



EPTA response to the Targeted Consultation on the Competitiveness of the EU Banking Sector

16 April 2026

EPTA fully supports the Commission's push to enhance the scale and effectiveness of EU capital markets and to ensure they deliver for European companies and citizens. In these uncertain times, the EU economy requires a diversity of financing options. A competitive, well-functioning ecosystem for financial intermediation is central to this. Investment firms have a critical role to play in this regard, and we welcome the Commission's additional focus on investment firms in this consultation, specifically in Questions 14, 15 and 25.

For investment firms to deliver on this ambition, the Commission should prioritise a targeted legislative review of the investment firm prudential regime (IFR/IFD), as recommended by EBA and ESMA in October 2025. Acting on those recommendations would produce a simpler, better-calibrated prudential framework — one that enables EU investment firms to better support EU capital market functioning while also enabling them to compete more effectively globally, strengthening European economic resilience and competitiveness in the process.

The key improvements we support are grounded directly in the EBA and ESMA recommendations: targeted recalibration of certain K-factors to ensure greater risk sensitivity (including a properly calibrated margin-based approach to facilitate exchange-based trading and clearing); greater proportionality for applying specific group-wide obligations; and better-calibrated thresholds triggering additional requirements for investment firms, including for smaller ones.

While EPTA represents investment firms, we are equally clear that a competitive and diverse banking environment is essential for the SIU and for the European economy more broadly. European banks are key business partners for EPTA's members, and we would encourage the Commission to assess measures for enhancing banking competitiveness also through the lens of the services European banks provide to the efficient functioning of EU capital markets.

Two areas that merit particular attention in this regard relate to (i) the capital treatment of derivatives (Question 60); and (ii) regulatory transaction reporting (Questions 93 and 94). We provide responses to these questions as well.

About EPTA

The European Principal Traders Association (EPTA) represents the leading Principal Trading Firms in the EU and UK. Our members are independent market makers and providers of liquidity and risk transfer across all asset classes — including shares, bonds, derivatives, ETFs and digital assets — serving markets and end-investors throughout Europe.

EPTA advocates for European capital markets that are transparent, efficient and resilient, enabling them to deliver for the wider economy and drive growth. We unite our members around common priorities, turning shared perspectives into collective action. We engage constructively with policymakers, regulators and market stakeholders, bringing an informed industry perspective to the issues that matter most for well-functioning, liquid and attractive capital markets in Europe.

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Q(14) Does the prudential framework adequately account for the activities and the complexity of intermediaries performing financial services other than core banking services? Are there any perceived undue limitations to such activities? Reference is made to financial services performed by investment firms, financial advisors, custodians, wealth managers, market makers or other liquidity providers that are not primarily or not at all engaging in deposit taking and granting loans.

The current prudential framework for Investment firms (IFR/D) is overengineered and does not adequately reflect the activities, risk profiles and economic roles of Principal Trading Firms acting as market makers and liquidity providers. While the intent of IFR/D regime was to introduce differentiation, the framework remains largely Basel-centric and continues to apply requirements designed for credit institutions to investment firms that have a fundamentally different risk profile and undertake a more limited set of activities.

Liquidity provision is the core specialized role of PTF market makers and liquidity providers. Collectively, their liquidity provision is essential to deep, efficient and resilient capital markets: It supports price discovery, enables risk management and productive investment by other investors and helps to absorb shocks during periods of market stress. In performing this role, PTF market makers and liquidity providers trade only on own account: Their activities are solely funded with their own capital, they do not manage client assets nor provide bank-like services to clients, and they operate without access to central-bank liquidity or public backstops (including bailout).

Recent analysis by the EBA and ESMA¹ on the IFR/D framework (October 2025) recognises that the risk profile of investment firms differs materially from that of credit institutions and that further proportionality in the framework is warranted.

Key elements of the Investment Firms Regulation and Directive (IFR/IFD) remain misaligned with these specialist business models and act as a barrier to growth in European capital markets:

- **Disproportionate governance and remuneration requirements:** Governance and remuneration rules are largely derived from the banking framework and scale poorly for firms with simple structures and no client exposure, creating high fixed compliance costs without clear prudential benefit. While the regime was originally calibrated to capture around 10%² of investment firms (based on a sample dominated by agency businesses³ as shown in the [EBA Annex](#)), 77% of EPTA members⁴ are now subject to the "enhanced" requirements intended for much larger credit institutions with a different risk profile and different activities. This disproportionately affects firms with balance sheet-based activity, such as market makers.
- **Inadequate risk sensitivity on classification threshold:** The IFR/IFD classification regime is not sufficiently risk-based. Proprietary trading firms are excluded from the small and non-interconnected investment firms (SNI) category regardless of size, meaning even very small firms are subject to the full regime. At the same time, balance sheet thresholds create cliff effects de facto discouraging growth of liquidity provision on European exchanges, despite gross balance sheet size being a poor proxy for residual (i.e. netted) risk in market-making activities where positions are typically hedged. EU accounting rules optically inflate balance sheet size as hedges are not recognized.
- **Overly conservative calibration of capital to hold in the trading book** which, as recognised by the EBA⁵, may lead to counterproductive outcomes by "locking in a high capital requirement that is no longer in line with the actual risk profile of an investment firm's trading book". This lack of risk sensitivity unduly constrains market makers' ability to provide liquidity precisely when it is most needed, particularly during periods of high market volatility.
- **Competitive distortions:** EU requirements, including extraterritorial application of governance and remuneration rules to non-EU entities, currently undermine the ability of EU firms to compete on an equal footing with peers in non-EU markets. No major non-EU jurisdiction applies equivalent bank-like requirements to investment firms.

¹ [The EBA and ESMA recommend targeted revisions to the investment firms' prudential framework | European Banking Authority](#)

² Para 365 Figure 3 p/108 of the Annex to the EBA opinion EBA-OP-2017-11

³ Section 13.2 Data source and sample from the Annex

⁴ Based on EPTA data collection shared with the Commission in 2025

⁵ Para 134 of the EBA recommendation and EBA data analysis in Table 26 para 349

These features create undue limitations on the ability of investment firms to deploy capital, scale operations and provide liquidity in EU markets. This has weakened competition which is ultimately to the detriment of EU venues that are struggling to capture new listings, launch new products and remain attractive to compete for global liquidity pools. This demonstrates the tangible impact on market activity and highlights the foregone growth opportunities for EU capital markets. Moreover, no proprietary liquidity-providing trading firm has expanded its EU balance sheet to an extent that would trigger a prudential reclassification. This indicates that, notwithstanding the reported global expansion of established market makers, such growth is not being realised within EU operations and not benefitting European markets.

Deep, liquid secondary markets, supported by market makers and liquidity providers, are critical to reducing the cost of capital and mobilising investment. A prudential framework that constrains these actors risks undermining the SIU's ambition to enhance the EU's competitiveness as a global financial centre.

Targeted adjustments based on the EBA/ESMA recommendations to the Commission would improve both proportionality and competitiveness, including:

- Simplifying and reducing the burden of governance and remuneration requirements by allowing group risk committees⁶ and raising the balance sheet threshold for the application of the more onerous requirements.
- Recalibrating classification thresholds and introducing more risk-sensitive metrics by complementing the 15bn threshold with qualitative criteria⁷
- Targeted refinement of the market risk model (margin-based approach) applying an averaging method to facilitate exchange-based trading and clearing, and unlock additional liquidity.⁸
- Greater proportionality for applying specific group-wide obligations including a waiver of the governance and remuneration requirements for subsidiaries in third countries to enable EU firms to compete in non-EU jurisdictions.⁹

A targeted and timely Level 1 adjustment would deliver a more proportionate prudential framework that would strengthen the capacity of EU capital markets to attract liquidity and support sustainable economic growth.

Building on the detailed technical input provided by the EBA/ESMA in 2025, the Commission has an opportunity to act in a focused way to unlock the opportunity to grow capital markets. This would actually be in line with the rationale the Commission followed in 2025 to act rapidly to unlock banks' balance sheets with the proposed securitisation reforms. This time it would

⁶ EBA recommendation 44

⁷ EBA recommendation 3

⁸ EBA recommendation 19

⁹ EBA recommendation 39

be about allowing investment firms, who are complementing the roles of banks in capital markets, to be able to play to their full potential for European capital markets.

Q(15) How would you assess the competition between banks and other entities performing financial services (such as financial conglomerates, investment firms, FinTechs, etc.) from the perspective of the overall functioning of capital markets (provision of liquidity, transparent market information and pricing, scaling up of trading venues etc.)?

A diverse and competitive ecosystem of market participants whose function is complementary is essential for the proper functioning of EU capital markets. A broad range of market participants, including banks, investment firms, proprietary trading firms and new entrants, supports resilient liquidity provision, efficient price discovery, transparent market information and the development and scaling of trading venues, while also enhancing overall market resilience.

Deep and liquid secondary markets are central to the SIU objectives, as they improve the efficiency of capital allocation, increase the attractiveness of the EU as a venue for listings and support primary market financing as a complementary source of funding. They also enable trading venues to develop and successfully launch new products, which is essential to support financial innovation and the scaling of market-based solutions for the green transition and digitalisation of capital markets. Taken together, it makes EU trading venues more relevant and more competitive.

The prudential framework plays a decisive role in shaping competitive dynamics and market participation. Where requirements are insufficiently aligned with the actual risk profiles and activities of different market participants, barriers to entry and disincentives to scale can arise, limiting participation and diversity.

The existing requirements have weakened competitive dynamics in EU market making, ultimately to the detriment of liquidity provision and capital-markets efficiency.

Evidence from EPTA members indicates that a material proportion of proprietary trading firms providing liquidity, predominantly small and medium-sized, have reduced activity in, or exited, EU markets altogether because the prudential framework does not sufficiently reflect the risk characteristics of their activities.

A simpler and more activity- and risk-based prudential approach would enable a broader set of firms to participate in EU capital markets, fostering healthy competition with banks, in order to increase liquidity on EU trading venues and improve price formation for the ultimate benefit of investors and issuers.

Q(25) Do EU-headquartered banks and investment firms face regulatory constraints that hinder their competitiveness vis-à-vis non-EU financial firms? If yes, what are the key constraints?

EU headquartered investment firms face a number of regulatory constraints that materially hinder their competitiveness relative to non-EU investment firms.

First, comparable non-EU investment firms, particularly those headquartered in the US and Asia, are subject to a simpler, more activity and risk based regimes that allow for more efficient deployment of capital and a more balanced risk reward profile. By contrast, the EU prudential framework applies elements derived from banking regulation to investment firms whose activities and risk profiles differ substantially.

In many non-EU jurisdictions, investment firms are not subject to similarly complex or over-engineered set of requirements. The combined impact of multiple, detailed and bank-derived obligations increases regulatory burden and places EU firms at a competitive disadvantage relative to non-EU financial firms operating under simpler, more activity- and risk-based regimes.

These include:

- Rigid classification thresholds based on size of balance sheet – no other jurisdiction forces investment firms to become a bank based solely on the size of its balance sheet, not its actual activities
- Additional Pillar 2 capital requirements
- Comprehensive ICAAP and ILAAP frameworks subject to annual update
- Separate and prescriptive liquidity reporting and requirements
- Publicly available Pillar 3 disclosures
- Detailed and prescriptive recovery planning requirements
- Complicated, detailed and bank like governance (committees and independent directors), remuneration (deferral and payment in instruments) and various organisational requirements (DORA and equivalent rules for non-ICT services).

It is also worth noting that the UK is currently reviewing its prudential framework for investment firms, drawing on international experience, challenging whether existing requirements, mainly transposed from the banking regime, effectively support the development of deep and liquid markets in line with its growth and competitiveness agenda.

Market-making activity is internationally mobile, with liquidity providers deploying balance sheet and technology dynamically across jurisdictions and reallocating activity quickly in response to changes in relative regulatory and supervisory costs. As a result, non-EU regulatory regimes for investment firms providing liquidity are directly relevant for EU market quality and to the ability of EU-based investment firms to remain competitive in global market-making activities.

Against this background, EPTA has observed several members reallocating capital and directing strategic growth towards US and Asian operations, where regulatory frameworks are better aligned with the risk profile of investment firm activities.

Second, the current EU prudential framework has extensive extraterritorial reach for investment firm groups consolidated in the EU. In particular, the application of EU governance and remuneration requirements to non-EU subsidiaries and activities significantly undermines the competitive position of EU-headquartered firms. Comparable non-EU jurisdictions to the EU do not impose on their investment firms those type of extraterritorial requirements, putting EU invest firms at a real disadvantage.

This extraterritorial application is especially problematic in relation to remuneration and governance requirements. It materially limits EU-headquartered firms' ability to attract and retain talent in global markets, where compensation structures are typically more flexible. Over time, this weakens firms' global competitiveness and reduces opportunities for skills, expertise and innovation developed in non-EU markets to be transferred back into the EU. Ultimately, this diminishes EU firms' capacity to innovate domestically and contribute to the depth and competitiveness of EU capital markets.

The EBA's recent recommendations acknowledge some of these unintended consequences, particularly regarding the extraterritorial application of governance and remunerations requirements, and propose targeted and proportionate adjustments (allowing waivers for non-EU subsidiaries in Recommendation 39) that better align with the limited activities, risk, size and complexities of investment firms. These steps are welcome and necessary to help restore a more level international playing field for EU-headquartered investment firms

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Q(60) Does the prudential framework balance sufficiently risk sensitivity and complexity? If not, how should this disequilibrium be addressed?

Capital treatment of derivatives: Client clearing services provided by European banks acting as General Clearing Members are a vital link in the capital markets infrastructure chain. The current Standardized Approach for Counterparty Credit Risk (SA-CCR) framework applies a 1.4 multiplier to derivatives exposures that has no equivalent in the treatment of economically comparable Securities Financing Transactions (SFTs) under the Financial Collateral Comprehensive Method (FCCM). This asymmetry results in unequal capital treatment of economically comparable positions. Combined with the exposure floor in SA-CCR, the 1.4 multiplier penalises derivatives relative to SFTs without proportionate prudential justification. In doing so SA-CCR creates a structural constraint on the capacity of European banks to provide competitive client clearing services. Removing the multiplier would improve the functioning of EU capital markets while maintaining appropriate prudential safeguards.

Q (93) What other policy measures, legislative or non-legislative, could be considered to further modernise reporting and reduce the reporting burden?

Q (94) Do you identify any instances where the reporting requirements for banks also lead to an undue burden for bank's clients? Please explain where this is the case and how this could be improved.

Regulatory transaction reporting: The Commission has rightly identified the reporting burden for banks as a competitiveness issue. For banks facilitating capital markets activity, duplicative transaction reporting under EMIR and MiFIR represents undue complexity and cost which should be addressed. ESMA's 2025 Call for Evidence already acknowledged this problem. However, meaningful relief requires action at Level 1. Three targeted changes would deliver immediate improvements without compromising supervisory oversight:

- Establishing a single designated reporting counterparty per transaction to eliminate unnecessary dual-sided duplication of reporting;
- De-scoping Exchange-Traded Derivatives (ETDs) from EMIR reporting, where CCP risk management already ensures sufficient oversight (in line with practice in major global jurisdictions);
- Removing the requirement to report transactions executed through third-country (non-EEA) venues or branches of EU firms, where equivalent reporting obligations already apply locally and EU duplication adds limited supervisory value.

Addressing these points directly in the Level 1 of EMIR and MiFIR would materially reduce reporting burdens while preserving the integrity of the reporting regime for supervisory purposes.