

Banking Competitiveness

A targeted prudential adjustment to support bank investments in the EU's innovation economy

Executive summary

Europe's competitiveness depends on its ability to finance its core strategic sectors and priorities, from innovation, to technology, defence and climate change. While capital markets must play a central role, European banks can also provide long-term capital to innovative companies through investments in venture capital, growth and private equity funds.

The current prudential framework contributed to a gradual reduction in banks' participation in private capital markets. Problematically, currently legislation does not adequately recognise the diversification benefits associated with these fund structures. Investments in diversified private capital funds are treated in a similar manner to direct investments in individual companies, despite their fundamentally different risk characteristics. On the lending side, the treatment of unrated corporate exposures after 2032 will similarly weigh on the financing of high-growth companies, which rarely carry an external credit rating.

A targeted and risk-sensitive recalibration of the treatment of diversified long-term equity funds and of unrated corporate exposures would help banks make a modest but valuable contribution to financing innovation and growth - while aligning capital requirements with actual investment risk.

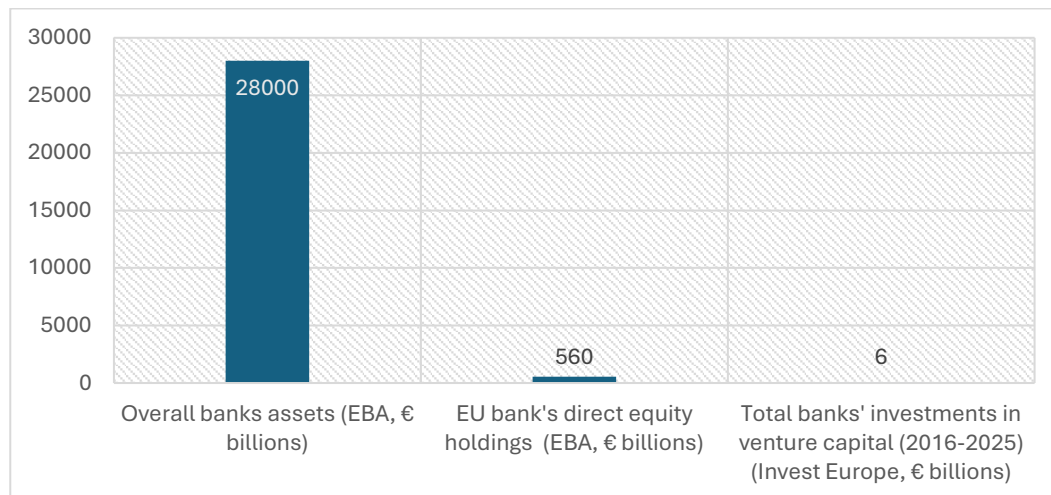
Europe needs every source of capital

€1.2 trillion. That is the investment gap Europe must close to deliver the green transition, build digital infrastructure, and strengthen its life sciences, defence, and space capabilities.

Long-term equity and venture debt are widely recognised as essential to enhancing Europe's competitiveness. They finance innovation, digitalisation, strategic technologies, and industrial transformation.

Yet, while European households hold **tens of trillions of euros in savings**, a significant share remains parked in low-yield deposits. Europe does not suffer from a lack of capital; it suffers from a lack of effective mechanisms to channel long-term savings into productive investments in the real economy. Given the size and central role of the banking sector in Europe, excluding banks from the financing of innovation is simply not a realistic option. We must mobilise both capital markets and banks to support innovation and long-term growth.

“EU banks assets are simply not directed towards long-term equity funds, such as VC”

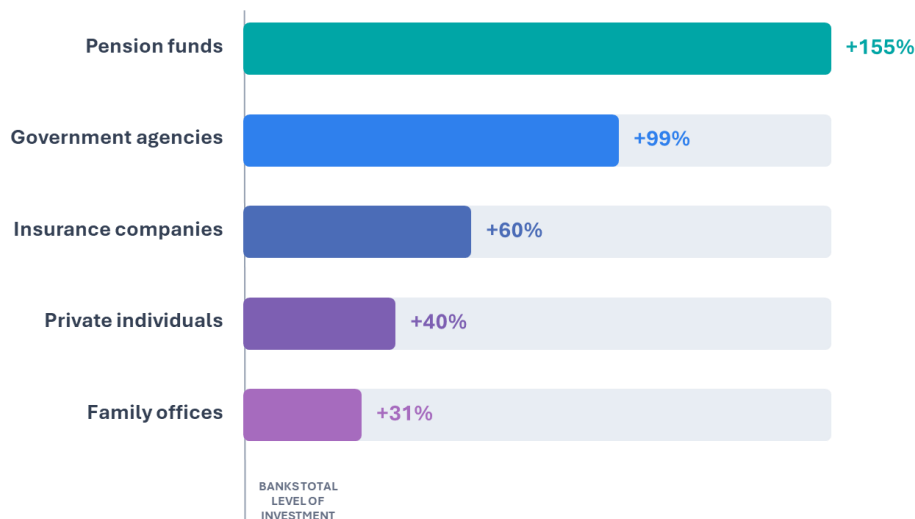


Current legislation had a significant negative impact on bank’s ability to support innovation financing

The treatment of long-term equity exposures under the Capital Requirements Regulation (CRR) has made investments in equity overall, and in long-term equity funds that in turn finance start-ups and scale-ups more specifically, increasingly unattractive from a prudential perspective.

The CRD/CRR framework limited the banks’ ability to create specialist teams and drove them away from the innovation financing ecosystem. The result was a significant reduction of bank’s capacity as equity investors, making their contribution much less significant compared to much smaller (and not necessarily more equipped) players, including the public sector.

Banks invest significantly less in the PE/VC ecosystem than a wide range of investors



Corporate investors and sovereign wealth funds were broadly at parity with banks (100%).

Source: Overall EU private equity fundraising, 2016-2025 (Invest Europe, 2025)

The current framework overestimates the risk of diversified fund investments

As an example, under current rules, banks' investments in long-term private capital funds are generally subject to a 400% risk weight, which may be reduced to 250% under certain conditions. This framework treats in the same way, on one hand, a commitment to a professionally managed private capital fund invested across dozens, and sometimes hundreds, of companies, and, on the other, a single investment in a start-up. Yet, the credit risk of both investments are immensely different. A revision reflecting these factors could encourage reducing concentration risk and help banks spread risk exposure across sectors, geographies and stages of development.

The CRR risk-weights do not account for fund level diversification



Source: Historical performance analysis of private market investments (Golding Capital, Cambridge Associates, 2022)

Beyond the question of investment funds, the review should be the opportunity to consider whether the current framework adequately differentiates between types of equity exposures, from listed equity to residual exposures, with markedly different risk profiles. A more granular and risk-sensitive calibration of Article 133 CRR would align capital requirements more closely with the actual risk profile of each category of equity exposure.

A point of sovereignty

EU managers do not, unlike their US counterparts, have the possibility to raise funds from wide EU capital markets, nor will they have that opportunity in the short-term, however successful the SIU agenda. Implementing Basel in the same way as the US, without considering the fundamental limitations to EU managers' fundraising ability, deprives EU managers from one crucial source of financing. The consequence is twofold: either EU managers become dependent on foreign (US) capital markets to fundraise (see below), or US managers will increase their competitive advantage against EU ones, with the consequence of accelerating the take-over of EU scale-ups by US entities.

Public and private capital: two complementary pillars

Certain investments made through public policy programmes now receive substantially more favourable prudential treatment, benefiting from risk weights as low as 100%. A strong economic incentive for banks to co-invest alongside national

promotional banks or the European Investment Fund (EIF) is very positive in its own right. Bringing the treatment of long-term private equity fund investments closer to the risk weights already available under legislative programmes would allow the two pillars to grow alongside each other and would put a far larger pool of private capital behind the same policy objectives.

In addition, the conditions governing the application of the 100% risk weight could usefully be reviewed so as to foster joint public–private initiatives more broadly, including where banks cooperate with promotional institutions through arrangements other than direct co-investment.

Lending to high-growth companies and the treatment of unrated corporates

Innovative and fast-growing companies are among the least likely to carry an external credit rating, and European banks are active lenders to this segment. Venture debt, the debt market dedicated to scale-ups, represented EUR 13.3 billion of financing across 386 transactions in continental Europe in 2025, and EUR 20.1 billion including the United Kingdom¹. Bank lending also reaches Europe’s most strategic technology companies: in March 2026, a consortium of seven banks, six of them European and none from the United States, provided Mistral AI with some EUR 717 million of debt financing for AI computing infrastructure in France. The terms on which such lending is capitalised therefore matter well beyond the individual borrower.

Most European companies do not have, and will never seek, an external credit rating. Under Article 465(3) CRR, institutions may apply a 65% risk weight to unrated corporate exposures whose estimated probability of default does not exceed 0.5%, for the purposes of the output floor, until 31 December 2032. Beyond that date the treatment lapses, and Article 465 limits any extension of it to four years. A permanent solution would therefore require amending the standing framework rather than further extending the transitional arrangement. This solution should be adopted well before the transitional period expires, since uncertainty about the future cost of lending to unrated companies affects credit decisions well ahead of the deadline itself. Analogously, it would also be necessary to extend this treatment to the standardised approach in order to grant that all the corporates in Europe can be benefited of this measure. Ensuring that the prudential treatment of unrated corporate exposures remains proportionate is part of the same question as the treatment of long-term equity investments, namely whether the framework allows banks to finance the companies Europe is asking them to support.

¹ PitchBook data (as of 7 May 2026) cited in Houlihan Lokey, [European Venture Debt Market Update – June 2026](#).

Conclusion

While banks will never be the sole answer to Europe's innovation financing challenge, they should not be excluded outright from the solution. Diversified venture capital, growth capital and private equity funds can be an important channel through which banks can provide long-term capital to innovative businesses, while benefitting from the multiple advantages of direct investments. So would the ability of banks to provide venture debt to companies without an external rating.

A targeted review of the prudential treatment of these investments, typically creating a separate risk treatment for investments in long-term equity funds under Article 132 CRR, revising equity risk exposure under 133 CRR, and adapting the prudential treatment of unrated corporate exposures would better align regulatory requirements with underlying risk, reduce unintended distortions and support Europe's competitiveness objectives.

Ultimately, the question of banking competitiveness is inseparable from the role banks will play in financing Europe's future. If nothing is done, regulation will become an even stronger barrier to productive investment by 2030. The real question is not whether banks should play a greater role in financing Europe's future, but whether the Union is willing to create the conditions that allow them to do so.



Martin Bresson
Public Affairs Director

Invest Europe



Gonzalo GASOS
Senior Director Prudential Policy &
Supervision
European Banking Federation

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The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

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