Pills

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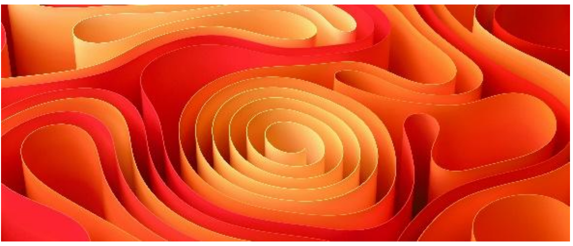

TOPICS:

Internal Models

SOURCE:

Centre for European Policy Studies

CEPS: Do Not Blame Basel - The Output Floor and Europe's Banking Competitiveness Debate

- The **Output Floor** requires banks' risk-weighted assets (RWAs) calculated **using internal models** to remain at least **72.5% of the RWAs produced under standardised approaches**, ensuring that capital ratios remain comparable and credible across institutions.
- The authors explain that the Output Floor was introduced because Basel Committee studies found significant differences in banks' capital calculations that could not be explained solely by actual risk. The measure acts as a prudential backstop rather than a regulatory burden, **limiting excessive reliance on internal models**.
- The paper responds to the **European Commission's 2026 consultation** on banking competitiveness, which reopened **discussion of possible changes to the Output Floor**. Industry groups have advocated extending transitional relief measures or reducing the calibration. However, the authors argue that there is little evidence that existing capital requirements have constrained lending or economic growth, while **weakening the floor would undermine confidence in bank capital ratios and create regulatory uncertainty**.
- The paper also **rejects comparisons with recent US proposals**, noting that the US is restructuring its capital framework rather than simply removing the Output Floor. Instead of diluting Basel III, the authors recommend **simplifying reporting requirements, addressing overlaps with Pillar 2 requirements and advancing Banking Union reforms**. Their conclusion is that Europe's competitiveness depends on strong, credible and comparable capital standards, not weaker prudential rules.