ROYAL NORWEGIAN
MINISTRY OF FINANCE

The European Commission,
Directorate-General for Financial Stability,
Financial Markets and Capital Markets Union

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Communication on the competitiveness of the EU banking sector

Introduction
The Norwegian Ministry of Finance welcomes the Commission's invitation to comment on the report to improve banking competitiveness in the EU (the Communication), published in July 2026. This response supplements the Ministry's earlier contribution to the Commission's consultation and the Minister of Finance's letter to Commissioner Albuquerque of 5 May 2026.

A well-functioning banking sector is essential for financing households and businesses and for sustainable economic growth. The Commission highlights the importance of preserving resilience of the banking system and includes resilience as a crucial aspect of competitiveness of the banking sector. We strongly support this. Preserving resilience must be a priority.

Please find below some general comments on topics considered particularly relevant from a Norwegian perspective. The Annex sets out more detailed comments on the issues described in this letter as well as on other issues in the Communication.

Banking integration
The Nordic banking market illustrates that a relatively high level of cross-border integration can develop despite the continued existence of several of the prudential arrangements identified by the Commission as possible barriers. Cross-border activity in the Nordic region is to a significant extent organised through branches, demonstrating that integration can develop through different legal and organisational structures. Measures intended to promote further integration should be supported by evidence of their likely benefits and assessed together with their implications for financial stability, crisis management and safety nets in different countries. In this respect, the Ministry encourages the Commission to

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carefully consider the implications of different legal and organisational structures for cross-border business.

The Communication and the attached staff report are focusing on integration within the Banking Union. Several EU/EEA-countries, including Norway, are not members of the Banking Union, but part of the internal market. Norway is a small open economy with significant presence of foreign financial institutions, and changes indicated by the Commission may have significant implications for financial stability and safety nets. We therefore urge the Commission to expand its assessment of regulatory changes beyond the Banking Union.

Macroprudential tools
Norway has extensive experience with the use of macroprudential buffers, including releasing the counter cyclical buffer during the pandemic. Building buffers in good times for the possible use in less favorable conditions, is important for financial stability.

Financial structures, vulnerabilities and macro-financial cycles differ across countries, and national authorities should continue to have effective tools to address structural and cyclical systemic risks in their respective jurisdictions. However, the framework could be made simpler and more coherent, and procedural requirements associated with macroprudential measures can be simplified.

Efficient reciprocity arrangements for macroprudential measures will become increasingly important in a more integrated European banking market. Increased cross-border activity should not weaken national authorities' ability to address systemic risks associated with exposures in their domestic markets. Effective reciprocity can strengthen both the effectiveness of national measures and consistent competitive conditions for institutions operating in the same market. A greater degree of automatic reciprocity could also simplify the framework by reducing the need for separate recognition procedures and associated administrative requirements.

Harmonisation of supervisory practices
The Ministry supports more consistent regulation and supervisory practices where this can reduce unwarranted differences and contribute to a level playing field. Harmonisation efforts should nevertheless recognise that differences in requirements or supervisory outcomes may reflect genuine differences in risks, financial structures and institutional circumstances.

Supervisory convergence is desirable where differences in outcomes cannot be explained by differences in risk. At the same time, a more consistent framework should still allow for risk-based supervisory judgement and institution-specific assessments where warranted by specific risks and circumstances, within a common European framework.

Concluding remarks
The Ministry supports a simpler, more coherent and predictable framework that preserves resilience, supports efficient financial intermediation and market integration, and maintains the safeguards needed to address material risks in a diverse European financial system.

The Ministry sees significant scope for practical simplification through better coordination of reporting requirements, simpler administrative procedures, greater proportionality and more efficient supervisory processes. The EBA's recent review of the interaction between microprudential, macroprudential and resolution requirements provides a useful basis for identifying targeted simplifications where interactions between requirements give rise to unnecessary complexity.

Given the breadth of the issues under consideration and their potential implications for banks, authorities and financial stability, the further work should provide a robust basis for any legislative proposals through relevant analysis and contributions from relevant authorities. Particular attention should be given to the cumulative effects of the reforms and to their impact across individual institutions and countries (including countries outside the Banking Union), rather than relying solely on EU-wide aggregate effects. Where changes may have material effects on capital requirements or on the allocation of risks and responsibilities across countries, the implications for financial stability should be assessed explicitly.

More detailed comments on the issues highlighted in this letter as well as comments on other parts of the Communication, can be found in the attached annex.

Norwegian authorities stand ready to share experiences and contribute to the development of concrete proposals to achieve the ambition of a better regulatory system supporting the European economy.

Yours sincerely,

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Director General

Marius Østli
Deputy Director General

This document is signed electronically and has therefore no handwritten signature

Detailed comments on the Commission's Communication on banking competitiveness

1. A more integrated European banking market

1.1 Banking market integration and barriers

Banking integration remains limited in many parts of Europe and greater cross-border integration may improve resource allocation, foster competition and contribute to diversification. These potential benefits should, however, be considered together with the implications for financial stability and crisis management. Furthermore, greater integration should not be equated with greater consolidation and homogeneity in the banking sector. A diverse banking sector, comprising institutions of different sizes, business models and geographical reach, may contribute to competition, resilience and the ability to serve different customer needs.

Prudential requirements applied at individual or subsidiary level, restrictions on intragroup exposures and limitations on the cross-border transfer of capital and liquidity may affect the organisation of cross-border banking groups and contribute to market fragmentation. It is therefore appropriate to assess whether such constraints can be reduced or adjusted without weakening appropriate safeguards for financial stability. Prudential requirements are, however, only one part of the explanation for the continued segmentation of European banking markets. Differences in legal frameworks, housing and real estate markets, financial products, market structures, culture and customer preferences may also be important.

The Nordic banking market illustrates that a relatively high level of cross-border integration can develop despite the continued existence of several of the prudential arrangements identified by the Commission as possible barriers. Cross-border activity in the Nordic region is also to a significant extent organised through branches, illustrating that integration can develop through different organisational structures.

Proposals to promote further integration should be supported by evidence of their likely benefits. This is particularly important where reforms would reduce capital or liquidity requirements at subsidiary level or otherwise increase the mobility of resources within banking groups. Expected efficiency gains should be assessed together with the implications for financial stability and crisis management, also in consideration with the lessons learnt from the Global Financial Crisis.

1.2 Countries outside the Banking Union

Several of the issues considered by the Commission are closely linked to the institutional framework and financial safety nets of the Banking Union. The Commission recognises that greater integration must be accompanied by appropriate safeguards and that the different institutional arrangements of countries outside the Banking Union need to be taken into account. The Communication provides limited detail, however, on how such safeguards would operate for these countries.

Measures intended to facilitate greater cross-border integration or the allocation of capital and liquidity within banking groups should be accompanied by adequate safeguards for countries hosting subsidiaries of foreign institutions. Responsibilities and decision-making powers should remain appropriately aligned with responsibility for financial stability and access to financial safety nets.

The common framework must be designed to function appropriately also for EU Member States and EEA countries outside the Banking Union. Further work should clarify how the relevant safeguards will operate in these countries and ensure that national authorities retain the appropriate powers and instruments needed to address risks for which they remain responsible.

2. Implementation of international standards

2.1 General considerations

Internationally agreed prudential standards are an important foundation for financial stability and a level playing field. Consistent implementation of the Basel standards across major jurisdictions is important, and material differences in implementation should be avoided. Such differences should primarily be addressed through continued efforts to promote broad and consistent implementation of international standards rather than through a general weakening of requirements in Europe.

Certain elements of the international framework may warrant further assessment if specific features of European financial markets or banks' business models give rise to unintended or disproportionate effects. Any deviations from international standards should, however, be clearly justified on prudential grounds and supported by thorough analysis. Differences in funding structures or business models do not in themselves justify more favourable prudential treatment.

Banks have an important role in taking and managing risk in order to finance households, businesses and economic growth. Increasing banks' capacity or incentives to take risk should, however, not in itself be an objective of prudential regulation. Prudential requirements should ensure that risks are adequately identified, measured and covered by sufficient capital and liquidity. A robust prudential framework enables banks to absorb losses and maintain lending through economic downturns, thereby contributing both to financial stability and to the long-term competitiveness of the banking sector and economic growth in general.

Many of the investments needed to support innovation, digitalisation, defence, energy security and the green transition require long-term risk-bearing capital. Measures that strengthen capital markets, venture capital, and cross-border investment may, in many cases, contribute more effectively to Europe's long-term investment needs than measures focused solely on expanding bank balance sheets. The Savings and Investments Union should therefore be regarded as an important complement to reforms of the banking sector.

2.2 Output floor and internal models

The output floor is a key element of the finalised Basel III framework and is intended to limit excessive variability in risk-weights resulting from the use of internal models. A floor on model-based capital requirements is not a new feature of the Basel framework. Under Basel II, the Basel I floor was intended to ensure that capital requirements based on internal models did not fall below 80 per cent of the requirements under the previous framework. However, the Basel I floor was implemented unevenly across the EU and did not in all cases effectively constrain model-based capital requirements. The requirement subsequently expired in EU law.

This experience is relevant when assessing the impact of the new output floor. The fact that the output floor becomes binding for a significant number of European banks does not in itself indicate that it is incorrectly calibrated. It may instead reflect that banks, in the absence of an output floor, have reduced their risk-weights on these assets, which in turn has allowed banks to operate with lower levels of capital than would otherwise have been the case. The impact of the output floor should therefore be assessed in light of its intended purpose. The output floor should also be considered in the broader context of other possible changes to the capital framework, including any possible restrictions on macroprudential measures that affect Pillar 1 or on Pillar 2 requirements.

Internal models can contribute to greater risk sensitivity, but model outcomes may be sensitive to assumptions and methodological choices, and banks have economic incentives linked to the level of model-based risk weights. Large differences between risk weights calculated under internal models and the standardised approaches should therefore not necessarily be interpreted as reflecting superior risk measurement or risk management.

Extensive supervisory efforts in the EU have improved the quality and consistency of internal models. The resources required for model approval and ongoing supervision nevertheless illustrate the complexity associated with extensive reliance on such models. The EBA and the ECB are taking steps to reduce the number of model changes requiring prior approval and to make model supervision more risk-based. These developments should be taken into account when assessing the appropriate balance between reliance on internal models, supervisory oversight and safeguards such as the output floor.

Recent US proposals would remove the use of internal models from the credit risk framework and replace the models-based approach for operational risk with a standardised approach, while retaining models-based approaches for market risk[1]. The revised standardised approaches are intended to provide greater risk sensitivity while maintaining a simpler and more consistent framework. This illustrates that reliance on internal models is not the only way to achieve appropriate risk sensitivity and that reducing reliance on the most advanced approaches could simplify the framework for both banks and supervisory authorities.

The Commission is also considering the application of the output floor at individual, sub-consolidated and consolidated levels. This issue should be considered in the broader context of capital mobility within cross-border banking groups and the allocation of responsibilities between home and host authorities. Any changes should ensure that sufficient capital is available where losses arise, including in periods of stress, and should take into account the institutional arrangements and financial safety nets available within and outside the Banking Union.

[1] The impact of internal models on US banks' minimum risk-based capital requirements has in any event been constrained by the so-called Collins floor.

2.3 Credit risk and European business models

Further analysis may be warranted of the prudential treatment of certain exposures, including unrated corporates, residential mortgages and specialised lending. Any adjustments to risk weights or capital requirements should, however, be based on documented differences in risk and loss experience and on sufficiently broad and representative data, including performance over the economic cycle and under stressed conditions.

Historically low default or loss rates do not necessarily provide a complete picture of risk, particularly for exposures that may be subject to cyclical or systemic risks. The experience and expertise of banks in particular business areas may contribute to sound risk management, but should not in itself justify lower capital requirements.

The prudential framework should not create unnecessary disincentives to investments in robust IT systems. At the same time, the capital treatment of software and other intangible assets should reflect their ability to absorb losses, including in periods of stress and crisis. As noted by the EBA in its work on the prudential treatment of software assets,[2] the loss-absorbing capacity and recoverable value of such assets may be limited, particularly in resolution or liquidation.

Obstacles to the financing of intellectual property-intensive firms and the wider intangible economy may also warrant further examination, including challenges related to valuation and the use of intangible assets as collateral. Improvements in valuation frameworks, expertise and risk-sharing arrangements may help address some of these constraints. Difficulties in financing intangible-intensive firms should not be addressed by reducing prudential requirements where the underlying credit risk is higher or more difficult to assess.

It is important to ensure adequate financing for investments considered important for the European economy and its competitiveness. Capital requirements should, however, remain risk-based and should not be used as an instrument to promote particular sectors, technologies or other policy priorities. Any deviation from internationally agreed standards should be supported by a clear prudential rationale and assessed against the implications for financial stability and the international level playing field.

3. A simpler and more coherent regulatory framework

3.1 Regulatory complexity

The regulatory framework for banks has become extensive and complex over time. Successive reforms have introduced requirements serving different objectives, resulting in overlaps, administrative burdens and significant compliance costs for both banks and authorities. The framework can therefore be made simpler and more coherent.

[2] European Banking Authority, *Draft Regulatory Technical Standards on the prudential treatment of software assets under Article 36(4) of Regulation (EU) No 575/2013.*

Regulatory complexity should, however, be considered in light of the complexity of banking activities and the risks the framework is intended to address. Some detail is necessary to ensure adequate risk sensitivity and to account for different risks and business models. Detailed regulation is therefore not in itself evidence that regulation is excessive or inappropriate.

There is an inherent trade-off between risk sensitivity and simplicity. Highly granular rules may entail significant costs related to models, data, validation, reporting and supervision. Simplification should focus on removing genuine overlaps, unnecessary granularity and complexity that provides limited prudential value, while preserving the framework's ability to capture material risks.

Where greater harmonisation is considered necessary, it should as far as possible be achieved through simpler and less prescriptive rules. Harmonisation should not in itself lead to greater regulatory detail and complexity. A common framework should set clear principles and requirements while allowing sufficient scope for risk-based judgement where appropriate.

Less prescriptive regulation will necessarily leave some scope for interpretation and supervisory guidance. Greater reliance on materiality and risk-based approaches where this can reduce unnecessary compliance work and allow supervisory resources to focus on material risks is beneficial. Guidance by national competent authorities on the application of common rules should not in itself be regarded as gold-plating. Where greater supervisory convergence is needed, this should primarily be pursued through cooperation and common European guidance rather than increasingly detailed regulation.

Simplification should also promote greater stability and predictability in the regulatory framework. Frequent and extensive regulatory changes are themselves a source of complexity and compliance costs. This is particularly relevant given that important parts of the prudential framework have only recently been amended through the implementation of the final Basel III reforms.

A distinction should be maintained between taking account of the broader effects of regulation and supervision on competitiveness and making competitiveness an objective of prudential regulation and supervision. Competitiveness considerations are relevant at the level of the overall framework, but should be balanced against, and not override, the need to preserve sound prudential standards and effective supervision.

3.2 Microprudential, macroprudential and resolution frameworks

3.2.1 General considerations

There is merit in a review of the interaction between microprudential, macroprudential and resolution-related requirements. The different parts of the framework serve different purposes, and their interaction may contribute to complexity and, in some cases, affect the usability of capital buffers. A review should distinguish between genuine overlaps and requirements serving different purposes.

The fact that several requirements apply simultaneously does not in itself imply that they address the same risks or are redundant. Minimum requirements such as the leverage ratio and MREL serve different purposes and have in part deliberately been designed as backstops to other parts of the framework. Similarly, the introduction of the output floor does not in itself imply that existing Pillar 2 or macroprudential measures have become redundant.

The EBA's recent work on simplifying the prudential and resolution framework provides an important basis for this review. In particular, it illustrates the scope for targeted simplification while preserving resilience rather than relying on a general recalibration of requirements.

3.2.2 Macroprudential framework

Releasable capital buffers play an important role as part of an effective macroprudential framework, preserving the distinction between institution-specific and systemic risks. Financial structures, vulnerabilities and macro-financial cycles differ across countries. Norway has extensive experience with the use of such buffers, including releasing the counter cyclical buffer during the pandemic.

The framework could be made simpler and more coherent. Common methodologies may contribute to transparency, convergence and reciprocity. Within such a common framework, national authorities should continue to have effective tools to address structural and cyclical systemic risks in their respective jurisdictions. Greater harmonisation of methodologies should not imply harmonisation of buffer levels where underlying systemic risks differ materially across countries. If existing Pillar 1 measures addressing country-specific systemic risks are restricted, national authorities should retain alternative tools capable of providing an equivalent degree of resilience.

There is merit in greater consistency in the identification and calibration of O-SII buffers. A common methodology may contribute to greater transparency and comparability, provided that the resulting assessments and buffer calibrations remain capable of reflecting differences in national banking market structures, concentration and the systemic importance of individual institutions. Similar quantitative scores do not necessarily imply identical systemic consequences of bank failure across countries.

Procedural requirements associated with macroprudential measures can be simplified. Notification and re-notification requirements could be reviewed with a view to reducing the frequency of re-notifications where measures remain unchanged and the underlying systemic risks persist. This could reduce administrative burdens for both national and EU authorities without limiting the ability of national authorities to address systemic risks.

Efficient reciprocity arrangements for macroprudential measures will become increasingly important in a more integrated European banking market. Increased cross-border activity should not weaken national authorities' ability to address systemic risks associated with exposures in their domestic markets. Effective reciprocity can strengthen both the effectiveness of national measures and consistent competitive conditions for institutions operating in the same market. A greater degree of automatic reciprocity could also simplify the framework by reducing the need for separate recognition procedures and associated administrative requirements.

3.2.3 Pillar 2

Greater consistency in the application of Pillar 2 is important for both the level playing field and financial stability. Material differences in supervisory outcomes should reflect differences in institutions' risk profiles rather than differences in supervisory practices. Pillar 2 requirements should nevertheless remain risk-based and institution-specific tools for addressing risks that are not, or not sufficiently, covered by Pillar 1. Greater convergence should preserve sufficient scope for supervisory judgement in the assessment of bank-specific risks.

The Commission intends to enhance the functioning of Pillar 2 Guidance to ensure more targeted application. The framework could be streamlined, provided that P2G retains its role as a forward-looking supervisory tool based on stress testing and institution-specific risk assessments.

The proposal to remove Pillar 2 capital requirements related to the leverage ratio should be considered in the broader context of other possible changes to the capital framework, including any weakening of the output floor and possible restrictions on macroprudential measures that affect Pillar 1 requirements. Taken together, such changes could reduce the number and effectiveness of safeguards addressing banks' overall resilience.

The leverage ratio provides an important non-risk-based backstop to risk-weighted capital requirements. It is not sensitive to modelling choices and assumptions and provides a relatively simple and transparent measure of banks' capitalisation. Where an institution's risk profile gives rise to concerns that are not adequately captured by risk-weighted requirements, supervisors should retain the ability to impose institution-specific leverage ratio requirements.

3.2.4 Resolution framework

Efforts to simplify the resolution framework and improve its consistency with internationally agreed standards are well founded, but it remains crucial that resilience and resolvability are preserved. No Norwegian banks are currently subject to TLAC requirements. Nevertheless, further aligning the MREL framework with TLAC definitions is warranted where this can reduce unnecessary complexity without weakening the effectiveness of the resolution framework.

The process for granting prior permission to replace MREL instruments should be streamlined and accelerated as the Commission suggests. The current process entails administrative burdens for both institutions and authorities, while the additional prudential benefits do not appear commensurate with those burdens. Consideration should also be given to whether certain instruments could be exempted from the prior permission regime.

The interaction between MREL and capital buffer requirements may in some cases affect banks' ability to use their capital buffers without breaching MREL requirements, as CET1 may also be used to meet parts of MREL. This issue should not be addressed by lowering MREL requirements. Alternative approaches to reducing this interaction could, however, be explored further, including whether the capital and MREL requirements could be more clearly separated, for example through greater reliance on subordinated debt for meeting MREL.

There is merit to reviewing the requirements for resolution planning, including the frequency of planning cycles and updates. A more proportionate approach could reduce unnecessary administrative work and allow authorities and institutions to focus more on the operationalisation and testing of resolution plans.

3.2.5 Coordination between microprudential, macroprudential and resolution authorities

Improved coordination between microprudential, macroprudential and resolution authorities could contribute to a more coherent framework and reduce unintended interactions between different instruments. Such coordination should preserve the distinct mandates, responsibilities and decision-making powers of the respective authorities. Proposals for enhanced coordination should also take into account differences in institutional arrangements across countries participating in the Banking Union and non-Banking Union countries.

3.2.6 Assessment of capital adequacy at EU level

The Commission has suggested that the EBA and ESRB could be mandated to regularly assess the adequacy of bank capital requirements across the EU. Such assessments could provide useful information on the functioning and interaction of the different parts of the capital framework. The assessments should primarily be based on risks to institutions and the financial system and on the objective of maintaining financial stability. Any implications for the calibration of capital requirements should be assessed on prudential grounds. EU-level assessments should also take into account material differences in risks, financial structures and capital requirements across countries.

3.3 Proportionality

Further efforts should be made to enhance proportionality within the regulatory, supervisory and resolution frameworks. As noted in the Ministry's response to the Commission's previous consultation, smaller banks may face relatively demanding compliance requirements that are not always well aligned with their risk profile or business model. Detailed technical requirements, reporting and administrative processes could in particular be simplified for institutions with simple business models where the complexity provides limited prudential benefits.

Proportionality should primarily be pursued within the common regulatory framework rather than through a separate regime for smaller banks. A separate regime could introduce undesirable threshold effects and incentives for regulatory arbitrage. The current definition of small and non-complex institutions provides a reasonably stable and predictable basis for applying proportionality, and there does not appear to be a clear need to amend it. Greater consistency in the application of proportionality across the prudential, supervisory and resolution frameworks could also reduce unnecessary complexity. Differences in thresholds and scope may, however, reflect different objectives and should not be harmonised without a clear case for doing so.

Proportionality is also particularly relevant when it comes to investment firms. The Norwegian market includes a relatively large number of investment firms that are small in a European context, and no Class 1 investment firms have Norway as their home country. The Commission's objective of further enhancing proportionality in the IFR/IFD framework to reflect the diversity of investment firms and their activities and to reduce unnecessary compliance burdens is therefore justified.

The IFR/IFD framework has not yet entered into force in Norway, pending completion of the relevant EEA procedures. Norway therefore does not yet have practical experience with the application of the framework that would provide a basis for assessing possible unintended effects or the calibration of individual requirements. Further consideration of targeted amendments should be made, while emphasising that any changes should be based on the risks associated with the relevant activities and business models.

3.4 Administrative and regulatory simplification

3.4.1 Regulatory reporting

There is scope for further simplifying and improving the coordination of regulatory reporting. The Commission's analysis identifies insufficient alignment and coordination between authorities as one of the key sources of the reporting burden, including inconsistent definitions, standards and formats, overlapping or redundant data requests, misaligned reporting timelines and insufficient data sharing. Further efforts should therefore focus on harmonising definitions and data standards, reducing duplicative reporting requests, improving the coordination of ad hoc data requests, and enabling greater reuse and sharing of data already reported to public authorities.

Access to relevant, sufficiently granular and high-quality data is essential for effective microprudential and macroprudential supervision and resolution. Simplification should therefore primarily be achieved through better coordination, integration and modernisation of reporting systems rather than by reducing the information available to authorities. More integrated reporting and common data standards should be sought where these can reduce reporting burdens without impairing the information necessary for authorities to perform their mandates.

3.4.2 Remuneration

The remuneration framework is an important component of the post-financial-crisis regulatory reforms aimed at reducing incentives for excessive risk-taking. Any simplification of the framework should therefore be carefully assessed to ensure that it does not weaken the substantive requirements or reduce their intended prudential effect.