



## JEAN LEMIERRE

Chairman - BNP Paribas

### Enabling the EU financial sector: It is time for Europe to be bold

In a context of high economic uncertainty, geopolitical tensions and increasing international fragmentation, as many political leaders and central bankers are stating, it is the time for Europe, which is indeed a wealthy and stable economic area, to act. But this will happen if Europe moves quickly and substantially in the economic and financial fields to foster its competitiveness and to face the many challenges it is confronted to, notably the green and digital transitions, the reindustrialization and the defence needs.

Estimates of Europe's financing needs to meet these challenges amount to more than one trillion euro annually. The EU will need to do all it can to mobilize all sources of funding, especially with the low economic growth and high public debt conditions faced by many Member States. Leveraging European banks' financing capacity is essential to bridge this gap. This will require pragmatic policy decisions and adjustments to the prudential / regulatory framework to ensure that European banks remain strong and competitive and are able to play their essential role to their full potential.

A first priority to enhance the strength and competitiveness of EU banks is ensuring the level playing field with their US and other international competitors. In the United States, a deregulation and simplification agenda is implemented, which will likely translate for American banks into lower capital requirements related to the changes to come to the Supplementary Leverage Ratio, the G-SIB buffers, the CCAR stress tests, and the supervisory practices, which are set to abandon reputation and governance as key factors in assessing the strength of banks. If and when enacted, these measures may result in significant reductions in capital requirements for American banks. EU banks which are already well capitalized ask for simplification and a level playing field in areas of competition such as market activities. Europe needs to remain very vigilant in this regard.

On the implementation of Basel III, the EU is the first major jurisdiction to apply stricter rules resulting in increased capital requirements. In the United States, there might be a proposal of the endgame rules in 2026, but if so, it

would be capital neutral. Moreover, the UK has deferred everything until at least January 2027 and aims to be capital neutral as well. Canada for its part has chosen to freeze the increase of the output floor. As other jurisdictions delay implementation, the untimely application of the market risk rules in the EU would have a potentially massive impact on its large banks. In concrete terms, this means that a new delay in the application of the FRTB rules is needed, for Europe to be able to align to the US and the UK implementation, knowing that, the UK has just announced a delay until January 2028 for the internal model approach. Otherwise, EU banks will have to further retreat from certain sectors and business lines and will become weaker and less competitive.

---

**In this changing world, carrying on with  
business as usual is no longer possible.  
Now is the time for Europe to act.**

---

Relaunching securitization is also a key priority to unlock EU banks' financing capacity. It is crucial to increase the attractiveness of this market and to enlarge the investor base. The Commission's recent proposal to do so is an efficient initiative that aims to improve prudential calibration by decreasing capital charges tweaking risk sensitivity. The proposal should be made more powerful to trigger a stronger revival of the market. Several key areas could be improved via the Commission proposals to come, notably ensuring that the treatment of LCR is not penalizing, and amending Solvency II to better account for the actual risks of securitization and to limit the reglementary costs for insurers investing in securitization.

Beyond securitization, simplification is needed to increase retail investor participation in equity markets. In that respect the proposal of a European label for financial products will contribute to boost equity funding by providing access to

safe cross-border investment opportunities. On the other hand, to avoid a decline of the role the financial markets play to finance the economy, the Commission RIS proposal, which is complexifying the retail investor journey, should be reviewed.

A third priority is completing the Banking Union, which is essential for Europe's single market and for its financial sector. The impediments to the free flow of capital and liquidity have to be removed so that dividends and liquidity circulate freely inside banking groups. This would be a logical new step after the recent political agreement found on the review of the Crisis Management and Deposit Insurance framework, which allows for the possibility of accessing the Single Resolution Fund in the resolution of a failing small or medium-sized bank.

These policy priorities are crucial to fulfilling the opportunities for Europe and its financial sector. As such, progress in their implementation and the strength of the EU financial sector should be an integral part of the Competitiveness Compass. In this changing world, carrying on with business as usual is no longer possible. Now is the time for Europe to act.