

## Frank Elderson: Fireside chat

Remarks by Mr Frank Elderson, Member of the Executive Board of the European Central Bank and Vice-Chair of the Supervisory Board of the European Central Bank and Alejandra Kindelán, Chair of the Spanish Banking Association, at the "Competitiveness for growth" event organised by the Spanish Banking Association, Madrid, 19 June 2026.

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**There's an intense debate on the need to simplify the regulatory and supervisory framework to improve banks' competitiveness. At the end of 2025, the High-Level Task Force on Simplification published a [report](#) with recommendations for simplifying the regulatory, supervisory and reporting framework. Subsequently the European Commission launched a targeted consultation on banking sector competitiveness and is planning to publish a report later this summer.**

**How does the SSM look at simplification and competitiveness? And how can we draw the line between simplification and deregulation?**

Europe needs to revitalise prosperity and is facing vast financing needs so that we remain masters of our own destiny in an increasingly fragmented world. It is therefore no surprise that competitiveness is high on the agenda. The ECB welcomes and actively contributes to this debate.

Europe needs stronger growth, but we should be clear about the source of growth. Europe's growth challenge is, first and foremost, a productivity challenge. Sound banks can finance productive investment, but for productivity challenges, technology deployment, investment in infrastructure, skills and structural reforms play an important role.

Focusing on the prudential sphere, it is indeed important to distinguish simplification from deregulation, as they serve very different purposes: simplification maintains resilience, deregulation weakens it. Simplification is not a mechanism for raising – or lowering – capital requirements. The objective is not more capital but a clearer and more coherent framework that is easier to navigate and more efficient for banks and supervisors alike. But changes to prudential standards cannot solve real-economy productivity challenges.

Within the current regulatory framework the Single Supervisory Mechanism (SSM) has already embarked on an ambitious [reform agenda](#), including the "[next-level supervision](#)" project tackling unwarranted complexities without compromising resilience. These reforms do not require any legislative changes, are already in full swing, will be rolled out further throughout the year and have already started to deliver tangible results.

Take fast-tracking simple capital-related decisions as an example. In the first quarter of 2026, 80% of such decisions were approved within one week on average, where previously they would have taken months. Or our [new fast-track process for simple securitisations](#), which in 2026 cut approval times from three months to less than ten

working days. Another example is our review of the fairly large body of supervisory guides that have accumulated since the start of the SSM. We are currently reviewing one by one nearly a hundred publications containing supervisory expectations and good practices, with the aim to streamline, shorten, consolidate – and a significant number will be retired altogether.

Stress testing is another example of this approach. For EU-wide exercises, the SSM has worked with the European Banking Authority (EBA) to make reporting more efficient and effective, through simpler templates better aligned with regular supervisory reporting. The templates recently published for consultation by the EBA aim to reduce required data points by 55%, lowering compliance costs. In parallel, the SSM is optimising its quality assurance process through a more targeted, risk-based and aggregated approach, reducing the resources banks and supervisors need to deploy while preserving the focus on material risks and the robustness of the stress test.

**Based on an [ECB analysis](#), the EU requires roughly €1.2 trillion in annual investment to meet green, digital and defence goals in the period 2025-31. Some stakeholders argue that additional increases in capital requirements could undermine the capacity of EU banks to finance these investments. From your vantage point, what is holding back competitiveness?**

Europe is facing vast financing needs to boost strategic autonomy and accelerate the green, digital and defence transitions. Hence, the real question is: do we have a financial system capable of supporting growth, investment and strategic autonomy at the scale required?

There is a clear [answer](#) endorsed by all euro area central banks: strengthening competitiveness crucially hinges on more integration.

The truth is that Europe still lacks truly integrated banking markets. Around 80% of bank lending is granted to households and firms in banks' home countries, fewer than 2% of deposits are held across borders, and cross-border merger activity has fallen sharply compared with pre-crisis levels. The continued fragmentation of EU banking markets remains the key constraint preventing banks from achieving scale, efficiency and fully supporting the European economy.

Therefore, any serious competitiveness agenda must begin with a time-bound roadmap towards completing the Single Market. In banking this means that the euro area needs to function much more as a single jurisdiction for the purpose of financial regulation, with capital and liquidity being able to flow freely within cross-border banking groups. To break the current deadlock, we need synchronised progress on the core elements of the banking union – most importantly concrete steps towards a European Deposit Insurance Scheme with a clear timetable – alongside deeper capital markets through advancing the savings and investments union.

Ultimately, revitalising competitiveness in Europe crucially hinges on strengthening the real economy and the financial architecture in tandem. Put simply: Europe needs to become better at turning savings into investment, investment into innovation, and innovation into productivity.<sup>1</sup> That requires deeper capital markets, a completed banking union, a more integrated Single Market, faster diffusion of digital and AI

technologies, and the scale for firms to grow across borders. Sound banks have an important role in financing this productivity-enhancing transformation in the real economy.

### **How do you assess the relationship between capital requirements, resilience and banks' capacity to finance the economy?**

In the current debate some argue that capital requirements in Europe are higher than in other jurisdictions, impacting competitiveness and lending to the real economy. While we are obviously attentive to developments in other jurisdictions, we do not see evidence that current capital requirements for the largest most internationally active banks in Europe are more stringent than those of their non-European competitors.<sup>2</sup> Nor do we see that requirements have constrained lending.

Regarding capital, there is sometimes a perception that we are only pushing for higher capital, but that is not true. What *is* true is that national macroprudential authorities in the EU increased buffer requirements after the pandemic with the aim of increasing the amount of capital that can be released in times of crisis to support banks' willingness to lend. But the supervisory requirements set by the ECB to individual banks in its microprudential capacity have remained stable in recent years. And if we look at the overall requirements for the most loss-absorbing type of capital – Common Equity Tier 1 – the aggregate levels in 2026 are not much different from what they were in 2019.

Our goal is to maintain current levels of resilience so banks can continue to fulfil their vital role in the economy by financing businesses and households – not only in good times, but also in bad times. While maintaining resilience, we see room for the legislator to streamline the capital framework, for example by merging the five existing macroprudential buffers into two.<sup>3</sup> In short, we want simpler requirements.

We also recognise that banks experience capital requirements as a whole. Overall capital demand reflects Pillar 1, Pillar 2 and the macroprudential buffers set by national authorities. Differences in national buffer frameworks can therefore contribute to variations across the banking union. In this context, we have proposed<sup>4</sup> that the Macroprudential Forum – which brings together members of the Governing Council and the Supervisory Board – takes a holistic view of the overall level of capital demand at system level abstracting from individual bank-level decisions. For the purposes of discussions on such a holistic perspective, the composition of this forum can usefully be expanded to include other relevant authorities, notably the Single Resolution Board.

Looking ahead, simplification also means greater clarity. For instance, we are currently discussing a targeted clarification in the ECB Guide to the internal capital adequacy assessment process (ICAAP), which will clarify the role of the management buffer to avoid it being misunderstood as an additional capital requirement. The management buffer reflects banks' own forward-looking capital planning above the minimum requirement. It is not a supervisory add-on.

### **Proportionality is another very topical issue in the current debate on simplification and competitiveness. Do you see scope for embracing proportionality further?**

Proportionality is already deeply embedded in the European regulatory and supervisory approach. Consider, for example, that [small and non-complex institutions](#) – which are banks that meet clear criteria for size, simplicity and limited trading activity – are only required to report up to 30% of the data that large banks must report.

At the same time we see room for embracing proportionality further. To do so, the Small and Non-Complex Institutions (SNCI) regime is the natural starting point, while maintaining the Single Rulebook, which ensures the risk-based nature of the prudential framework is retained for all banks. One could consider, for example, increasing the scope of eligible small banks through an increase of the €5 billion threshold of the SNCI regime. One could also consider relaxing the frequency and granularity of certain supervisory activities. Any simpler regime for smaller banks also needs to be accompanied by a credible, flexible and efficient crisis management framework for these institutions.

Proportionality should not be mistaken for simply reducing prudential standards for all smaller banks, irrespective of the risks this would generate. Instead, we should focus our attention on initiatives that reduce undue complexity, prescriptiveness and cost factors, without making banks less safe or causing them to lose track of the underlying risks.

Consider cyberattacks in times of frontier AI models as an example. The banking sector's defensive capabilities are not evenly distributed. While some larger banks have a size advantage when it comes to having the IT budgets that match the scale of the task, this may admittedly be more difficult for small and medium-sized banks. This, however, is no reason for inaction. In a diverse banking system, where banks of different sizes and business models thrive and support the real economy, all banks must be able to ensure a sufficient level of operational resilience. Thus, enhanced proportionality cannot come at the expense of prudent risk management.

**I would like to know your views on cyber resilience. In particular, Mythos is seen by global regulators as a significant challenge that could "turbocharge" cyberattacks on legacy banking systems. Some weeks ago you called AI-enabled models a structural shift in the cyber threat landscape.**

**How do you see it impacting banks' operational resilience and what actions do you expect banks to take?**

Let me start by making a broader point: in an environment of more frequent and sophisticated cyberattacks, capital and liquidity are a necessary but not sufficient condition for banks' resilience. Banks also need to be operationally resilient. And if this was not already relevant with rising cyberattacks, technology failures and growing dependencies on third parties, it certainly is today with the threat landscape evolving rapidly with new frontier AI models.

Until very recently, launching a sophisticated cyberattack required deep technical expertise, extensive reconnaissance and coding, and often weeks if not months of trial and error. Not anymore. A new generation of large-scale AI models is emerging, with

increasingly advanced cybersecurity capabilities. If these tools become more widely accessible, they could enable a much broader range of malicious actors to carry out complex attacks with greater speed and precision.

The trajectory is clear: the speed, scale and accessibility of advanced cyber capabilities are increasing, and the time available for defenders to respond is shrinking. Banks therefore need to prepare faster, better and more consistently across the sector.

In this spirit we are engaging with all banks under our supervision to ensure that operational resilience in times of frontier AI models is treated as a topic of strategic relevance. First and foremost, this means that banks' management bodies need to take clear ownership of the issue, ensuring that resources and tools are available that match the scale of the task.

Strengthening operational resilience requires multi-year investment in people, systems and governance. In short, it is not a quick fix; it is a moving target which calls for continuous effort and ongoing improvement. Banks should therefore give careful consideration to bolstering operational resilience in their investment strategies. The currently strong bank profitability provides an opportunity to continue investing.

### **What are you planning to do as supervisors?**

Following our industry workshop some weeks ago in which we brought together all banks under our supervision, we will send a "dear CEO letter" to all banks in which we invite them to be proactive in ensuring the continued robustness and security of their systems in the face of these transformative challenges. Individual Joint Supervisory Teams are in constant communication with banks on areas that require attention, and we plan on collecting good practices from banks that other banks across Europe can take inspiration from. In fact, our system-wide perspective as supervisors – which allows us to look closely at banks' inner workings – may be particularly helpful in supporting banks with more limited resources and capabilities in cyber resilience.

Let me close by circling back to the topic of competitiveness that we discussed earlier. Banking sector competitiveness is not solely determined by capital, market integration, scale or regulation. It also hinges on whether banks can continue to serve their customers and provide critical services when disruption strikes. If banks are unable to maintain their customers' trust by providing a reliable service, their ability to compete in an increasingly digitalised financial system will be undermined. Therefore, operational resilience is not a stand-alone issue that is separate from competitiveness; it is a foundational element that strengthens banks' competitiveness, both today and in the years ahead.

**The digital euro project is expected to come to fruition in 2029.**

**Some stakeholders are concerned that a digital euro could hinder the development of private sector initiatives. A few weeks ago you argued in a blog that banks stand to gain from a digital euro.**

**Can you explain why you see the digital euro as an opportunity and not a threat to banks' business models?**

In an ever more fragmented world, Europe remains far too dependent on external providers. This is not only the case for energy and technology but also critical infrastructures such as payment systems. Reducing these dependencies is no longer an added perk, it is needed to safeguard the European way of life. Thus, at a time when geopolitical fragmentation is growing, the digital euro is an important step towards strengthening Europe's strategic autonomy in payments and monetary sovereignty.

With regards to private sector initiatives that you mentioned, the digital euro would indeed co-exist with existing private payment solutions and foster competition and innovation in the European payments sector. There is no dichotomy between the digital euro and other private European initiatives. They are fully complementary. The digital euro provides a solid public foundation that will enable the private sector to innovate at scale while avoiding excessive dependencies.

Let me give you an example. In 2024 we launched the digital euro innovation platform – a collaborative initiative with around 70 market participants such as banks and payment service providers, merchants, fintech companies and technology providers. The objective was to explore with market participants how the digital euro could spur innovation and open doors to new business models. Overall, market participants identified a broad range of ideas and areas where the digital euro could bring innovation. Some examples include conditional payments and integrated e-receipts that automatically travel with the payment into the user's digital wallet. I think that we can leverage this as a starting point for further innovation and business opportunities for the private sector.

Building on the digital euro's anticipated status as legal tender,<sup>5</sup> the digital euro enables private solutions to have immediate reach throughout the euro area. The digital euro ensures interoperability, reduces the risk of fragmentation and avoids the need for the private sector to duplicate investments, which is particularly important in a sector characterised by network effects. Therefore, in April, the ECB signed agreements with three European standardisation organisations – the European Card Payment Cooperation (ECPC), nexo standards, and the Berlin Group – to reuse common technical standards for front-end processing of digital euro online payments.

Regarding the role of banks, since the start of the digital euro project, the Eurosystem has put banks at the very heart of the digital euro's design through extensive dialogue with banks, for example on the [Euro Retail Payments Board](#) or the Rulebook Development Group.

Banks will distribute the digital euro and manage digital euro accounts, which enables them to maintain their existing client relationship. Moreover, the digital euro infrastructure provides a springboard for banks' innovative digitalisation strategies in retail payments, offering an opportunity to strengthen competitiveness. Importantly, banks will be able to generate revenue streams for both basic and innovative services. For example, the compensation model ensures that banks will be adequately compensated for the services they offer.

In addition, together with stakeholders including banks, we carefully looked at the digital euro's fit into the payment ecosystem and identified promising avenues for further strengthening banks' business models. For example, the digital euro can complement

existing domestic European payment schemes through co-badging on physical cards. By co-badging with the digital euro, debit cards offered by European banks could be used across Europe without needing to fall back on international card schemes for use cases not covered by the domestic scheme.

When considering implications for banks, it is crucial to account for the counterfactual. Banks currently already lose fees through international card schemes. With big tech mobile payment solutions, banks lose fees and data and, in some instances, even make losses. With stablecoins, they may lose fees, data and stable retail deposits. The digital euro enables banks to deliver payment services that meet the evolving needs of their clients in the digital age and ensures that banks are fairly compensated, pay fewer fees and keep retail deposits as an important funding source.

Maintaining a constructive dialogue with banks has been critical throughout the digital euro project and will also be essential going forward. For example, the Eurosystem aims to take the next step by enhancing collaboration with banks as part of a pilot exercise planned for 2027. Participation in the pilot will offer European banks an opportunity to actively contribute to shaping the future of payments in Europe, and to test and validate the functionality of digital euro infrastructure in real-life conditions. We invited euro area payment service providers to apply for the digital euro pilot, and received over 50 applications. This gives us a strong basis for conducting the pilot as intended. The applications, which came from both small and large banks and included acquiring and distributing payment service providers, offer a good balance of business models together with broad country coverage. Screening is underway and the outcome of the selection process will be announced in July.

We aim to be ready for a potential first issuance of the digital euro in 2029, assuming the necessary EU legislation is adopted in the course of 2026.

### **And how can its design ensure financial stability for the banking sector?**

We looked carefully at whether the digital euro may pose risks to banks' liquidity positions through deposit outflows and financial stability more broadly. The analysis<sup>6</sup> published last year, based on banks' own data, confirms that the digital euro would not harm financial stability. First and foremost because, just like cash, the digital euro will not be remunerated. Second, a reverse waterfall functionality reduces the need to keep high digital euro holdings in the first place. Third, there will be limits to the amount of digital euros that individuals can hold, while corporates will not be allowed to have any holdings; this will avoid any destabilising deposit outflows, particularly during crises.

Our analysis shows that, across different holding limits, the impact on deposits, liquidity and profitability is limited during normal times. And even in a severe stress scenario, the impact is manageable and smaller in magnitude than, for example, in the liquidity stress test that ECB Banking Supervision conducted back in 2019. Thus, the design of the digital euro ensures that any risks to financial stability are contained.

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<sup>1</sup> Elderson, F. (2026), "[Boosting prosperity through deeper integration](#)", speech at the conference "Financing Europe: a new era of strategic investment", Brussels, 12 May.

<sup>2</sup> Dzezulskis, S., Libertucci, M. and McPhilemy, S. (2026), "[Understanding the banking sector capital framework in the European Union](#)", *Occasional Paper Series*, No 387, ECB, Frankfurt am Main, April.

<sup>3</sup> Elderson, F. (2026), "[Market fragmentation is banks' real constraint](#)", interview in the Supervision Newsletter.

<sup>4</sup> ECB (2026), [Eurosystem response to the EU Commission's targeted consultation on the competitiveness of the EU banking sector](#), April.

<sup>5</sup> Pending a European Parliament vote in July and legislation adoption later this year.

<sup>6</sup> ECB (2025), [Technical data on the financial stability impact of the digital euro](#).