

Proportionality for Promotional and Public Banks

A risk-based, business-model-aware approach to regulation, supervision and reporting

The EU is in the midst of the most significant banking simplification debate in a decade. The Commission report on banking competitiveness, expected in July 2026, will set the direction. The ECB Governing Council's recommendations of December 2025, the EBA's ongoing reporting simplification package, and proposals for a "small bank regime" from BaFin and others, all converge on one question: how to make the EU prudential framework less burdensome without weakening resilience.

EAPB welcomes this momentum and would like to raise three main points:

- **First**, proportionality must be holistic and risk-based, not anchored on size alone. Promotional and public banks operate under statutory mandates, public ownership and non-profit-maximisation principles. They finance long-term public-policy objectives, often at scale that exceeds size-based thresholds, but with risk profiles that are demonstrably lower than those of comparably-sized commercial banks.
- **Second**, considerable efforts and thereby costs stem from supervision and reporting. Simplification in reporting supervision and reporting can deliver significant benefits. For ECB-supervised members, prescriptive supervisory processes and frequencies absorb disproportionate management capacity. For nationally-supervised members, the same burden arrives indirectly: national competent authorities increasingly take inspiration from ECB practice, importing complexity without importing the proportionality calibrations.
- **Third**, proportionality cannot stop at CRR/CRD. Files like DORA and the Crisis Management and Deposit Insurance (CMDI) framework apply to promotional and public banks largely on a one-size-fits-all basis.

EAPB calls on the European Commission, the ECB, the EBA and national competent authorities to ensure that the July 2026 Commission report and the legislative proposals that follow recognise the specificity of mission-driven public banks, and to deliver tangible relief on the supervisory and reporting dimensions where the burden is most concentrated.

1. The business model of promotional and public banks

Promotional banks and public financial institutions are mission-driven institutions which use financial instruments to pursue public objectives, promoting economic development, environmental sustainability and social equity.

Their activities are guided by mandates set by their public owners and primarily finance the public sector, companies (including SMEs and scale-ups), and long-term projects such as public infrastructure, social housing, energy transition initiatives and R&D. They play a key role in supporting the green and digital transition and intervene where market failures occur or where commercial financing alone is insufficient.

These institutions operate under non-profit-maximisation principles, often with a longer investment horizon than private sector actors. This allows them to support projects that are economically and socially necessary but may not always attract sufficient private financing.

The public ownership structure and statutory mandates of promotional and public banks ensure that their activities remain clearly targeted at public-policy objectives. Their scope for expansion is limited by law and subject to strict public oversight.

Four structural features distinguish the business model from that of commercial banks of comparable size:

- **Lower-risk asset composition.** Loan books are weighted towards the public sector, infrastructure, social housing, and SME lending is often channelled via on-lending arrangements with commercial banks. Trading book activity is minimal or absent.
- **Domestic focus and absence of cross-border systemic footprint.** Promotional and public banks generally operate within a single jurisdiction in pursuit of a national or regional public mandate.
- **Public ownership and statutory boundaries.** Activities are constrained by law, supervised by public owners, and not subject to the growth or profit-maximisation incentives that drive risk-taking in private banks.
- **In case of failure, national insolvency procedures would apply.**

At the same time, the effectiveness of these institutions could be further enhanced through a more proportionate regulatory and supervisory framework that better reflects their specific mandate and business model. Resources currently absorbed by compliance with prescriptive, generic requirements could be redirected to the public-policy missions that justify these institutions' existence.

2. Size should not close the door to proportionality

The current proportionality architecture relies heavily on size-based thresholds. For the Small and Non-Complex Institution (SNCI) category, the €5 billion balance sheet threshold sits at the entry of the test: if an institution does not meet it, none of the other eight criteria can be invoked, however low-risk, domestically focused and non-complex its business model may be. An institution can satisfy every qualitative criterion the SNCI category is designed to capture and still fall outside it solely because its balance sheet exceeds the threshold.

The ECB has proposed raising this threshold to €10 billion; the EBA has carved out an upper sub-tier in the large-institution category at €30 billion. Each proposal has merit, but **size should not overshadow other risk-based criteria.**

Many EAPB members exceed €5 billion, and several exceed €10 billion, while operating with risk profiles that are materially lower than those of commercial banks of equivalent size. Conversely, a small bank with a complex trading book or international footprint may pose more systemic risk than a multi-billion-euro promotional bank lending to municipalities under a public mandate.

Size-based thresholds also produce cliff effects that distort behaviour and offer no incentive for low-risk institutions to remain so. The ECB itself has acknowledged this limitation, noting that "size alone does not determine the risk an institution faces or poses to the system". The EBA has reached a similar conclusion in

calibrating its core-plus-supplement reporting approach, which uses business-model thresholds — derivative notionals, fee income share, NPL ratio, asset encumbrance — alongside size.

EAPB advocates for a risk-based approach to proportionality, looking holistically at business-model complexity, risk profile, domestic focus, public-mandate status, and absence of systemic relevance. This is not a request for a bespoke regime for public banks. It is a request that the criteria already on the table be applied consistently across the framework.

3. Supervisory relief: where the burden is most acute

The most consequential burden on EAPB members does not come from capital requirements. It comes from the supervisory process itself: the frequency, granularity and prescriptiveness of interactions with supervisors, and the resources required to service them.

The ECB has acknowledged this directly. In the December 2025 report on simplification of the supervisory and reporting framework, the Governing Council observed that "while the current regulatory framework in the EU provides a sound basis for prudential supervision, in some instances regulation is very prescriptive regarding supervisory processes and the frequencies with which certain activities must be performed." This is the right diagnosis. The next step is to act on it for institutions whose risk profile warrants a different cadence.

ECB-supervised members

Several EAPB members are directly supervised by the ECB as Significant Institutions. The supervisory burden manifests across a range of activities:

- **SREP.** The annual Supervisory Review and Evaluation Process applies a methodology calibrated for complex commercial banks. Many qualitative elements of Pillar 2 add limited supervisory value when applied to a domestically-focused promotional bank with a low-risk asset book.
- **Stress testing.** EU-wide stress tests are highly resource-intensive. The ECB itself notes that in the 2025 exercise, more than 2,200 data quality checks were performed, around 40% solely to reconcile stress test data with regular supervisory reporting. The ECB Governing Council has called for stress-test simplification and promotional and public banks should be the first to benefit, including through greater use of top-down approaches.
- **On-site inspections and internal-model investigations.** Frequencies should reflect risk and stability of business model, not be set on a generic cycle.
- **Recovery planning, governance and remuneration requirements.** Detailed expectations are calibrated for institutions with shareholders, market-based incentives, and complex group structures — features which do not apply to most promotional banks.
- **Risk Data Aggregation and Risk Reporting (RDARR / BCBS 239).** Originally designed for global systemically important banks, RDARR expectations have migrated downward through ECB thematic reviews and SREP findings, generating substantial data-architecture and IT-investment costs for institutions whose risk-data complexity is a fraction of that of large universal banks. The principles are sound; the granularity of current supervisory expectations is not calibrated to risk profile.

Nationally-supervised members

A large share of EAPB members are not directly supervised by the ECB but by **national competent authorities**. **They face a different but related problem:** national supervisors increasingly "take inspiration" from ECB supervisory practice.

The result is a quiet inflation of supervisory expectations on smaller and mid-sized institutions, including promotional and public banks, that bears no relationship to their risk profile.

What EAPB asks for

EAPB welcomes the ECB's "Streamlining supervision, safeguarding resilience" initiative, the SREP reform, and the Next-Level Supervision project. These efforts must now translate into tangible, measurable relief for institutions whose risk profile warrants it. Specifically:

- **Differentiated SREP intensity** for institutions meeting holistic proportionality criteria, including reduced frequency and depth of qualitative Pillar 2 reviews.
- **Top-down stress testing** as the default for promotional banks, replacing institution-led bottom-up exercises calibrated for complex commercial banks.
- **Risk-based frequency of on-site inspections and internal-model investigations**, with multi-year planning cycles for stable, low-risk business models.
- **Tailored recovery planning and governance expectations** that reflect public ownership, statutory mandate and non-profit-maximisation principles.
- **A clear convergence channel between ECB and national competent authorities** to ensure that proportionality applied at SSM level is reflected in national supervisory practice.

4. Reporting: welcome progress, more to do

Reporting has received significant attention in the simplification debate, and rightly so. EAPB welcomes the simplification and proportionality measures proposed in the EBA's consultation of April 2026 on revised Implementing Technical Standards on supervisory reporting like reducing data points and deleting templates.

EAPB also supports the longer-term vision of an integrated EU reporting system overseen by the Joint Bank Reporting Committee. At the same time, EAPB notes that not all elements of the package can be considered genuine simplification: the integration of stress-test data into regular supervisory reporting, in particular, risks shifting burden from ad hoc exercises into permanent reporting obligations rather than reducing it. EAPB will develop these points in a dedicated response to the consultation.

Three priorities for EAPB beyond the EBA package:

- **Extend the "produce-it-once" principle beyond SNCIs.** The case for the supervisor producing Pillar 3 from supervisory data is at least as strong for those low-risk banks above the SNCI threshold that are subject to CRR disclosure requirements as for SNCIs themselves.
- **Apply business-model criteria to reporting frequency and granularity**, not only to the perimeter of the SNCI category. The EBA core-plus-supplement model is the right architecture; banks with a lower risk profile as well as banks that do not participate in the EBA/SSM stress test should also benefit from it.

- **Implement a materiality threshold for resubmission requests**, as endorsed by the ECB Governing Council, so that immaterial differences do not trigger costly reprocessing cycles.

5. Beyond the prudential rulebook

Proportionality cannot stop at CRR/CRD. The most rapidly growing burden on promotional and public banks comes from other financial-services legislation that applies to them on substantially the same terms as to large, complex, market-facing banks. Two files in particular illustrate the problem.

DORA

The Digital Operational Resilience Act applies a broadly horizontal framework to all financial entities, with proportionality built in primarily through Article 4 and limited carve-outs for microenterprises. For promotional and public banks — which often outsource a substantial part of their ICT to public-sector or shared-service providers and have a limited and stable ICT footprint relative to commercial peers — the prescriptive elements of the DORA framework, including the register of contractual arrangements, incident classification thresholds and threat-led penetration testing expectations, generate a compliance burden that is not commensurate with the operational-risk profile.

EAPB calls for a substantive review of DORA in general, DORA proportionality at Level 2 and in supervisory expectations, giving real effect to Article 4 for institutions with limited ICT complexity and stable third-party arrangements.

CMDI framework and SRF contributions

For the vast majority of EU promotional banks subject to the Bank Recovery and Resolution Directive (BRRD), liquidation under national insolvency or national liquidation regimes is the normal scenario, which implies that it is unlikely that they would resort to the Single Resolution Fund (SRF).

The fact that certain promotional banks are subject to the BRRD, and thus to SRF contributions, should not be interpreted as an indication that the legislator has deemed that they might have to be resolved and need to resort to the SRF. The SRF serves to finance the use of transfer tools in resolution, to ensure the continuity of a bank's critical functions in the interest of depositor protection — that is, to allow continued access to covered deposits or to absorb losses that would otherwise have been suffered by covered depositors. Yet promotional banks do not take covered deposits, nor do they perform critical functions of the kind that would require such financing.

A contribution may nevertheless be justified to reflect a promotional bank's role as a participant in the financial system and indirect beneficiary of the stability of the system as a whole. However, the methodology should be further refined to better align contributions with actual systemic relevance and resolution risk. While the current SRF contribution methodology already reflects certain specificities of promotional and public banks, in particular by excluding liabilities associated with development and promotional activities from the contribution base, it is still based on balance-sheet size rather than on the institution's actual likelihood of entering resolution or making use of the SRF. As a result, the contribution methodology does not fully reflect the low-risk profile and specific business model of promotional and public banks.

The same logic should inform the alignment of CMDI with the Commission Communication on State Aid for banks in difficulty, now under review. For public and promotional banks, public authorities can act in their capacity as shareholders rather than as public authorities — an action which constitutes a private intervention subject to the market economy operator test, not extraordinary public financial support under CMDI. This shareholder route is unaffected by the CMDI reform. The alignment of the State Aid framework with CMDI should preserve this distinction without ambiguity, consistent with Article 345 TFEU on ownership neutrality.

More broadly, the framework, both CMDI and the State Aid Communication, should retain sufficient flexibility to reflect the ownership structure, mandate and risk profile of public development banks.

6. EAPB recommendations

To the European Commission:

- Anchor proportionality on a holistic, risk-based set of criteria, combining size with business model, risk profile, domestic focus, public-mandate status and systemic relevance.
- Recognise the specificity of promotional and public banks in the design of any expanded "small bank regime" or new proportionality tier, rather than relying solely on size thresholds.
- Treat supervisory and reporting relief as a first-order objective of the simplification agenda.
- Embed proportionality in sectoral files, including DORA and CMDI, with concrete calibrations rather than principle-level references.

To the European Central Bank:

- Extend the Streamlining Supervision agenda and the principle that prescriptiveness of supervisory processes should reflect risk, explicitly to promotional and public banks within the SSM perimeter.
- Engage with EAPB on the application of the proportionality principle to public and promotional banks, including identification of regulatory and supervisory obstacles to a more risk-based approach.

To the EBA and national competent authorities:

- Continue and extend the reporting simplification package, including business-model and risk profile triggers in the core-plus-supplement architecture.
- Ensure that national supervisory practice does not import ECB-level complexity without ECB-level proportionality calibrations.
- Coordinate proportionality treatment across pillars (prudential, operational resilience, data, sustainability) so that aggregate burden, not only file-by-file burden, reflects institutional risk.

7. Conclusion

Simplification is not deregulation. EAPB members are unequivocal in supporting prudent, robust supervision and the resilience of the European banking system. The reforms initiated since the financial crisis have made European banks materially safer, and that achievement must be preserved.

But the proportionality debate now under way offers a once-in-a-decade opportunity to recalibrate the framework so that it reflects the diversity of the European banking sector, including the public and promotional banks that finance the green and digital transition, social cohesion, and long-term public investment.

EAPB stands ready to engage with the Commission, the ECB, the EBA and national authorities to ensure that the simplification agenda delivers proportionate, risk-based, business-model-aware regulation, supervision and reporting, for the institutions that make up our membership and for the public-policy missions they serve.