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Restoring Banking Competitiveness to Increase the EU's Financing Capacity - Proposals and examples

The French Banking Federation (FBF) first calls for a revision of regulation **in order to better reflect the risk characteristics of mortgage lending and corporate financing**, notably by making permanent the transitional arrangements for the calculation of the output floor. This mechanism significantly increases minimum capital requirements for activities whose risks are calculated using internal models, even for low-risk exposures (residential mortgage lending, lending to unrated corporates, hedging of clients' foreign exchange and interest rate risks). Making these transitional arrangements permanent could also be accompanied by a revision of the risk weights applied under the standardised approach for the same exposures. Implementing the FBF's proposals would make it possible to avoid immobilising €42 billion of bank capital in France in the long term and would therefore free up €496 billion in financing capacity for households and businesses. Below are some of the FBF's key proposals:

Transitional arrangements for the output floor calculation

- **Residential mortgage lending: Making the 10% risk weight permanent (compared with 20% in 2032). This would free up an additional €308 billion in lending capacity.**
- **Unrated corporate exposures: Making the 65% risk weight permanent (compared with 100% in 2032). This would free up an additional €170 billion in lending capacity.**
- **Regarding the hedging solutions offered to the client, this would unlock an additional €18 billion in financing potential.**

Postponement of the Fundamental Review of the Trading Book (FRTB): **this would free up an additional €83 billion in lending capacity.**

Trade finance and international trade guarantees: avoiding the increase of the credit conversion factor from 20% to 50% for exposures with a maturity of more than one year. **This would free up an additional €140 billion in lending capacity.**

Three concrete examples

- For a residential mortgage loan of €300,000 to a household, a bank will have to immobilise twice as much capital in 2032 as today (€7,200 instead of €3,600). Maintaining a 10% risk weight allows banks to use half as much capital to grant a mortgage loan, reflecting its low level of risk. This facilitates access to credit in France, more affordable lending conditions and greater financing capacity for households.
- Another example: ending the transitional arrangements for a €5,000,000 loan to an externally unrated defence company or real estate developer would result in a 54% increase in immobilised capital (€600,000 instead of €390,000). Maintaining the reduced risk weight allows banks to continue financing companies that invest in growth-enhancing activities (cybersecurity, defence, industrial renewal, etc.).
- Finally, without revising prudential rules on foreign exchange and interest rate hedging solutions for corporates, the cost for an exporter to hedge against currency fluctuations on its contracts, or for a national champion to hedge against interest rate variations on its debt, would require 40% more capital to be immobilised.

Across these three concrete examples, all figures show that residential mortgage lending in France is among the safest and most efficient in the world, as is the financing of defence projects. There is therefore no economic justification for further increasing capital requirements.

Addressing the competitive gap in market activities and investment banking

The FBF also calls for action to address the competitive decline of European banks in market activities and investment banking. According to data from Coalition Greenwich Competitor Analytics, in 2012 US banks accounted for 39% of total market share in the region, compared with around 50% in 2024.

Another illustration: at the beginning of 2026, JP Morgan's market capitalisation was roughly equivalent to the combined capitalisation of the seven largest European banks (respectively USD 709 billion versus USD 731 billion), whereas in 2008 it was broadly comparable to that of Banco Santander (USD 147 billion versus USD 135 billion).

The FBF therefore advocates postponing Basel market risk rules in order to ensure alignment with US regulations.

Immediate measures to support international trade and strategic EU financing

The FBF also proposes immediate measures to support international trade and major strategic financing projects within the European Union (aircraft, dams, wind farms, hospitals, data centres, etc.).

With proposed revisions to the prudential framework for trade finance, the FBF estimates that €140 billion in financing capacity could be freed up by French banks for companies operating internationally. More than 80% of international trade relies on some form of trade finance. This means that every company—from SMEs to large multinationals—must have access to trade finance and guarantee products whenever it needs to import essential components, market its products abroad, or bid for international contracts.

Current prudential regulation does not reflect the inherently low risk of loans and guarantees provided by banks to support clients' international trade operations. This is why the FBF encourages the European Commission to swiftly implement its proposed measures to ensure that trade finance and guarantee exposures are not subject to punitive regulation.

For example, thanks to these measures, the cost for an exporter to obtain a €300 million bank guarantee for its commercial contracts would be significantly reduced, from €14 million to €6 million.

Financing major projects and strategic infrastructure

Today, European prudential rules applicable to bank financing of large projects are more burdensome than necessary, and the FBF's proposed revisions would free up €93 billion in financing.

Specialised financing makes it possible to build green energy infrastructure, clean transport networks, hospitals, schools and essential industrial equipment. These financings are critical for Europe's energy and industrial sovereignty. They often belong to portfolios with extremely rare default events. However, current prudential rules impose statistical validation requirements (backtesting) that presuppose the existence of defaults—something that is technically impossible for portfolios that, by nature, experience almost none.

This prevents banks from using internal models that are more risk-sensitive and forces them to rely on standardised approaches that are more capital-intensive. Europe is imposing constraints on itself that other jurisdictions do not apply, thereby penalising strategic investments. French banks are increasingly crowded out by international competitors, depriving European champions of domestic financing.

To finance the energy transition and vital infrastructure, Europe can no longer impose absurd rules that prevent the use of models adapted to robust portfolios. Strategic sectors require

proportionate rules. A revision of Level 1 legislation would allow prudential treatment to be adjusted, reduce financing costs and support European competitiveness.

Excessive prudential buffers

A significant share of the money that banks could lend to households, businesses and local authorities is currently immobilised in prudential "buffers" that have been added over the years: the countercyclical buffer, the O-SII buffer and the systemic risk buffer.

These requirements, initially designed to protect the financial system, have become too numerous, too complex and, above all, higher in Europe than elsewhere in the world. As a result, European banks have far less lending capacity than their US or UK counterparts.

Removing these buffers or significantly reducing their size would immediately free up more than €260 billion to support the real economy. Conversely, maintaining high buffers no longer materially strengthens stability, as banks are already very well capitalised (CET1 capital of the six largest French banks increased from €348.8 billion in 2019 to €425.2 billion in 2024). Instead, it restrains investment, weighs on growth and pushes clients towards less regulated, riskier actors.

Reducing these buffers would restore oxygen to credit, support purchasing power and enable French banks to fully support the projects of families, entrepreneurs and local communities.

Digital investments and software deduction

Under European banking solvency rules (CRR), software is deducted from CET1 capital, based on the assumption that software loses value and cannot absorb losses in the event of a crisis or liquidation. However, IT infrastructures must remain robust, secure and compliant with European standards (cybersecurity, anti-fraud, business continuity).

Regulators now consider digital resilience to be a central issue. Customers expect high-performing mobile applications, 24/7 services, real-time notifications and enhanced transaction security. Banks must maintain a level of service comparable to that of fully digital players.

It is therefore imperative to remove the deduction of software from own funds, as banks' digital investments directly translate into faster and more reliable payments, better fraud protection, online services without physical travel, smoother customer experience and more efficient financial management tools.

Banking is becoming increasingly digital in response to strong societal demand, and removing the software deduction rule would free up €47 billion in financing capacity.

NPL backstop

The NPL backstop is a European rule introduced after the financial crisis to require banks to set aside more capital when a loan becomes non-performing. The FBF estimates the additional prudential provisions on distressed exposures at €8 billion, on top of accounting provisions.

Since then, banks have significantly strengthened their resilience, with high capital ratios and a sharp reduction in non-performing loans. Today, European banks are among the safest in the world. This mechanism, useful at the time, has become redundant with existing standards and is a European-specific rule not applied in the United States or the United Kingdom.

Most importantly, it reduces banks' room for manoeuvre to support clients, as the longer a case lasts, the more capital it consumes: banks are penalised for giving clients a second chance. Individual situations are treated as identical risks, without nuance. The NPL backstop reduces banks' ability to support fragile situations, encourages the sale of loans to less benevolent actors and makes access to credit more difficult for low-income households.

Removing the NPL backstop is not a "gift to banks". It is a pro-growth measure whose benefits flow directly to households through more accessible credit, to entrepreneurs who need to invest, to the ecological transition that requires massive financing, and to the French and European economy as a whole. By freeing up €8 billion in prudential provisions, it would restore

financing power to a sector that irrigates the entire real economy, releasing nearly €96 billion in additional financing capacity.

Prudent Valuation Adjustment (PVA)

The PVA is a prudential rule introduced after the financial crisis that requires banks to deduct from capital a kind of precautionary reserve on certain assets measured at fair value, even when those assets present no real risk. The FBF estimates that €8 billion of own funds are immobilised under the PVA for French banks.

The PVA is a form of regulatory double penalty that adds costs without increasing safety. It is an almost exclusively European specificity, not applied to US or UK banks. As a result, European banks immobilise excessive capital and lose market share to Anglo-Saxon competitors. Nearly €88billion in additional financing capacity could be freed up.

MREL

MREL is a highly complex, Europe-only set of rules requiring banks to hold large volumes of loss-absorbing debt in the event of a crisis. European banks are currently the only ones subject to such a heavy MREL burden, far more demanding than the US equivalent (TLAC).

The FBF proposes eliminating this European overregulation and aligning requirements with Basel rules, which would free up €3 billion per year, restore a level playing field, simplify the prudential framework and strengthen the financing capacity of the entire economy.