

Prudential Recalibration in European Banking System: A Quantitative Assessment of the Economic Impact

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Abstract

The stress tests to which European banks have been subjected in recent years have highlighted their soundness and resilience under adverse macroeconomic and financial scenarios. A further conclusion can be drawn from these results: they reinforce the evidence regarding the effectiveness and relevance of the measures implemented by regulators in response to the financial crises that marked the end of the 2000s. The resulting strengthening of the prudential framework has therefore contributed to enhancing the resilience of the European banking system. However, in a context where European banks tend to underperform their US counterparts, and as a process of easing and recalibrating certain prudential requirements has been underway in the United States since 2025, the question arises as to whether some of the requirements resulting from the implementation of Basel III in Europe may be excessively restrictive relative to the actual risks borne by European banks. This study builds on the considerations set out in the Draghi Report (2024), which notably calls for a reassessment of the European prudential framework in light of the international competitiveness of the banking sector. It also takes place against a backdrop of calls from several banking industry bodies, including the French Banking Federation (FBF) and the European Banking Federation (EBF), for the simplification and recalibration of the European prudential framework. The Draghi Report notably recommends assessing whether the existing prudential framework, including in the context of Basel III implementation, is consistent with the objective of maintaining a European banking system that is both sound and internationally competitive. The study first reviews the main regulatory lessons drawn from the global financial crisis and the subsequent strengthening of the prudential framework. It then examines recent developments in the US regulatory environment before providing a quantitative assessment of selected regulatory adjustments in Europe. In particular, the analysis estimates the potential effects of postponing selected capital-intensive measures, including the Fundamental Review of the Trading Book (FRTB) and the Output Floor, as well as reducing the regulatory reporting burden. Their economic impact is assessed through several indicators, including regulatory capital released, annual capital cost savings, theoretical additional credit exposure capacity and reductions in reporting-related costs. The findings provide a quantitative perspective on the potential trade-offs between financial stability and banking competitiveness. They suggest that targeted regulatory recalibration could generate measurable economic benefits for European banks while raising the broader question of how the European prudential framework can evolve without undermining the resilience achieved since the global financial crisis.

Keywords : Banking Regulation, Prudential Supervision, Regulatory Recalibration, Basel III, FRTB, Output Floor, Regulatory Capital, Risk-Weighted Assets (RWA), Regulatory Reporting.

JEL Classification : G21, G28, G32.

Key messages

- Post-crisis prudential reforms have significantly strengthened the resilience of the European banking sector, but have also increased regulatory capital requirements and compliance costs.
- A targeted recalibration of the prudential framework could reduce unnecessary regulatory constraints while preserving the core objectives of financial stability and banking resilience.

- The deferral or recalibration of selected Basel III requirements, particularly the FRTB and the Output Floor, could release regulatory capital and reduce the associated annual cost of equity.
- Lower capital constraints could also increase banks' theoretical capacity to extend additional exposures to households and businesses, although this capacity should not be interpreted as actual additional lending.
- Simplifying supervisory reporting requirements could generate significant cost savings by reducing reporting complexity, duplication, data requirements and recurring compliance costs.

Introduction

The supervision of banking institutions has emerged as one of the key priorities for regulators in recent years, following the financial crises of 2008 and 2011, which severely tested the financial system and exposed a number of structural weaknesses. These included insufficient capital relative to risk-weighted assets, inadequate liquidity to meet very short-term funding needs, as well as shortcomings in banking supervision, particularly from a macroprudential perspective.

To address these weaknesses, regulatory authorities introduced a range of measures aimed, among other objectives, at strengthening banks' capital positions, ensuring sufficient liquidity resources to meet funding needs, enhancing the supervision of the financial system as a whole, and subjecting institutions identified as systemically important (too big to fail) to closer oversight.

However, while these measures have demonstrated their effectiveness in contributing to the resilience of the banking system, they have also proved costly for banks, both in terms of capital tied up by regulatory requirements and the operational costs associated with reporting obligations. Beyond the question of whether the current prudential framework is appropriately calibrated to the actual risks faced by banks, another issue arises as to whether it may adversely affect the competitiveness of European banking institutions, particularly relative to their US counterparts.

The report prepared by Mario Draghi (2024)¹ at the request of the European Commission to identify the main obstacles to the competitiveness of the European Union notably highlights that European banks tend to exhibit lower profitability, higher costs and a smaller scale than their US counterparts, potentially constraining their ability to finance investment in Europe. Among other recommendations, Mario Draghi calls for a reassessment of certain prudential requirements that may constrain financing, the revitalisation of activities such as securitisation in Europe to release capital, and greater banking integration across the European Union.

Against this backdrop, the present study explores potential measures to recalibrate the European prudential framework and seeks to quantify their economic impact on European banks. First, we examine the key lessons drawn by banking regulators from the subprime crisis. We then briefly review the current US regulatory landscape, where banking regulators are easing regulatory requirements, before providing a quantitative assessment of the economic impact of freezing certain capital-intensive measures, as well as reducing the regulatory reporting burden on European banks. The study concludes with a discussion of the main findings and their implications.

¹ The future of European competitiveness, Mario Draghi, 2024

Context of the 2008 Subprimes crisis

The subprime crisis marked a major turning point for the banking industry. It yielded several key lessons: banks were insufficiently capitalised, banking supervision failed to capture certain risks (excessive leverage, liquidity risk, off-balance-sheet exposures, procyclicality, securitisation etc.), opaque and highly interconnected over-the-counter (OTC) derivative exposures between institutions received insufficient scrutiny, and the supervision of systemically important banks (too big to fail) had significant shortcomings. It was therefore essential for regulators to provide proportionate responses to these weaknesses in the banking system by tightening regulatory requirements.

These reforms were primarily embodied in the implementation of Basel III, which strengthened capital requirements for risk-weighted assets and introduced required liquidity levels to cover banks short-term liquidity needs. Other regulatory responses, in a context in which the financial system had proved fragile, included the entry into force of the Single Supervisory Mechanism (SSM), characterised by macroprudential supervision of the banking system as a whole in addition to the supervision of individual banks, the regulation of banks speculative activities or the implementation of a bank resolution mechanism.

Table 1 summarizes the main weaknesses revealed by the 2008 financial crisis, the key lessons learned, and the corresponding regulatory measures implemented in response.

Weaknesses revealed	Key lessons learned	Post-crisis measures
Insufficient bank capital	Stronger loss-absorption capacity	Higher CET1 requirements & buffers
Excessive leverage	Capital ratios alone are insufficient	Leverage Ratio
Liquidity shortages	Solvency does not ensure liquidity	LCR & NSFR
Weak lending standards	Credit underwriting matters	Stricter lending & risk standards
Underestimated market risk	Tail risks must be better captured	FRTB / stronger market-risk framework
Overreliance on internal models	Models require constraints	Model restrictions & Output Floor
Systemic interconnectedness	Individual-bank safety is insufficient	Macroprudential supervision
"Too big to fail" problem	Banks must be resolvable	Resolution regimes & bail-in
Weak stress testing	Resilience must be forward-looking	Supervisory stress tests
Opaque derivatives / counterparty risk	Transparency and collateralisation matter	Central clearing & derivatives reforms

Table 1: Main measures following the 2008 Financial Crisis

Economic Impact of Tighter Prudential Regulation

The implementation of these reforms, which are intended to strengthen the resilience of the banking system and financial stability as a whole, nevertheless generates an economic impact for banks comprising two main components:

The economic impact of regulatory capital requirements : new prudential requirements, increase the amount of regulatory capital that must be held against rising risk-weighted assets. Banks are therefore required to maintain higher levels of capital. An European Banking Authority (2019)² study conducted on 189 European banking institutions indicated that the full implementation of Basel III would generate a capital shortfall of €135.1bn, including €91bn in Common Equity Tier 1 (CET1) capital. The total capital ratio would decline from 17.9% to 14.3%, the Tier 1 capital ratio to 12.3%, and the CET1 ratio to 11.5%.

The table below presents the ratio levels and the capital shortfall resulting from the full implementation of Basel III.

Indicators	CET1 capital			Tier 1 capital			Total capital		
	Current ratio (%)	Revised ratio (%)	Shortfall (B€)	Current ratio (%)	Revised ratio (%)	Shortfall (B€)	Current ratio (%)	Revised ratio (%)	Shortfall (B€)
Impact on banks	14.4	11.5	91.1	15.3	12.3	127.5	17.9	14.3	135.1

Table 2: ratio levels and capital shortfall resulting from full implementation of Basel III

Higher regulatory capital requirements also entail an opportunity cost for banks, as capital tied up for prudential purposes may constrain their capacity to extend credit. In theory, this may reduce the volume of additional lending that banks could otherwise provide to households and businesses, thereby representing an indirect economic cost associated with higher capital requirements.

The economic impact of reporting requirements : reforms aimed at strengthening the banking prudential framework also increase banks regulatory reporting obligations and, consequently, the costs associated with these requirements. These costs can be divided into two main categories: the costs associated with implementing new reporting requirements and the recurring cost of regulatory reporting.

An European Banking Authority (2021)³ study conducted on a sample of 145 banking institutions and extrapolated to 4,687 financial institutions estimated the average and median costs of implementing new reporting requirements and producing recurring annual regulatory reports. The study's findings can be summarised as follows:

- **Implementation of new reporting requirements:** the average implementation cost is €6.1bn, while the median cost is €1.8bn for the banking sector as a whole. The cost of implementing a reporting requirement includes, in particular, IT development (creation and adaptation of tools), expertise (analysis and interpretation of new requirements), external consultants, training, testing, data collection, data security and data quality etc.
- **Recurring cost of regulatory reports** : the average annual cost of producing recurring regulatory reports is €13.6bn, while the median cost is €3.7bn. These ongoing costs include licences and servers, data protection, IT maintenance, staff (report production, internal control, regulatory monitoring, etc.) and consultants (expertise, internal audit, etc.).

The significance of reporting costs is explained in particular by the complexity of interpreting the requirements, the large volume of regulatory texts underpinning the reports and their constant evolution.

² Basel III reforms : impact study and key recommendations, EBA, 2019

³ Study of the cost of compliance with supervisory reporting requirement, EBA, 2021

The substantial volume of information requested, which can sometimes create duplication, is another contributing factor.

Thus, although regulatory developments help ensure the stability and resilience of the European banking system, they can also generate effects—such as capital being tied up with limited incremental benefit, a theoretical reduction in lending capacity and higher reporting costs—that may erode the competitiveness of European banks, particularly relative to their US and Asian peers and competitors.

US situation

One of the main catalysts of the 2008 subprime crisis was the collapse of Lehman Brothers on 15 September 2008, when it filed for protection under Chapter 11 of the US Bankruptcy Code. The United States was therefore at the epicentre of the subprime crisis, which triggered the regulatory measures adopted thereafter. Those years now appear increasingly distant, however, as a wave of deregulation and easing of banking constraints has been under way in the US since the beginning of 2025. Several reforms and reform proposals in the US seek to simplify regulatory requirements that arose from the lessons learned from the 2008 subprime crisis and the 2011 sovereign debt crisis. While certain measures, such as the recalibration of the leverage ratio for some banks (from 9% to 8%) and the removal of reputational risk from supervision, have already entered into force, other measures, such as the recalibration of risk-weighted assets (RWA) for certain banks, remain at the proposal and review stage as of the date of this study.

Table 3 below, drawing on several publications by the U.S. Federal Reserve (Fed), summarizes the most significant deregulatory measures that have recently come into effect in the United States.

Measure	Adoption Date	Institution	Explanation	Source
Easing of the eSLR (Enhanced Supplementary Leverage Ratio)	Adopted in late 2025, effective in 2026	Fed + FDIC + OCC	Reduction in the leverage constraint for U.S. G-SIBs. For bank subsidiaries, the supplementary leverage requirement is capped at 1%.	Agencies issue final rule to modify certain regulatory capital standards (Board memo - November 2025)
Community Bank Leverage Ratio (9% to 8%)	Adopted in April 2026, effective July 1, 2026	Fed + FDIC + OCC	Eligible banks may use a simplified 8% leverage ratio instead of 9%.	Agencies finalize changes to enhance community bank leverage ratio (Board memo - April 23, 2026)
Removal of “reputational risk” from supervision	Adopted in June 2025	Federal Reserve	Reputational risk is no longer used as a component of the Federal Reserve’s bank supervisory examinations.	Federal Reserve Board announces that reputational risk will no longer be a component of examination programs in its supervision of banks - June 23, 2025
Withdrawal of supervisory principles on climate-related financial risk	Adopted in October 2025	Fed + FDIC + OCC	Withdrawal of the 2023 Principles for Climate-Related Financial Risk Management for large banks. Material climate-related financial risks remain covered by general risk-management requirements.	Agencies announce withdrawal of principles for climate-related financial risk management (October 16, 2025)
End of the dedicated “novel activities” supervision program	Adopted in August 2025	Federal Reserve	Discontinuation of the dedicated program covering, among other areas, crypto and fintech activities. These activities return to the normal bank supervisory process.	Federal Reserve Board announces it will sunset its novel activities supervision program and return to monitoring banks’ novel activities through the normal supervisory process (August 15, 2025)
Supervision more focused on material financial risks	Implemented in 2025–2026	Fed / OCC	Examinations are more targeted according to banks’ size, complexity and risk profile, with fewer systematic procedures, particularly for community banks.	Modernizing Supervision and Regulation: 2025 and the Path Ahead (January 7, 2026)

Table 3: significant Banking sector deregulatory measures in the United States

Study objectives and methodology

Study objective

The objective of this study is to quantify the potential economic impact on European banks of simplifying the regulatory framework and recalibrating prudential requirements to better reflect the actual risks incurred. More specifically, the analysis seeks to assess the potential benefits in terms of regulatory capital, cost savings and banks' theoretical capacity to extend additional exposures.

Study methodology

The data used for the calculations in this study are drawn from previous works and studies on reporting costs, proposed levers to reduce those costs, and the economic impact of certain prudential reforms on European banks. This study breaks down the economic impact of a recalibration of the prudential framework into two main components:

The economic impact associated with regulatory capital requirements, which measures the impact on European banks regulatory capital requirements of postponing certain reforms. Two reforms that are only partially implemented in Europe were selected for this study: the Fundamental Review of the Trading Book (FRTB) and the Output Floor. Throughout this study, the quantitative impact on European banks of postponing the FRTB and the Output Floor is measured using the following three indicators:

- **Regulatory Capital Released** which is the amount of regulatory own funds that would no longer need to be held as capital as a result of the reduction in risk-weighted assets (RWA). This indicator is calculated using the formula $[Regulatory\ capital\ released = Risk\ weighted\ assets\ (RWA) \times minimum\ required\ capital\ ratio]$.

*To ensure a realistic assessment, we use the minimum required regulatory capital ratio from the 2025 European Central Bank SREP (Supervisory Review and Evaluation Process) results (2025)⁴, i.e. approximately **11%**, including the total capital requirement, the capital conservation buffer and countercyclical buffers.*

- **Annual Cost-of-Capital Savings (annual avoided cost of capital)** which is the annual opportunity cost associated with the capital released. This indicator is calculated using the formula $[Regulatory\ capital\ released \times Cost\ of\ Equity\ (CoE)]$.

*The Cost of Equity (CoE) used in this study is **10%**, as per the European Banking Authority's (2026)⁵ latest estimate.*

- **Theoretical Additional Exposure Capacity**, which quantifies the volume of additional exposures that a bank could theoretically carry while maintaining a constant average risk profile. The theoretical additional capacity is calculated using the formula $[Risk-weighted\ assets\ (RWA) / average\ risk\ weight]$.

To determine the average risk weight, we used the latest data published by the EBA (2026)⁶, including total on-balance-sheet assets and risk-weighted assets for 80% of the European banking system.

Average risk weight is calculated as per $[Risk-weighted\ assets\ (RWA) / Total\ on-balance-sheet\ assets]$.

⁴ Aggregated results of the 2025 SREP, European Central Bank, 2025

⁵ Risk Assessment Report - June 2026, EBA, 2026

⁶ CRR3/CRD6 Implementation Dashboard, EBA, 2026

The economic impact associated with reporting requirements, which measures the cost savings generated by a reduction in reporting requirements for European banks (number of data points, number of templates, reporting frequency, etc.). It therefore corresponds to the savings on the cost of implementing new reporting requirements and the annual savings on the cost of producing recurring regulatory reports.

Overall, the total economic impact on European banks of a prudential recalibration in Europe will therefore be estimated using the following indicators :

- Regulatory capital released
- Annual cost-of-capital savings
- Theoretical additional exposure capacity
- Savings related to the implementation of new reporting requirements
- Annual savings related to recurring regulatory reporting

Keys findings

Postponing the FRTB (Fundamental Review of the Trading Book) and Output Floor reforms would release [€82bn - €100bn] of capital for banks, equivalent to [5 - 6]% of current CET1 capital, which could be allocated to other projects. Annual cost-of-capital savings would amount to [€8bn - €10bn] €. Finally, banks could generate additional theoretical lending capacity of approximately [€2 138bn - €2 604bn].

Simplifying reporting requirements would enable each bank to save roughly 15% of current reporting costs under a conservative scenario in which the reporting burden is only modestly reduced ; 20% of current reporting costs under the base-case scenario and 24% of current reporting costs under the high-impact scenario, in which the EBA's recommendations are broadly and effectively implemented.

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Risk weighted assets reduction (bn€)	749	831	913
Regulatory capital released (bn€)	82	91	100
% of CET1	4,96%	5,50%	6,04%
Cost of Equity (CoE = 10%) bn€	8	9	10
Theoretical exposure capacity (bn€)	2 138	2 371	2 604

Table 4 : Economic impact of delay of FRTB and Output floor

Core analysis

Impact related to regulatory capital requirements

Postponing certain flagship Basel III reforms would be a fundamental component of the economic impact of easing and simplifying banking regulation in Europe. The objective would be to calibrate regulatory requirements in line with the actual risks incurred by banks. As a reminder, European banks' CET1 ratio is estimated at 16.3%, while their total capital ratio stands at 20.4%. The stress tests periodically conducted by regulators also demonstrate the robustness of banks and the stability of the European financial system.

This study focuses on two flagship Basel III measures that, to date, have only been partially implemented by European regulators :

FRTB (Fundamental Review of the Trading Book). The FRTB is a reform designed to improve how banks manage and measure the risks associated with their trading activities. The 2008 crisis revealed that banks tended to underestimate market-related risks. The FRTB seeks to establish a distinction between assets held by banking entities for their own account (banking book, subject to credit risk) and assets held for trading activities (trading book, subject to market risk). These two asset classes are therefore risk-weighted differently and become non-interchangeable for the purpose of calculating capital requirements, which are strengthened for assets held for trading activities. The FRTB also seeks to introduce greater prudence in the use of complex products in trading activities.

Output Floor. The Output Floor is a prudential mechanism introduced by Basel III that limits the benefit banks can derive from using internal models to calculate risk-weighted assets (RWA). It requires risk-weighted assets (RWA) calculated using internal models not to fall below a specified percentage of the risk-weighted assets (RWA) that would result from applying the standardised approaches. Ultimately, the floor will be set at 72.5% of the standardised assessment in 2030.

The following paragraphs provide a quantified assessment of the impact of postponing the FRTB (Fundamental Review of the Trading Book) and Output Floor reforms, expressed through three indicators: regulatory capital released, annual avoided cost of capital and theoretical additional exposure capacity.

FRTB

For this analysis, we used data from the European Banking Authority (2026)⁷, drawn from a study covering 160 banks representing 80% of the European banking sector. These data therefore do not cover 100% of the European banking sector. In the absence of consolidated data covering the entire sector, and given that risk-weighted assets do not evolve linearly, we chose to perform our analysis using the data as reported and not to extrapolate them, in order to avoid introducing distortions or inconsistencies into the various ratios. As of Q4 2025, the dataset includes in particular :

- Risk-weighted assets of approximately €10,200bn
- A CET1 ratio of 16.3%
- A total capital ratio of 20.4%
- Total on-balance-sheet assets of €29,100bn

Based on these data, we can estimate the amount of CET1 capital, as shown in Table 5 below.

Data Q4 2025	Amounts (value)
RWA - TREA (bn€)	10 200,00
CET1 ratio	16,3%
CET1 capital (bn€)	1 663
Tier 1 ratio	17,7%
Tier 1 capital	1 805,4
Total capital ratio	20,4%
Total capital (bn€)	2 081
Total assets (bn€)	29 100
Average Risk Weight	35%

Table 5 : Dataset Q4 of European Banking Sector

⁷ CRR3/CRD6 Implementation Dashboard, EBA, 2026

An European Banking Authority (2025)⁸ study provides a breakdown of risk-weighted assets.

The latest breakdown available is as follows :

- Credit risk: 80%
- Operational risk: 13%
- Market risk: 4%
- CVA and others: 3%

Based on the risk-weighted assets (RWA) presented above, the breakdown is shown below (Table 6):

Composition of risk weighted assets	Percentage	Amounts
Credit risk	80%	8 160
Operationnal risk	13%	1 326
Market risk	4%	408
CVA and others	3%	306
Total	100%	10 200

Table 6 : Breakdown of European banking sector's of risk-weighted assets

*In a report dated on 27/10/2021, the European Commission (2021)⁹ referred to a historical EBA estimate indicating that the FRTB reform would increase market-risk capital requirements by **50%** (roughly **0.8%** of total capital requirements).*

Scenario assumptions

For the purposes of this study, our analysis is based on three distinct scenarios, each reflecting a different set of assumptions regarding the potential impact of the FRTB framework on market risk capital requirements. These scenarios are designed to capture a range of potential outcomes, from a relatively moderate impact to a more significant impact:

A conservative scenario which is a moderate-impact scenario assuming a relatively small trading book, a liquid, diversified and largely modellable portfolio, and therefore significant use of internal models. Under this scenario, postponing the FRTB reform would affect market-risk capital requirements by 30%.

A base-case scenario based exclusively on the average calibration from the European Banking Authority, as referenced by the European Commission. Market-risk capital requirements would be affected by 50%.

A high-impact scenario based on the use of complex and concentrated products, a large trading book, and a less modellable portfolio that is more heavily subject to the standardised approach and non-modellable risk factors. Under this scenario, market-risk capital requirements would be affected by 70%.

The RWA reduction is calculated using the formula [RWA Reduction = Market Risk RWA × FRTB Deferral Impact under the Relevant Scenario]

The regulatory capital released is calculated through the formula [Regulatory Capital Released = RWA Reduction × Minimum Regulatory Capital Ratio]. As a reminder, the minimum regulatory capital ratio used in

⁸ Risk Assessment Report – December 2025, EBA, 2025

⁹ Impact Assessment Report, European Commission, 2021

this study is 11%, sourced from the Supervisory Review Evaluation Process (SREP) 2025, and includes, in addition to the minimum capital ratio, the capital conservation buffer and countercyclical buffers.

Annual cost-of-capital savings are calculated as per [Regulatory capital released × Cost of Equity]. The cost of capital used, taken from the EBA's latest Risk Assessment Report (June 2026), is 10%.

The formulas are summarised in Table 7 below.

Indicator	Formula
Regulatory capital released (bn€)	Risk weighted assets reduction * Minimum Regulatory Capital Ratio (11%)
Cost of Equity (bn€)	Regulatory capital released * Cost of Equity (10%)
Theoretical exposure capacity (bn€)	Risk weighted assets reduction / Average risk weight (35%)
Average risk weight (%)	Risk weighted assets / Total exposures

Table 7: Indicators measuring the economic impact of Differed implementation of the FRTB

The results of our calculations under each of the three scenarios are presented in Table 8 below, providing a comparative assessment of their respective economic impacts.

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Risk weighted assets market risk (B€)	408	408	408
FRTB impact on market risk (%)	30%	50%	70%
Risk weighted assets reduction (B€)	122,4	204,0	285,6
Regulatory capital released (B€)	13,5	22,4	31,4
% of CET1	0,8%	1,3%	1,9%
Cost of Equity (CoE = 10%) B€	1,3	2,2	3,1
Theoretical exposure capacity (B€)	349	582	815

Table 8: Economic impact of a deferral of FRTB

This study indicates that delaying the FRTB implementation would enable European banks to release capital equivalent to approximately 1% to 2% of CET1 capital, while saving €1bn to €3bn per year and increasing banks' theoretical credit exposure capacity by between €350bn and €800bn.

Output floor

The assessment of the economic impact of recalibrating the Output Floor for banks is performed using the data provided by the European Banking Authority (2026)¹⁰, showing the evolution of risk-weighted assets (RWA) as the Output Floor is progressively implemented.

¹⁰ CRR3/CRD6 Implementation Dashboard, EBA, 2026

This evolution is summarised in Table 9 below.

Years	2026	2027	2028	2029	2030	Fully loaded
Output floor level	55%	60%	65%	70%	72,50%	72.5%
Risk-weighted assets (RWA)	10 236	10 244	10 265	10 369	10 504	10 892

Table 9: Evolution of the risk-weighted asset during the Output Floor implementation

An European Banking Authority research (2023)¹¹ also shows the cumulative impact of implementing the Output Floor on MRC. *Table 10 below summarises the results.*

Years	2026	2027	2028	2029	2030	2033
Output floor level	55%	60%	65%	70%	72,5% (Transitional)	72.5% (fully-loaded)
Impact	0%	0.1%	0.3%	0.8%	1.4%	5.7%

Table 10: Cumulative impact of implementing the Output Floor on Minimum Capital Requirements

CRR3 plans a progressive increase in the coefficient from 55% in 2026 to 72.5% in 2030. However, specific transitional measures temporarily reduce the amount of standardised RWA used in the calculation of the floor, notably for residential mortgage loans, high-quality unlisted corporates and certain securitisations. Some of these provisions remain in place until 2032/2033.

Scenario assumptions

Our study is based on a single scenario in which these transitional provisions are made permanent. We measure the impact of this measure by recalibrating the final floor to 65%, which amounts to freezing its progression at the 2028 level and assessing the resulting economic impact. We then calculate the risk weighted assets (RWA) impact, from which we determine the level of regulatory capital released, the cost-of-capital savings and the theoretical exposure capacity.

The formula outlined above remains applicable throughout this analysis.

Indicator	Formula
Regulatory capital released (bn€)	Risk weighted assets reduction * Minimum Regulatory Capital Ratio (11%)
Cost of Equity (bn€)	Regulatory capital released * Cost of Equity (10%)
Theoretical exposure capacity (bn€)	Risk weighted assets reduction / Average risk weight (35%)
Average risk weight (%)	Risk weighted assets / Total exposures

¹¹ Basel III monitoring exercise results based on data as of 31 december 2023, EBA, 2023

The results of our calculations, showing the economic impact of a recalibration of the output floor are therefore as follows.

Years	2026	2027	2028	2029	2030	Fully loaded	Total
Output floor level	55%	60%	65%	70%	72,50%	72.5%	
Risk-weighted assets - RWA (bn€)	10 236	10 244	10 265	10 369	10 504	10 892	
Additionnal RWA requirement (bn€)	0	0	0	104	135	388	627
Regulatory capital released (bn€)	0	0	0	11,4	14,9	42,7	69
% of CET1	0,0%	0,0%	0,0%	0,7%	0,9%	2,6%	4,1%
Cost of Equity (CoE = 11%)	0	0	0	1,1	1,5	4,3	6,9
Theoretical exposure capacity (bn€)	0	0	0	297	385	1107	1789

Table 11: Economic impact of the recalibration of the output floor on the European Banks

This study indicates that recalibrating the Output Floor reform would enable European banks as a whole to release €69bn of capital, equivalent to approximately 4% of current CET1 capital, generate annual savings of €7bn and create theoretical additional exposure capacity of €1,789bn.

Cost savings related to reporting requirements

The complexity and burden—in terms of time, resources and workload—associated with prudential reporting are frequently debated by banking institutions and regulators. In recent years, the EBA has considered ways to reduce the reporting burden on European banking institutions. In its previous researches the European Banking Authority (2026)¹² concluded that reducing the reporting burden could involve, among other measures, removing **16% of data points**, given that the granularity of certain reporting requirements is not always necessary and can sometimes result in information redundancy.

Simplifying prudential reporting would reduce reporting costs by an estimated average of roughly [15%–24%], according to an EBA study conducted on a sample of 145 banks and extrapolated to 4,687 banks.

Scenario assumptions

To capture a range of potential outcomes, the analysis considers three distinct scenarios.

A conservative scenario assuming a limited reduction in templates and data points, IT and staff costs remaining largely unchanged, only a low reduction in reporting frequencies, and limited automation. The total reduction in reporting costs would correspond to the lower end of the EBA range, i.e. 15%.

A base-case scenario involving a significant simplification of templates, lower submission frequencies, the removal of duplication, better coordination of requests and increased automation. The total reduction in reporting costs would be 20%.

A high-impact scenario involving full implementation of the EBA's recommendations, extensive rationalisation of reporting requirements, data integration and standardisation, and substantial process automation. The reduction in costs would be 24%.

¹² Efficient reporting : simpler, smarter, proportionate, EBA, 2026

The impact of reduction on reporting burden is calculated using the formula in the table below.

Indicators	Formulas
Impact on implementation costs	Cost of implementing reporting requirements * Impact rate
Impact on recurrent reporting costs	Cost of producing reporting requirements * Impact rate

Table 12: Impact of regulatory reporting burden's reduction calculation formulas

Both median and average regulatory reporting costs were used to estimate the potential cost savings resulting from a reduction in regulatory reporting requirements. The use of both measures provides a more comprehensive assessment of the potential impact, particularly given the heterogeneity in reporting costs across banking institutions. The median is particularly useful in this context as it reduces the influence of extreme values and outliers, thereby providing a more representative measure of the typical reporting cost incurred by banks. The resulting estimates are summarised in the tables below.

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Median reporting cost (B€)	1,8	1,8	1,8
Impact	15%	20%	24%
Total cost savings (B€)	0,3	0,4	0,4
Cost savings per institution (€)	57 606	76 808	92 170

Table 13 : Median cost economy in of regulatory reporting burden's reduction – reporting implementation

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Median reporting cost (B€)	3,7	3,7	3,7
Impact	15%	20%	24%
Total cost savings (B€)	0,6	0,7	0,9
Cost savings per institution (€)	118 413	157 884	189 460

Table 14 : Median cost economy in of regulatory reporting burden's reduction – recurrent reporting production

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Average reporting cost (B€)	6,1	6,1	6,1
Impact	15%	20%	24%
Total cost savings (B€)	0,9	1,2	1,5
Cost savings per institution (€)	195 221	260 294	312 353

Table 15 : Average cost economy in of regulatory reporting burden's reduction – reporting implementation

Scenario	Conservative scenario	Base case scenario	High-impact scenario
Average reporting cost (B€)	13,6	13,6	13,6
Impact	15%	20%	24%
Total cost savings (B€)	2	2,7	3,3
Cost savings per institution (€)	435 246	580 329	696 394

Table 16 : Average cost economy in of regulatory reporting burden's reduction – recurrent reporting production

EBA Recommendations on Regulatory Reporting

In its Study of the Cost of Compliance with Supervisory Reporting Requirements, the EBA put forward a number of recommendations aimed at reducing the regulatory reporting burden on banks. These recommendations seek, in particular, to simplify reporting requirements, reduce unnecessary complexity and duplication, and improve the overall efficiency and proportionality of the supervisory reporting framework. The main recommendations are summarised in the table below:

Area	EBA Recommendations
Simplify requirements	- Clarify the requirements applicable to each bank - Clearly identify applicable templates - Improve instructions and documentation - Limit reporting changes to one release per year - Extend implementation timelines
Reduce reporting burden	- Remove data points/templates with limited usefulness - Reduce certain reporting frequencies - Simplify ALMM and Asset Encumbrance reporting - Streamline Large Exposures, Leverage Ratio and NSFR reporting - Strengthen proportionality for smaller banks
Avoid duplication	- Strengthen coordination between authorities - Reduce redundant ad hoc requests - Reuse data already collected - Develop integrated reporting
Automate	- Increase automation - Further standardize data - Improve technological tools - Facilitate automated interpretation of requirements

Table 17 : EBA recommendation to reduce regulatory reporting burden

Conclusion

Ultimately, we can conclude that the recent financial crises have exposed several weaknesses within the banking system, particularly in terms of capital adequacy, liquidity, and banking supervision mechanisms. In response to these weaknesses, banking regulators have sought to strengthen the regulatory framework by tightening the requirements applicable to banks, notably through the implementation of Basel III.

The reforms introduced by regulators have proved effective, as they continue to contribute to the stability and resilience of the banking system in an unstable global environment, marked in recent years by numerous conflicts, particularly in the Donbas and the Middle East. This resilience is also evidenced by the results of the stress tests periodically conducted across the banking sector.

However, the implementation of these new measures has had a significant economic impact on banks and has proved costly, both in terms of regulatory capital tied up and the reporting burden and associated costs. As a result, the competitiveness of European banks has come under pressure, against a backdrop of regulatory easing for US banks that began in 2025. As highlighted in the Draghi Report (2024), there is a need to recalibrate the regulatory framework applicable to European banks in line with the risks they actually face and to promote banking consolidation in order to strengthen their competitiveness, particularly relative to their US counterparts.

Against this backdrop, throughout this study we have explored several potential levers that could not only release regulatory capital and additional credit exposure capacity, but also enable banks to achieve cost savings, the economic impact of which we have sought to quantify. In particular, we concluded that postponing the FRTB and Output Floor reforms could enable European banks to release [€82bn - €100bn] in regulatory capital, equivalent to [5 - 6]% of their CET1 capital. This would generate annual capital cost savings of [€8bn - €10bn] and theoretically free up [€2 138bn - €2 604bn] in additional credit exposure capacity to finance the economy, equivalent to [6 - 7] % of the Q4 2025 banking sector total assets.

Reducing the regulatory reporting burden, meanwhile, could lower the cost of implementing new reporting requirements by [195 - 312] K€ on average per bank, as well as reduce the annual cost of producing recurring regulatory reports by [435 - 700] K€ per bank.

Nevertheless, in Europe, while the banking sector is advocating for regulatory easing, regulators appear to be approaching developments across the Atlantic with caution and some distance. Indeed, the consequences of recent financial crises remain an important consideration for supervisors. More recently, in 2023, the concerns triggered by the failures of Silicon Valley Bank and Silvergate, as well as the crisis surrounding Credit Suisse, reminded the banking sector of the continued need for prudence. Against this backdrop, the ECB has published a comparative analysis of the European and US prudential frameworks, challenging the view that banking regulation alone accounts for the lower competitiveness of European banks. It will therefore be necessary to identify sufficiently robust and well-founded levers to convince supervisors of the merits of recalibrating the regulatory framework.

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