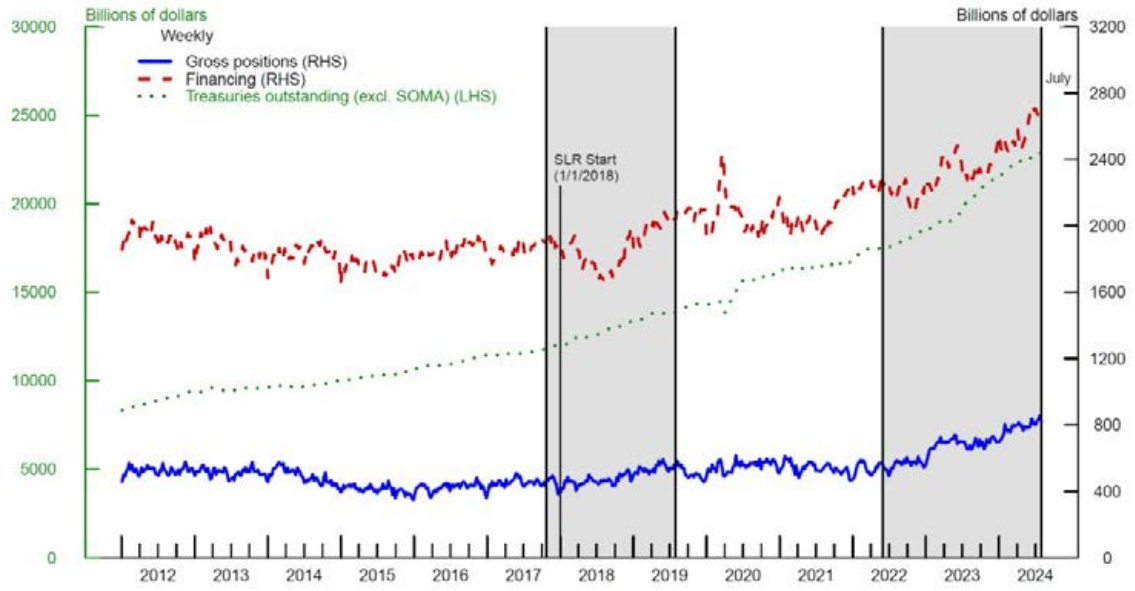
1. Strengthen bond market-making and underwriting capacity

Bond market liquidity and resilience depend heavily on dealers' ability and willingness to make markets. Market-making requires usable balance sheet capacity to warehouse risk, hold inventory and absorb asynchronous client flows, alongside functioning repo markets to finance long and short positions, deep and liquid hedging markets to manage exposures and, to a lesser extent, a well-calibrated post-trade transparency deferral regime.

The US Treasury market illustrates the potential imbalance between market growth and intermediation capacity. Treasury securities outstanding have increased significantly, while primary dealer positions have grown much less rapidly. Client financing activity has increased, including through securities borrowing and reverse repo, but market growth has not been accompanied by a proportionate expansion of dealer risk-intermediation capacity.

US primary dealer positions and financing in Treasuries relative to total Treasuries outstanding[3]

Growth in Treasury securities outstanding has substantially outpaced the expansion of primary dealer gross positions.



Source: FEDS Notes, October 2024

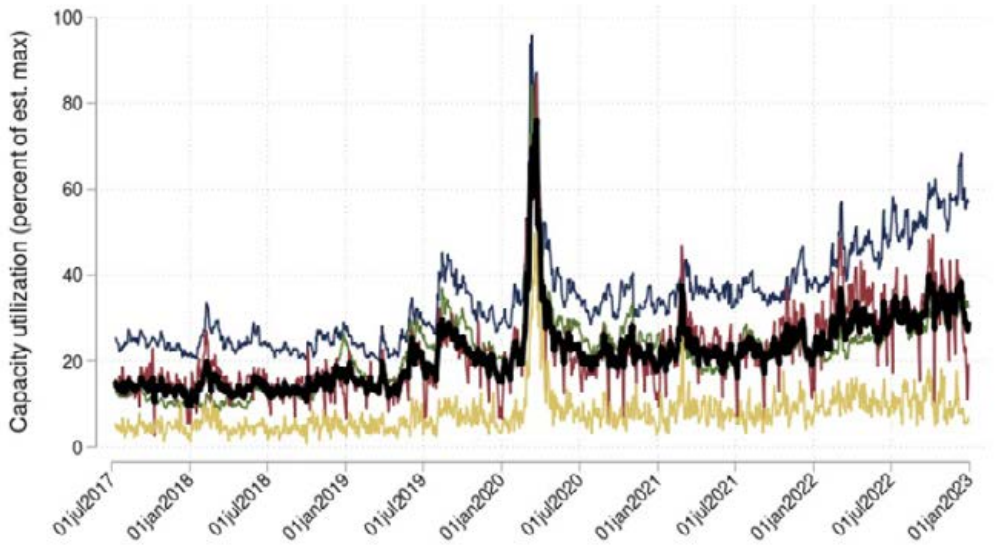
Capital and liquidity requirements directly affect the economics of these activities. Where several constraints operate concurrently, banks manage businesses according to the binding marginal constraint rather than the headline capital ratio. The cumulative framework may therefore increase the marginal cost of balance sheet, reduce dealer inventory capacity and weaken market depth, even where individual requirements appear reasonable in isolation.

Measures of US primary dealer capacity utilisation provide a related perspective. Although utilisation varies across measures and rose particularly sharply during the 2020 market disruption, several measures increased over the period covered. This indicates growing demands on intermediation capacity and highlights the importance of sufficient headroom to absorb unusually large or one-way flows.

3 Note: The sample contains all primary dealers. Financing refers to financing for clients (securities borrowing, reverse repo, etc.). Treasury holdings of the System Open Market Account (SOMA) portfolio are excluded from total UST outstanding. The shaded regions represent periods of balance sheet runoff spanning from Oct. 2017 – Jul. 2019 and Jun. 2022 – present. Source: FR 2004A, FR 2004C, and Treasury Direct.

US primary dealer capacity utilisation measures[4]

Several measures indicate increasing use of dealer capacity, with a pronounced spike during the 2020 market disruption.



Source: BIS, October 2023

Banks' capacity to support primary markets is similarly important. Underwriting can require positions to be warehoused temporarily before distribution to investors. A regulatory framework that makes temporary inventory or prudent risk warehousing disproportionately expensive can therefore constrain both primary issuance and secondary market liquidity.

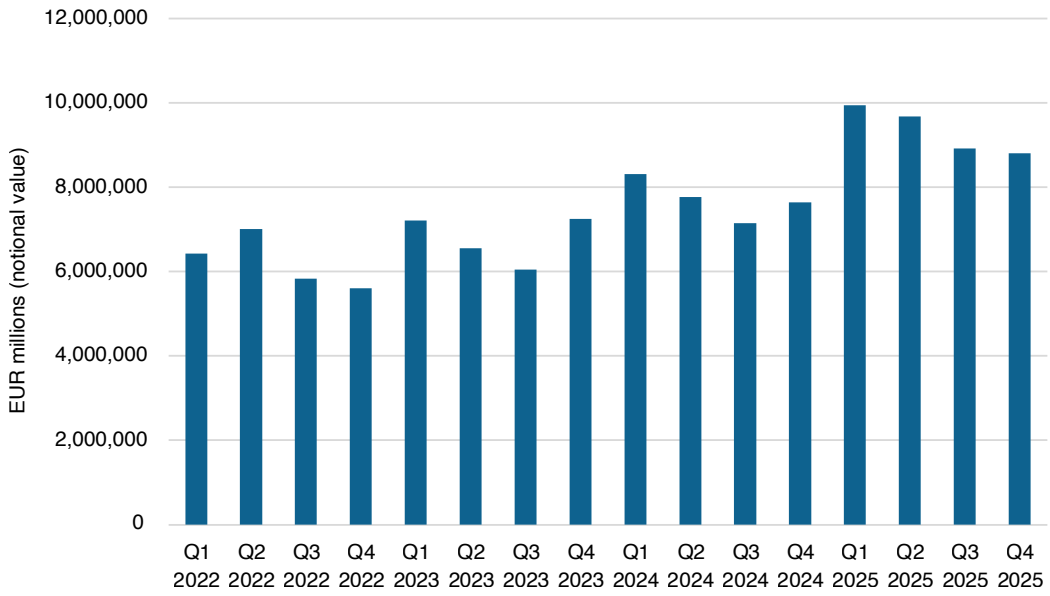
Secondary trading in European government bonds has also increased. ICMA data show particularly elevated quarterly trading volumes during 2025. Higher trading activity is positive for market participation and price formation but increases the importance of sufficient intermediation capacity when client flows become concentrated or one-directional. Trading volumes do not themselves measure dealer capacity or market liquidity, but illustrate the growing scale of activity the European dealer and repo ecosystem must support.

4 Dealer capacity utilisation measures based on risk-adjusted gross positions, net positions, gross dealer-to-customer (D2C) volume, and net D2C volume. Average capacity utilisation is the simple average of the four measures.

EUR government bond secondary trading volumes

Quarterly trading volumes increased markedly during 2025, illustrating the growing scale of activity supported by the European intermediation ecosystem.

EUR government bond secondary trading volumes



Source: ICMA Secondary Market Data Report: H2 2025 – Sovereign Bond Edition, June 2026

Principal recommendation

The Commission should assess the combined effect of capital, leverage, liquidity and resolution requirements on market-making, underwriting positions and hedged exposures, considering:

- the LR treatment of low-risk but balance sheet-intensive intermediation;
- temporary market-making and underwriting inventory;
- the usability and interaction of capital buffers and loss-absorbing requirements;
- recognition of legally enforceable netting and effective hedging;
- liquidity requirements affecting bond inventory; and
- reporting-date effects that may reduce dealer capacity.

The objective is not to remove appropriate prudential safeguards, but to ensure that the framework reflects economic risk without making prudent intermediation unnecessarily uneconomic. This would increase banks' capacity to support corporate and sovereign bond issuance, maintain secondary market liquidity and absorb one-way client flows, particularly during market stress.

Deeper securitisation markets can also help banks recycle exposures and release balance sheet capacity. Reforms should support efficient securitisation where this allows resilient banks to redeploy capital towards new financing and economically important intermediation, as part of the broader assessment of usable balance sheet and trading capacity.

2. Enhance repo market depth, efficiency, and resilience

Repo performs three connected functions: it finances dealer inventories and short positions, enables banks and investors to manage funding and liquidity, and mobilises collateral required for margining, hedging and risk management. Frictions in repo therefore translate directly into reduced market-making capacity, weaker bond market liquidity and less efficient collateral management.

Repo will become more important as the Eurosystem gradually withdraws **liquidity** from the financial system. While central bank balance sheets remain substantial, liquidity previously provided through central bank facilities will increasingly need to be replaced **by market-based sources**. Repo is a natural channel for this adjustment, particularly as liquidity constraints emerge within the banking sector.

The capacity of private repo markets to redistribute liquidity efficiently will therefore become increasingly important as central banks adjust their operational frameworks.

The prudential framework should recognise repo's **economic substance** and risk characteristics. Under the Standardised Approach, credit risk calculation on repo exposures can be particularly costly because they give insufficient recognition to legally enforceable netting and the short effective maturity. Targeted amendments should make the treatment of securities financing transactions **more risk-sensitive**, including recognition of their effective maturity.

The Commission should also facilitate **cross-product netting** and portfolio-level risk management to improve balance sheet efficiency. This should include reviewing capital rules for EU sponsoring and agent clearing banks and exploring cross-product netting in counterparty credit risk calculations under both the Standardised Approach and banks' internal models.

Regulatory barriers and disincentives to central clearing in EU government bond and repo markets should also be assessed, including those affecting non-bank participation. Relevant considerations include money market fund (MMF) and undertakings for collective investment in transferable securities (UCITS) restrictions on collateral reuse and MMF haircut requirements relating to third-country central counterparties. Broadening access to central clearing for appropriate non-bank participants could support more efficient use of dealer balance sheets, increase activity through central counterparty (CCP) channels, and strengthen the overall capacity and resilience of repo markets. However, reforms should not create disproportionate costs or disincentives for the banks that sponsor, facilitate, or provide client clearing services. In particular, banks currently lose the preferential Available Stable Funding (ASF) treatment granted to funding from non-financial firms when transactions are centrally cleared, because the interposed CCP is treated as a financial counterparty despite pooling liquidity from non-financial participants. This treatment should be reviewed to ensure that measures intended to promote central clearing do not inadvertently penalise the banks that support it.

The current EU interpretation of the LCR may discourage using open reverse repo, even where those transactions are contractually terminable at very short notice and provide contingent liquidity. This treatment is also more restrictive than in the United States and United Kingdom.

The Commission should clarify that an open reverse repo which a bank has an unconditional contractual right to terminate within the 30-day horizon should, for LCR purposes, be treated according to its earliest contractual termination date, subject to appropriate safeguards. For standard European open reverse repo terminable on T+1, this would recognise the transaction as short-term or overnight.

This would better reflect the transaction's legal rights and economic substance. It would also reduce incentives to substitute operationally less efficient rolling short-term transactions and align the EU framework more closely with other major jurisdictions.

More broadly, the prudential framework should recognise the close relationship between repo and collateral. Cash and high-quality liquid assets are increasingly central to risk reduction. Repo provides the mechanism through which collateral is priced, transformed and mobilised. Unnecessary repo constraints can therefore weaken both market functioning and financial stability.

Principal recommendations

The Commission should:

- introduce greater risk sensitivity into the Standardised Approach for securities financing transactions, including recognition of effective maturity and legally enforceable netting;
- facilitate cross-product netting and portfolio-level risk management;
- review the prudential treatment of sponsoring and agent clearing banks;
- address disproportionate barriers to greater central clearing by banks and non-banks, while avoiding disincentives for sponsoring, agent and client-clearing banks;
- revise the LCR treatment of contractually terminable open reverse repo; and
- assess the combined effect of capital, leverage and liquidity requirements on banks' capacity to intermediate repo.

3. Improve the coherence and risk sensitivity of the prudential framework

Different elements of the prudential framework have been developed "in silos and in different sequences". As the Commission acknowledges, this can result in overlapping requirements or different measures addressing the same risks. Requirements that appear reasonable individually may, in combination, constrain banks' capacity to support bond and repo markets.

A holistic assessment should examine interactions between Pillar 1, Pillar 2, macroprudential buffers, the LR, liquidity and resolution requirements. Different measures may serve legitimate purposes, but unnecessary duplication can increase capital demands and reduce buffer usability. The Commission should review differences between the eligibility criteria, calibration and calculation of MREL and total loss-absorbing capacity (TLAC), with the objective of eliminating unnecessary duplication and promoting greater international alignment while preserving the effectiveness of the EU resolution framework.

Capital buffers are intended to be usable during stress. In practice, another requirement, particularly the LR or MREL, may bind first. Capital counted towards one requirement can consequently become unavailable for another, weakening buffers' intended countercyclical function.

Greater predictability is also needed in supervisory discretion. Pillar 2 can be more expansive and prescriptive in the EU than the underlying Basel standards require. Banks report uncertainty about the Pillar 2 requirements and guidance, potential double counting, and the possibility that formally non-binding guidance operates as a binding constraint because of supervisory and market expectations.

The macroprudential framework should also be reviewed for unnecessary overlaps, including those involving national risk-weight floors under Article 458 of the Capital Requirements Regulation. Calibration methodologies and use of macroprudential **measures differ** across Member States, sometimes producing materially different capital outcomes that cannot readily be explained by differences in underlying economic risk.

A **more coherent framework** would increase capital usability, improve predictability and allow a more holistic assessment of the aggregate regulatory burden. It could reduce unnecessary management buffers and the marginal cost of committing balance sheet, increasing, in turn, underwriting and dealer inventory capacity, improving bid-offer depth and strengthening resilience during one-way market flows.

Simplifying the capital stack can contribute but will not resolve all constraints. Significant constraints also arise from the LR, counterparty credit risk, large exposure requirements, liquidity regulation and the interactions between clearing and prudential rules. These should therefore be assessed together.

The **output floor** should form part of this holistic assessment. Internal model-based approaches can provide greater risk sensitivity than standardised approaches, particularly for bond and repo intermediation, by reflecting short

maturities, collateralisation, legally enforceable netting and effective hedging. By linking minimum risk-weighted assets to standardised calculations, the output floor may give insufficient recognition to these characteristics.

The framework should also preserve incentives to develop and maintain internal models. Once discontinued, their financial and operational cost of reinstatement may be prohibitive. An excessively binding output floor could therefore reduce investment in more risk-sensitive methods.

The Standardised Approach may also give insufficient recognition to safeguards established under fund law. Although internal ratings-based approaches can reflect lower counterparty risk more precisely, the output floor limits that risk sensitivity for institutions constrained by it. Capital requirements may consequently be driven more by the absence of an eligible external credit assessment than by the underlying risk. National restrictions on access to central clearing or collateral arrangements may compound this effect.

Principal recommendations

The Commission should:

- undertake a cumulative assessment of capital, leverage, liquidity and resolution requirements;
- identify and remove unnecessary duplication among Pillar 1, Pillar 2, macroprudential and resolution requirements;
- improve the usability and clarify the hierarchy of capital buffers;
- increase the predictability and transparency of Pillar 2 calibration;
- review differences in macroprudential calibration and national risk-weight floors;
- review whether the output floor appropriately recognises short maturity, collateralisation, netting and hedging;
- preserve incentives to develop and maintain risk-sensitive internal models; and
- assess prudential requirements according to their combined effect on underwriting, market-making, hedging and repo.

For each 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 will help ensure that legislation is used where necessary and market-led solutions where they can achieve integration more effectively.

ICMA standards, rules and market documentation can complement regulation by supporting consistent cross-border practices. ICMA's work on the Global Master Repurchase Agreement (GMRA), repo best practice and secondary market rules illustrates how industry-led standardisation can reduce legal and operational fragmentation without prescriptive legislation for every market process.

4. Maintain international consistency and competitiveness

Reasonable and well-coordinated implementation of internationally agreed standards is essential to a level playing field. Deviations from, or delays in, implementation in major jurisdictions can disadvantage EU banks in cross-border wholesale banking, trading and market-making.

International consistency is particularly important for the FRTB. EU and non-EU banks compete directly in underwriting, trading, derivatives and market-making. Material differences in implementation timing or calibration could cause these activities, and associated intermediation capacity, to migrate from EU banks to institutions operating under less restrictive frameworks.

The Commission is therefore right to consider implementation of the FRTB in other major jurisdictions. The permanent EU framework should be finalised only after assessing implementation and market effects in the United States, United Kingdom and other major financial markets.

The EU should avoid materially earlier or more conservative implementation where this creates an unjustified competitive disadvantage.

The relationship between the FRTB and output floor also requires careful consideration. Internal models for market risk can provide appropriately risk-sensitive treatment of trading and market-making. It is important to assess whether the EU output floor would constrain their benefits more extensively than in competing jurisdictions.

Counterparty credit risk requirements should be considered similarly. Permanent adjustments to the Standardised Approach for Counterparty Credit Risk should be assessed on their own merits, not solely in relation to the output floor. The Commission should consider whether the alpha factor and other elements remain appropriately calibrated and internationally aligned.

These issues directly affect European corporates and investors. If EU banks face materially higher costs when providing repo, derivatives and hedging, this may affect the pricing and availability of risk management and financing. International consistency should therefore be assessed not only in terms of bank competitiveness, but also by its effects on intermediation and client services.

ICMA supports the EU's commitment to Basel III and appropriate prudential standards. Implementation should nevertheless remain risk-sensitive and avoid unnecessarily constraining EU banks' ability to support internationally competitive bond, repo and hedging markets.

Principal recommendations

The Commission should:

- assess implementation and market effects in other major jurisdictions before completing the permanent EU FRTB framework;
- avoid materially earlier or more conservative implementation where it would place EU banks at an unjustified competitive disadvantage;
- assess the combined effect of the output floor and market-risk rules on internal models and market-making;
- review the calibration of the Standardised Approach for Counterparty Credit Risk, including the alpha factor;
- compare the treatment of repo, hedging and trading activities across major jurisdictions; and
- consider the consequences of international divergence for the pricing and availability of services to European issuers and investors.

5. Support integration through regulation and market-led standardisation

Completing Banking Union should mean more than completing the EU supervisory architecture. It should create a genuine business union in which resilient banks can deploy capital and liquidity efficiently across borders. This is essential if Banking Union and the Savings and Investments Union are to support deeper and more integrated European capital markets.

Further integration requires reducing national gold-plating, inconsistent application of EU rules and differences in supervisory and administrative practices. Where greater harmonisation is necessary, directly applicable EU regulations should generally be preferred to directives. However, the effectiveness of this approach will depend on whether national discretion and inconsistent supervisory practices are constrained in practice.

Legislation cannot address every obstacle. Cooperation between policymakers, supervisors and market practitioners will be essential. ICMA standards, rules and market documentation can complement regulation by supporting consistent

cross-border practices and hence deepening capital markets. ICMA's Global Master Repurchase Agreement, repo best practice and secondary market rules demonstrate how industry-led standardisation can reduce legal and operational fragmentation without requiring prescriptive legislation for every market process.

The Commission should therefore incorporate market-led standardisation into its approach. Policymakers should identify where common documentation, definitions and market practices can support cross-border activity more efficiently than additional legislation. Regulation and industry standards should be complementary tools; each should be applied to the barriers they are best suited to address.

Principal recommendations

The Commission should:

- support the efficient movement of capital and liquidity across EU banking groups;
- reduce national gold-plating and inconsistent supervisory practices;
- prefer directly applicable EU Regulations where this would materially reduce divergence;
- distinguish systematically between regulatory and market-practice barriers;
- consult market practitioners when assessing operational obstacles to integration; and
- recognise the role of industry standards, rules and documentation in supporting integrated cross-border markets.

Conclusion – the need to go further

Europe's ambition for deeper, more liquid and more resilient 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. A diverse intermediary base can add competition and capacity but cannot substitute for resilient banks able and willing to commit balance sheet to capital market activities.

Banking competitiveness and capital market development should therefore be treated as a single policy challenge, aligned with the SIU. The objective is not weaker prudential standards, but coherent capital, leverage, liquidity and resolution requirements that reflect economic risk and leave banks with sufficient usable capacity to support bond and repo markets, alongside a regulatory and supervisory environment that facilitates efficient cross-border intermediation.

The Commission should give particular priority to preserving bond market-making and underwriting capacity and enhancing repo depth, efficiency and resilience. This requires a holistic assessment of the cumulative prudential framework, internationally consistent implementation and measures allowing capital and liquidity to move more efficiently across the Single Market.

Greater integration also requires action to reduce national gold-plating, inconsistent supervisory practices and operational fragmentation. Regulation and market-led standards should be complementary tools, supported by close cooperation between policymakers, supervisors and market practitioners.

The central test is whether reform preserves financial stability while increasing banks' capacity and commercial incentive to intermediate. Bank intermediation is not secondary to Europe's capital market ambitions and economic resilience. It is a necessary condition for achieving them.

About ICMA

ICMA was founded over 50 years ago and promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels, and Hong Kong, serving over 650 members in 72 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and innovation and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets. www.icmagroup.org

ICMA recognises and supports the important role of regulation in bond market development: creating a level playing field for issuers, investors, intermediaries, and infrastructures; ensuring protection and fairness for investors; maintaining the highest standards of participant behaviour; providing market integrity; creating a nurturing environment for capital formation and investment flows; securing market stability; fostering innovation; and adhering to international standards, while remaining globally competitive.

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