

SIMPLIFICATION OF REGULATIONS FOR SMALL BANKS IN EUROPE AND THE UNITED STATES

– state of play, planned actions
and proposals

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Razem możemy więcej

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Executive summary

Banking regulations in Europe and the United States are currently based on the global Basel III agreements, which were created after the global crisis of 2007-2009. Basel III strengthened the resilience of banks but at the same time drastically increased the amount of capital and liquidity that banks need to maintain. The Basel Accords were aimed at large international institutions, but regulators went too far and, as a result, the same rules are now applied to large and small banks. However, small banks must invest more time and effort in complying with these rules than their large competitors – however, this does not increase the security of small banks but puts them at a competitive disadvantage compared to large banks.

Applying the principle of proportionality, Switzerland, the United Kingdom and the United States have implemented simplified systems for small banks (with assets of up to USD 10 billion, CHF 15 billion or GBP 20 billion). Their work on simplifying the regulations has been going for several years, and recently further modifications have been proposed. In Switzerland, small but liquid and well-capitalised banks can apply for admission to the Small Banks Regime, which was established in 2019. The system applies limited obligations for the calculation and disclosure of capital and liquidity requirements as well as simplified quality requirements. In the United States, a simplified measure of capital adequacy for the local banking sector (Community Bank Leverage Ratio) has been used since 2020. In the United Kingdom, a special system (Strong and Simple) for small domestic deposit takers (SDDT) has been implementing since 2021. Its development includes two phases – non-capital prudential measures, e.g. liquidity and reporting (implemented from 2024) and a simplified capital system, including Pillar 1 and 2 requirements, capital buffers, stress tests, etc. (planned from 2027).

As far as the EU is concerned, the extensiveness and detail of EU regulations are widely criticized. The consolidated versions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) are approximately 1000 pages long. Level 2 and level 3 regulations (e.g. technical standards or EBA guidelines) add another thousands of pages. The national regulations implementing EU banking rules are also very extensive. As a result, in some EU Member States – in particular Germany – there are proposals to take appropriate legislative action (similar to the Swiss, British or American ones) at EU level too. Such proposals were jointly announced in 2025 by the German banking supervision authority (BaFin) and the German central bank (Bundesbank).

At the end of 2025, the European Central Bank published recommendations on simplifying the EU regulatory, supervisory and reporting frameworks for small and non-complex institutions (SNCIs), drawing on the experiences of the above-mentioned countries (Switzerland, the United Kingdom and the United States). The ECB proposes to raise the SNCI threshold beyond the current EUR 5 billion and harmonise simplified regulations for small banks in the following areas: reporting, stress tests, recovery plans, risk management, outsourcing, etc. The ECB's report is a non-legislative measure, but it aims to launch a formal legislative process in the EU, in which the relevant EU institutions (the European Commission, the European Parliament and the Council of the EU) will be involved. Therefore, the work on the EU forum is just beginning.

As regards Poland, the supervisory authority (KNF) has recognised all cooperative banks that are participants of the institutional protection schemes as SNCIs. Keeping in mind the experience of other countries and actions proposed in the EU, regulatory simplifications for small banks (including cooperative banks) should also be applied in Poland. A discussion in this regard began in the Polish cooperative banking sector in 2025, and there were also some proposals for simplification. However, a more comprehensive debate is needed with the participation of key regulatory and supervisory institutions in Poland (Ministry of Finance, central bank, supervisory and resolution authorities) as well as activity at the EU forum.

Introduction

Banking regulations in Europe and the United States are based on the global **Basel III agreements**, adopted after the global financial crisis of 2007-2009 (the largest one in almost 80 years) and a deep recession in many countries. Basel III has significantly strengthened the banking systems in the EU and the US (thanks to which they have survived unscathed the turmoil in global markets in recent years), but it has also drastically increased the amount of capital and liquidity that banks must hold to protect themselves against future crises. The Basel Accords were aimed at **large international institutions** that could potentially destabilise the financial system, but the regulators went too far and the same rules apply to **small banks** as well, creating an uneven playing field.

Initially, the transposition of the Basel capital regulations (Basel I) to the EU legal framework by applying the same rules to all banks was not a problem, as the regulations were relatively simple and not very extensive. However, since the Basel II reform, **the complexity of banking regulations and the scope they cover have increased significantly**. It should be noted that **from the perspective of smaller banks, they are often redundant and do not take into account the specific nature of their operations**. The EU's efforts to unify the approach to supervision in Member States after the global financial crisis, by establishing the European System of Financial Supervision, including the European Banking Authority (EBA), and delegating to it the power to create level 2 and level 3 regulations, have resulted in a significant increase in the regulation and the level of its detail. This has numerous consequences, as detailed in the *"Less is more"* report, published in February 2025.¹

Therefore, for some time now, a debate has been taking place in many countries, including Europe and the United States, but also in Japan and Australia, highlighting the negative effects of excessive accumulation of supervisory regulations – detrimental not only to the banking sector but also to the entire economy. Hence, there is **growing pressure for deregulation or simplification of regulations** – particularly with regard to small banks (in proportion to their capabilities and the risks they generate).

This study aims to present simplified supervisory regulations that are or could be applied to smaller banks, in accordance with **the principle of proportionality**. This applies to both actions undertaken within the EU and in non-EU countries (Switzerland, the United Kingdom, and the United States). While these actions are still being **planned** in the EU, appropriate regulations in the mentioned non-EU countries have been **in place** for several years and currently serve as a benchmark for planned EU actions. The final section of the study addresses **the situation in Poland** and identifies areas for potential regulatory simplification that could serve as a starting point for further work both domestically and internationally (particularly within the EU).

Part I. Simplification measures in non-EU countries

1. Switzerland – the Small Banks Regime

The Swiss financial market supervisory authority (FINMA) assigns supervised entities (banks and securities firms) to **five supervisory categories**. Entities are classified on the basis of selected quantitative criteria: total assets, assets under management, privileged deposits and required capital.

¹ The report is available on the KZBS website (https://kzbs.pl/raport-_less-is-more_-juz-dostepny.html).

Category 1 includes the largest banks that could potentially destabilise the financial system, while **subsequent categories represent smaller entities and lower risk**. The following entities are included in these categories:

- Category 1 – the largest market players (very high risk);
- Category 2 – very important and complex entities (high risk);
- Category 3 – large and complex entities (significant risk);
- Category 4 – medium-sized market participants (medium risk);
- Category 5 – small market participants (low risk).

Table 1
Financial supervision in Switzerland – eligibility criteria and number of entities* in supervisory categories

| | Eligibility criteria ** | 2023 | 2024 |
|-------------------|---|------------|------------|
| Category 1 | Total assets >= CHF 280 billion | 1 | 1 |
| | Assets under management >= CHF 1625 billion | | |
| | Privileged deposits *** >= CHF 32 billion | | |
| | Capital requirements >= CHF 20 billion | | |
| Category 2 | Total assets >= CHF 115 billion | 3 | 3 |
| | Assets under management >= CHF 815 billion | | |
| | Privileged deposits >= CHF 21,5 billion | | |
| | Capital requirements >= CHF 2 billion | | |
| Category 3 | Total assets >= CHF 17 billion | 28 | 27 |
| | Assets under management >= CHF 32,5 billion | | |
| | Privileged deposits >= CHF 0,53 billion | | |
| | Capital requirements >= CHF 0,25 billion | | |
| Category 4 | Total assets >= CHF 1,125 billion | 57 | 58 |
| | Assets under management >= CHF 3,25 billion | | |
| | Privileged deposits >= CHF 0,105 billion | | |
| | Capital requirements >= CHF 0,05 billion | | |
| Category 5 | Total assets < CHF 1,125 billion | 159 | 163 |
| | Assets under management < CHF 3,25 billion | | |
| | Privileged deposits < CHF 0,105 billion | | |
| | Capital requirements < CHF 0,05 billion | | |
| Total | | 248 | 252 |

* Entities = banks and securities firms

** The amended Banking Ordinance entered into force on 1 January 2023, introducing new (higher) capital thresholds in each category.

*** Privileged deposits: customer funds that are subject to special protection in the event of a bank's failure and are paid out with priority by the deposit guarantee scheme (covered deposits up to CHF 100 000 have a privileged position since they are classified as second-class receivables and satisfied before third-class creditors).

Source: FINMA – Categorisation of banks and securities firms (<https://www.finma.ch/en/supervision/banks-and-securities-firms/categorisation/>), Depositor protection (<https://www.finma.ch/en/supervision/banks-and-securities-firms/depositor-protection/>).

Small but liquid and well-capitalised banks in categories 4 and 5 can apply for admission to the **Small Banks Regime**, which was introduced in 2019. Participation in this system is **voluntary**. By meeting certain criteria (see below), banks in categories 4 and 5 can benefit from reduced obligations regarding the calculation and disclosure of required capital and liquidity as well as simplified FINMA qualitative requirements. These banks are required to maintain additional capital and liquidity and must not expose themselves to increased business and interest rate risk. In return, they can benefit from reduced and simplified regulatory requirements.

The **criteria for admission** to the regime for small banks, as well as simplified capital requirements, are defined in the Capital Adequacy Ordinance. If a bank in category 4 or 5 wants to apply for admission to the system, it must meet all the criteria, which must then be continuously complied with at both the individual entity and the financial group levels. These criteria include:

- A simplified leverage ratio of at least 8%;
- An average 12-month liquidity coverage ratio (LCR) of at least 110%;
- A refinancing rate of at least 100%.

Interested entities must submit to FINMA relevant evidence of their compliance with the criteria. In order to dispel doubts about the fulfilment of the criteria as well as the grounds for exclusion (e.g. related to the conduct of business or interest rate risk), these entities can contact FINMA before submitting their application.

FINMA may **reject an application for simplified rules** if a bank is subject to supervisory measures or proceedings in the following areas:

- Rules of conduct under the Financial Services Act (FinSA);
- Market conduct rules under the Financial Market Infrastructure Act (FinMIA);
- Money laundering and terrorism financing under the Anti-Money Laundering Act (AMLA);
- Cross-border activity.

FinMA may also reject the application if the bank lacks adequate interest rate risk management or if this risk is unreasonably high.

Banks participating in the regime for small banks have **limited obligations** regarding the calculation of required capital and liquidity and benefit from **simplified qualitative requirements** contained in FINMA circulars. This applies to the following issues:

- Elimination of qualitative and quantitative requirements for the required capital, including elimination of the calculation of risk-weighted assets (RWA) as well as elimination of the capital buffer and the sectoral countercyclical buffer;
- No requirement to calculate and comply with the Net Stable Funding Ratio (NSFR);
- Qualitative simplifications related to FINMA circulars, including:
 - ✓ elimination of detailed requirements for the processing of electronic customer data,
 - ✓ reduced disclosure obligations,
 - ✓ reduced risk control requirements,
 - ✓ lower frequency of comprehensive risk assessments conducted by internal audit,
 - ✓ elimination of detailed outsourcing requirements.

According to FINMA's 2024 Annual Report, **the relief** available to entities participating in the regime for small banks **has been extended**. Supervisory authorities announced that these banks will be completely exempt from the requirement to apply **nature-related financial risks** (Circular 2026/1). In FINMA's view, participants of the system for small banks are less exposed to this kind of risk than larger entities. Furthermore, when **the final phase of Basel III** is implemented, participating banks will face less burden when implementing the new rules, as they will benefit from relief in calculating the required capital.

In 2024, **55 entities** (banks and securities firms) participated in the Small Banks Regime, which constituted approximately 20% of all entities supervised by FINMA (in total, there are approximately 270 such entities, including more than 230 banks and nearly 40 securities firms).

2. The United Kingdom – the Strong and Simple Framework

In 2021, the UK's Prudential Regulation Authority (PRA) published its discussion paper (DP1/21²), which outlined a vision to **simplify prudential requirements for smaller banks and building societies** operating in the domestic market while maintaining their resilience. To this end, special prudential requirements were introduced for **small domestic deposit takers** (SDDTs – previously known as simpler-regime firms).

PRA-regulated entities must meet **a number of criteria to qualify for SDDT status**. These criteria were developed through consultations with market participants, which began in April 2022 (CP5/22³) and November 2022 (CP16/22⁴), concluding in July 2022 and March 2023, respectively. Both consultation documents proposed that the criteria for an entity to apply the simplified regime should focus primarily on the following issues:

- Total asset,
- Domestic activity,
- Trading activity,
- Internal ratings based (IRB) approach,
- Clearing, settlement and custody services,
- Payment system,
- Parent location.

The finally adopted criteria for applying the simplified system are summarised in the table below, while detailed regulations can be found in the document *"SDDT Regime – General Application in the PRA Rulebook"*.

² *Discussion Paper 1/21 – A strong and simple prudential framework for non-systemic banks and building societies*, Bank of England – Prudential Regulation Authority, April 2021.

³ *Consultation Paper 5/22 – The Strong and Simple Framework: A definition of a simpler-regime firm*, Bank of England – Prudential Regulation Authority, 29 April 2022.

⁴ *Consultation Paper 16/22 – Implementation of the Basel 3.1 standards*, Bank of England – Prudential Regulation Authority, 30 November 2022.

Table 2
Criteria entitling supervised entities to obtain the status of a small domestic deposit taker (SDDT)

| Criteria | Description |
|--|--|
| Size | Total assets on average over the past three years of no more than GBP 20 billion. |
| Domestic activity | The share of credit exposures located in the UK is at least 75% at all times and at least 85% on average over the past three years. |
| Limited trading activity | Trading book business was equal to or less than both GBP 44 million and 5% of total assets in recent months. The criterion is not met if a firm has been above one or both of these thresholds in each of the preceding three months or in more than half of months in the past year. |
| | Overall net foreign exchange position was equal to or less than 2% of own funds in recent months. The criterion is not met if a firm has been above the threshold in each of the preceding three months or in more than half of months in the past year. Overall net foreign exchange position must not exceed a ceiling of 3.5% of own funds. |
| | No positions in commodities or commodity derivatives. |
| No Internal Ratings Based (IRB) approach | Does not use an IRB model for credit risk to calculate risk-weighted assets. |
| Clearing, settlement and custody services, and payment systems | Does not provide clearing, transaction settlement, custody or correspondent banking services to other banks and building societies unless they are members of the firm's immediate group. Does not operate a payment system. |
| UK bank or building society with no non-UK parent | Does not have a non-UK parent. |

Source: Bank of England / Prudential Regulation Authority – CP5/22 and CP16/22.

Supervisory authorities proposed dividing the development of the simplified regime into **two phases**:

- **Phase 1** – focused on non-capital prudential measures;
- **Phase 2** – focused on capital-related prudential measures.

Regarding **Phase 1**, the PRA published a consultation paper on liquidity and disclosure requirements for small entities in February 2023 (CP4/23⁵), followed by a position paper in December 2023 (PS15/23⁶). As a result of this consultation, the PRA introduced **simplified liquidity and disclosure requirements for SDDTs**. Implementation dates were set for 1 January 2024 (disclosure simplifications) and 1 July 2024 (liquidity simplifications). These simplified measures included:

⁵ *Consultation Paper 4/23 – The Strong and Simple Framework: Liquidity and disclosure requirements for simpler-regime firms*, Bank of England – Prudential Regulation Authority, 27 February 2023.

⁶ *Policy Statement 15/23 – The Strong and Simple Framework: Scope criteria, liquidity and disclosure requirements*, Bank of England – Prudential Regulation Authority, 5 December 2023.

- **Net Stable Funding Ratio (NSFR)** – introducing a new simple Retail Deposit Ratio (RDR), disapplying the NSFR to small banks if the RDR condition is met (i.e. if the four-quarter moving average of its RDR is greater than or equal to 50% for four consecutive quarters);
- **Pillar 2 liquidity** – no liquidity add-ons to the LCR (Liquidity Coverage Ratio) for SDDTs, and the introduction of a new, streamlined template for SDDTs to present the Internal Liquidity Adequacy Assessment Process (ILAAP);
- **Liquidity reporting** – excluding small banks from the requirement to report 4 out of 5 areas of Additional Liquidity Monitoring Metrics (ALMM), which are required to be submitted at least quarterly, and simplifying the reporting rules for the remaining area (reporting all liabilities without checking whether they exceed the established limit);⁷
- **Pillar 3 disclosure requirements** – requiring SDDTs that have listed financial instruments to use specific disclosure templates (that are already applied to listed SNCIs), excluding SDDTs without such instruments from the requirement to disclose a Pillar 3 report, removing the current Pillar 3 disclosure rules applicable to SNCIs, following a transitional period ending in mid-2027.

Regarding **Phase 2**, in September 2024, the PRA published another consultation paper (CP7/24⁸), setting out its proposal for a **simplified capital regime for SDDTs**. The consultation period ran until December 2024. The PRA proposed that the simplified capital regime for SDDTs would come into effect on 1 January 2027. It was confirmed in October 2025 when the PRA published its position paper (PS20/25⁹), which addressed the responses received in the above consultation process. This position paper was not yet final (near-final), and the publication of final rules was announced for the first quarter of 2026 (see below). In the autumn 2025, it was anticipated that the simplifications for SDDTs should cover:

- **Pillar 1 capital requirements** – the disapplication of the due diligence requirements in the standardised approach to credit risk, simplifications to the market risk framework, the disapplication of capital requirements for counterparty credit risk for derivatives (CCP) and credit valuation adjustment (CVA) risk, and resulting changes to the leverage ratio and large exposures rules;
- **Pillar 2A methodologies** – significant simplification of methodologies for credit risk, credit concentration risk and operational risk;
- **Capital buffers and stress tests** – the introduction of a Single Capital Buffer (SCB¹⁰) to replace the current system of multiple buffers (consisting of the PRA supervisory buffer, the Capital Conservation Buffer (CCoB) and the Countercyclical Capital Buffer (CCyB) – see Figure 1), the removal of automatic capital conservation measures under the maximum distributable amount (MDA) framework, and the replacement of the cyclical stress testing framework with a non-cyclical framework, etc.;

⁷ The reporting exemption includes: *Concentration of funding by counterparty; Prices for various lengths of funding; Roll-over of funding; Concentration of counterbalancing capacity*. The simplification applies to *Concentration by product type*.

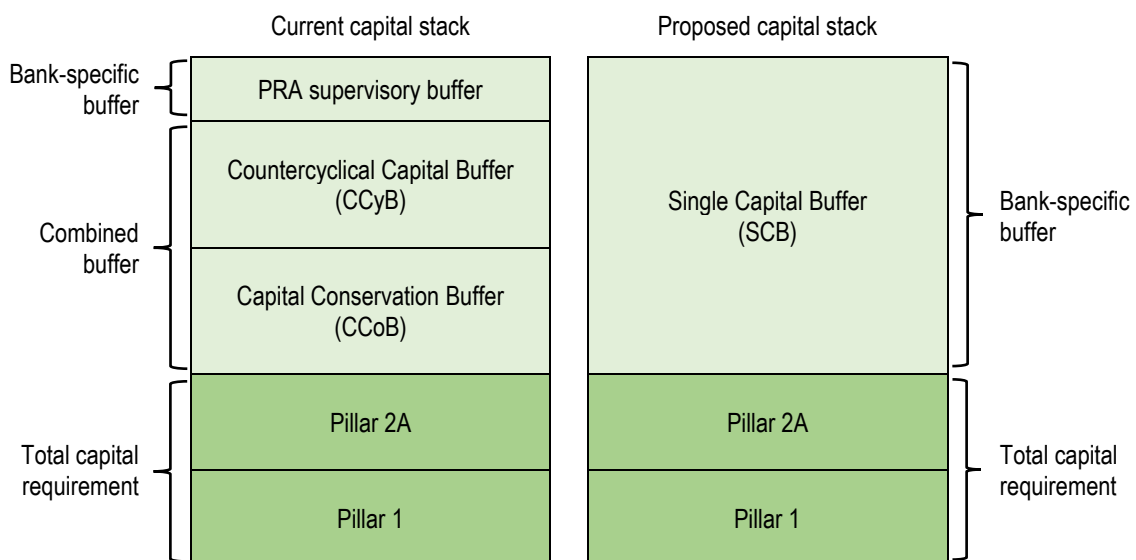
⁸ *Consultation Paper 7/24 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers*, Bank of England – Prudential Regulation Authority, 12 September 2024.

⁹ *Policy Statement 20/25 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers – near-final*, Bank of England – Prudential Regulation Authority, 28 October 2025.

¹⁰ The new SCB buffer will be introduced under Pillar 2B and will be set at no less than 3.5% of risk-weighted assets. The Pillar 2B capital framework will include two buffers with different scopes: the PRA buffer would apply to all entities outside the simplified regime for SDDTs, while the SCB buffer would apply only to SDDTs.

- **Adequacy assessment processes** – simplifying the Internal Capital Adequacy Assessment Process (ICAAP) and reducing the frequency of the Internal Liquidity Adequacy Assessment Process (ILAAP) review and update in the context of the Supervisory Review and Evaluation Process (SREP);
- **Capital deductions** – simplifying the capital deduction requirements for SDDTs when calculating regulatory capital resources;
- **Reporting** – simplifying the reporting framework for SDDTs by descoping them from 38 reporting templates, replacing most Counterparty Credit Risk (CCR) reporting with a simplified template, amending 24 templates and instructions, etc. (reporting changes are to be implemented from 1 January 2027);
- **Introduction of the SDDT system** – the revocation of the Interim Capital Regime (ICR) and its replacement with a simplified capital regime for SDDT (banks that opted for ICR would be required to implement either the full Basel 3.1 standards on 1 January 2026 or the simplified capital regime for SDDTs on 1 January 2027).

Figure 1
Current and proposed capital structure for small domestic banks (SDDT)



Source: Bank of England / Prudential Regulation Authority – CP7/24.

The PRA’s final position paper on the simplified capital regime for SDDT was published in January 2026 (PS4/2026¹¹). It contains no substantive changes to the autumn 2025 version (PS20/25) and confirms that the simplified capital regime for small banks will come into effect on 1 January 2027, with the exception of the rules on the frequency of ICAAP updates (including reverse stress tests) and ILAAP updates, which became effective on the date of publication of the PRA’s final position paper, i.e. on 20 January 2026.

¹¹ Policy Statement 4/26 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers – final, Bank of England – Prudential Regulation Authority, 20 January 2026.

The above PRA's final position paper was published alongside the publication of its final position paper on **the implementation of Basel III in the UK** (PS1/26¹²). The latter confirmed that the new Basel standards (referred to as Basel 3.1) would become effective on 1 January 2027 (including reporting requirements), while the internal model approach for market risk would come into effect on 1 January 2028. As recalled in this document, in January 2025, the PRA – in consultation with the HM Treasury – announced a one-year delay in implementing Basel 3.1 in the UK, i.e. until 1 January 2027. This decision was made due to uncertainty about the timing of implementation by other major jurisdictions and keeping in mind the competitiveness of the UK economy and financial system.

Summing up, the above-mentioned actions and plans to reduce the regulatory burden on SDDTs under Phases 1 and 2 are based on **the principle of proportionality** and stem from the PRA's opinion that **it is significantly less likely that small entities cause significant disruption in the financial market** because of the reduced complexity of their operations, lower market activity, smaller market share, etc. The PRA believes that regulatory simplification will reduce costs for SDDTs and increase their ability to serve customers, thereby increasing competition in the UK banking sector. It is also expected that simplification will lead to a simplified prudential supervision system for SDDTs, with more transparent supervisory processes and reporting requirements.

It is also worth noting the position of the UK Financial Policy Committee from December 2025.¹³ The Committee believes that **the required level of Tier 1 capital should be reduced from 14% to 13% of risk-weighted assets** (RWA). It also identifies other areas requiring discussion and modification, such as capital buffers, leverage ratio, credit concentration risk, indexation of regulatory thresholds, internal models for mortgage lending, etc.

3. The United States – the Community Bank Leverage Ratio

In the autumn of 2019, three US federal agencies – the OCC (US Treasury), the Federal Reserve, and the FDIC – published guidance¹⁴ and final regulation¹⁵ aimed at introducing a **simple measure of capital adequacy** for eligible community banks. The regulation took effect on 1 January 2020. The **Community Bank Leverage Ratio** (CBLR) framework provided a simple alternative methodology for capital adequacy measurement. The regulation was intended to provide significant relief from regulatory burdens while maintaining the safety and soundness of the banking system.

The CBLR framework is **voluntary**. To qualify for this framework, a community bank must not be an advanced approaches banking organization and must meet the following **qualifying criteria**:

- A **leverage ratio** of greater than **9%**;
- Total **consolidated assets** of less than **USD 10 billion**;
- Total **off-balance sheet exposures** (excluding certain derivatives) of no more than **25%** of total consolidated assets;
- Total **trading assets plus trading liabilities** of no more than **5%** of total consolidated assets.

¹² *Policy Statement 1/26 – Implementation of Basel 3.1: Final rules*, Bank of England – Prudential Regulation Authority, 20 January 2026.

¹³ *Financial Stability in Focus: The FPC's assessment of bank capital requirements*, Bank of England, 2 December 2025.

¹⁴ *Community Bank Leverage Ratio Framework. Community Bank Compliance Guide*, Office of the Comptroller of the Currency (US Treasury), Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, October 2019.

¹⁵ *Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations*, OCC Bulletin 2019-55, 13 November 2019; Federal Register, Vol. 84, No. 219, 13 November 2019.

Table 3
Key elements of the simplified CBLR system for community banks

| Community Bank Leverage Ratio (CBLR) Framework | |
|--|--|
| Qualifying community banking organization | <ul style="list-style-type: none"> • Leverage ratio greater than 9% • Less than USD 10 billion in average total consolidated assets • Off-balance sheet exposures of 25% or less of total consolidated assets • Trading assets plus trading liabilities of 5% or less of total consolidated assets • Not an advanced approaches banking organization |
| Calculation of the leverage ratio | Tier 1 capital / Average total consolidated assets |
| Leverage ratio requirement | Greater than 9% |
| Grace period | <p>A two-quarter grace period (which begins as of the end of the calendar quarter in which the electing banking organization ceases to satisfy any of the qualifying criteria) to either meet the qualifying criteria again or to comply with the generally applicable capital rule.</p> <p>Grace period applies when a banking organization's leverage ratio is 9% or less but greater than 8%.</p> <p>A banking organization that fails to maintain a leverage ratio greater than 8% would not be permitted to use the grace period and must comply with the generally applicable capital rule and file the appropriate regulatory reports.</p> <p>Grace period does not apply in the case of a merger or acquisition.</p> |

Source: *Community Bank Leverage Ratio Framework. Community Bank Compliance Guide*, OCC (US Treasury), Federal Reserve and FDIC, October 2019.

At the turn of November and December 2025, the US banking regulatory agencies **proposed a revision of the CBLR framework**. Keeping in mind the practical experience in implementing this framework (lower-than-expected participation rates, concerns expressed by community banks, etc.), the agencies proposed the following key changes:¹⁶

- **Lowering the calibration of the CBLR requirement:** reducing it from 9% to 8%;
- **Extending the grace period:** a community bank that fails to meet the qualifying criteria after opting in the CBLR framework would have four reporting periods (compared to two periods previously) to meet the criteria again, provided it maintained a leverage ratio above 7% and had not used the grace period for more than eight of the previous 20 quarters.

Indicating **the possibility of further relief**, the agencies asked several questions regarding the need for additional changes to the eligibility criteria (public comment period was open for two months from publication in the Federal Register).

According to the FDIC, there were approximately 4500 banks in the United States in 2025 (the number has been steadily declining in recent years – from nearly 5000 banks in 2021). Table 4 shows how many of these banks meet the criteria for CBLR eligibility (as of mid-2025).

¹⁶ *Community Bank Leverage Ratio: Notice of Proposed Rulemaking*, OCC Bulletin 2025-40, 25 November 2025; Federal Register, Vol. 90, No. 228, 1 December 2025.

Table 4
Banks meeting the criteria and participating in the CBLR system

| Data as of 30 June 2025 | Range of the leverage ratio (%)* | | | | | | | Total |
|--|----------------------------------|-----|-----|------|-------|-------|------|-------------|
| | =< 7 | 7-8 | 8-9 | 9-10 | 10-11 | 11-12 | > 12 | |
| Banks that meet CBLR size and simplicity requirements ** | 20 | 101 | 478 | 871 | 754 | 546 | 1470 | 4240 |
| Number of banks participating in the CBLR system | 0 | 0 | 20 | 274 | 322 | 261 | 837 | 1714 |
| Share of banks participating in the CBLR system (compared to banks meeting the criteria) | 0% | 0% | 4% | 31% | 43% | 48% | 57% | 40% |

* Each range excludes the lower end and includes the upper end.

** These criteria include the use of advanced approaches, total consolidated assets, off-balance sheet exposures, and trading assets and liabilities.

Source: Federal Register, Vol. 90, No. 228, 1 December 2025.

As shown in the table, of the 4240 banks that meet the size and simplicity requirements for CBLR eligibility, 3641 entities report a leverage ratio higher than 9% and meet all eligibility criteria. However, **only 1694 of these 3641 banks, representing 47% of eligible entities, participate in the CBLR system** (this ratio has remained relatively stable since the implementation of the CBLR framework in 2020). Furthermore, 20 banks that do not meet the CBLR requirement remain in a grace period. At the same time, 478 banks have leverage ratios between 8% and 9% and meet all other eligibility criteria, meaning they would qualify for the modified CBLR regime (as proposed in 2025). This would represent a 13% increase in the number of eligible entities, but experience shows that not all eligible banks choose to join the CBLR system. Supervisory authorities assume that the probability of joining the system depends primarily on a bank's buffer of Tier 1 capital exceeding the CBLR requirement. On this basis, they estimate that **2034 banks will participate in the modified system**, which is 320 more than currently. However, they admit that this estimate is imprecise because it is based on a simple model that does not take into account the potential impact of extending the grace period on CBLR adoption.

Finally, it is also worth noting that **the implementation of Basel II in the United States has been much slower than that of Basel I**. Federal banking agencies – the OCC (US Treasury), the Federal Reserve, and the FDIC – adopted the regulation implementing Basel II at the turn of 2007 and 2008. As emphasized by the European Parliament,¹⁷ unlike the EU, **only some of the Basel II standards have been implemented in the United States and applied only to selected banks**. It was decided to apply the Basel II principles only to the largest American banks operating internationally (core banks). Under Pillar 1, supervisors did not give these banks the option of adopting either the standardised or advanced approaches but required them to adopt the advanced approach for both credit risk (A-IRB) and operational risk (AMA). Other US banks could choose to adopt the advanced approaches, but if they did not, they were required to apply Basel I rules. Federal banking agencies indicated several reasons for this partial adoption of Basel II:¹⁸

¹⁷ *US implementation of Basel II: final rules issued, but no supervisory approvals to date*, European Parliament, October 2011.

¹⁸ *Risk-Based Capital: Bank Regulators Need to Improve Transparency to Overcome Impediments to Finalizing the Proposed Basel II Framework*, Government Accountability Office, February 2007.

- The largest banks had the resources necessary to implement the advanced approaches of Basel II and it was therefore considered that these banks should be required to implement them (in order to enhance their safety and soundness, improve risk management, etc.);
- Smaller banks did not have such resources, so advanced approaches would be inappropriate for them, and furthermore, the new Basel II requirements did not seem to be better for smaller banks than the existing ones (Basel I, leverage ratio, etc.);
- Smaller banks did not compete internationally (including with European banks) and the Basel Accords did not require to apply new standards to such entities.

For these reasons, federal banking agencies have decided not to apply Basel II standards to smaller banks operating solely in the United States. Furthermore, in July 2023, the Federal Reserve, the FDIC, and the OCC published a joint notice on **the implementation of the final phase of Basel III in the United States** (so-called Basel III Endgame). The reform was to be phased in over three years (from 1 July 2025 to 30 June 2028), but it met with very strong resistance from the US banking sector. The main concerns were related to the significant increase in capital requirements – by about 20% for global systemically important banks (G-SIBs) and about 10% for regional banks. This led to significant delays and regulators work currently on new, more lenient solutions.

The new Basel rules will primarily target large banks, but one key area applies to smaller banks too. This involves **changes to the capital treatment and servicing of mortgage loans**. According to the Federal Reserve, the current approach has limited bank participation in mortgage lending and access to credit from banks (the trend of migration of mortgage activity to non-banks has been observed in the United States over the past 15 years). Therefore, consideration is currently being given to removing the requirement to deduct mortgage-servicing assets from regulatory capital while maintaining the 250% risk weight assigned to these assets (this weight may be changed after the planned public consultation). These changes are intended to encourage banks to provide and service mortgages as well as provide citizens (including local communities) with affordable home ownership. They are also aimed at creating pathways for banks to return to their **traditional and core business services**, including retail mortgage lending.¹⁹

Part II. Simplification measures within the EU

1. EU legislation – CRD/CRR and Omnibus

After the global financial crisis of 2007-2009, the Basel Committee began work on amendments to the Basel II framework, which resulted in the announcement of new regulations (known as **Basel III**) in 2010. These regulations were introduced into EU law through the so-called **CRD IV / CRR package**, adopted in June 2013 by the European Parliament and the Council of the EU. The package included Directive 2013/36/EU and Regulation 575/2013. Six years later, in May 2019, another package was adopted – **CRD V / CRR II**, consisting of Directive 2019/878 and Regulation 2019/876, which amended the 2013 regulations.

¹⁹ *Revitalizing Bank Mortgage Lending – One Step with Basel*, speech of Michelle W. Bowman, Vice Chair for Supervision (Board of Governors of the Federal Reserve System), at the American Bankers Association 2026 Conference for Community Bankers, Orlando, 16 February 2026; M.W.Bowman, *Opening Remarks of at the 2026 Banking Outlook Conference: The Next Horizon in Banking*, Federal Reserve Bank of Atlanta, 19 February 2026.

The CRD V / CRR II package introduced the concept of a “**small and non-complex institution**” (SNCIs). In order to be considered such an institution, a bank must meet the criteria set out in Article 4(1)(145) of Regulation 575/2013 (see Annex 1). Banks meeting these criteria are subject to **simplified prudential standards**, notably with respect to:

- **Net Stable Funding Ratio (NSFR)** – in accordance with Article 428ai of Regulation 575/2013, small banks may use a simplified method of calculating the NSFR referred to in Articles 428aj-428az;
- **Market risk** – small banks may use simpler and more conservative methods than the standardised approach;
- **Counterparty Credit Risk (CCR)** – small banks may use simplified methods of calculating the value of their exposure to this risk;
- **Interest Rate Risk in the Banking Book (IRRBB)** – small banks are subject to simplified supervisory procedures.

First, the bank determines through a **self-assessment** whether it meets the criteria set out in Article 4(1)(145) and thus qualifies as a SNCI. If so, it submits an **application** to its supervisory authority for permission to use simplified methods. Also, **continuous monitoring** is required, meaning the bank must inform the supervisory authorities of any changes in its SNCI status.

In June 2024, the so-called **CRD VI / CRR III package**, consisting of Directive 2024/1619 and Regulation 2024/1623, was published in the EU Official Journal. New regulations require EU banks to consider ESG risks (e.g. in internal strategies and processes for assessing internal capital and governance needs) and develop plans to address these risks. Significant changes have also been introduced to ESG risk reporting by EU banks. The European Banking Authority (EBA), taking a proportionate approach, is working to simplify requirements in this area for smaller banks (SNCIs). In January 2025, the EBA published guidelines on ESG risk management, which entered into force in January 2026 (for SNCIs, it will be January 2027). At the same time, as part of broader EU measures (so-called “stop the clock”), the decision was made to defer ESG reporting obligations for certain companies under the CSRD (Corporate Sustainability Reporting Directive) by two years, which is intended to reduce administrative burdens, especially for smaller entities.

The European Commission’s current work programme includes 11 proposals aimed at significantly **simplifying EU regulations** and reducing administrative burdens for businesses (by up to 25%, and for SMEs by 35% by the end of the mandate). In October 2025, the Commission published the first report in the series “*Overview Report on Simplification, Implementation and Enforcement*” (for the first half of 2025), which presented simplifications in six areas (*Simplification Omnibus Packages*). By the end of 2025, this number had increased to 10, but none of them concerned the banking sector.

2. Germany – adopted and proposed measures of BaFin and the Bundesbank

At the end of November 2024, the German Federal Banking Supervisory Authority (BaFin) published a **supervisory statement** introducing **simplified requirements for small banks in designing their risk management systems**.²⁰

²⁰ *Aufsichtsmittteilung Kleine und sehr kleine Kreditinstitute: Proportionalität in den Anforderungen der BaFin an das Risikomanagement*, 26.11.2024; *BaFin simplifies requirements for small institutions*, 12.12.2024 (www.bafin.de).

The requirements related to **stress tests** have been simplified, allowing small banks to opt out of so-called reverse stress tests and conduct only one liquidity stress test per year, instead of three. Also, **reporting requirements** have been simplified – for example, if there were no significant changes in some parts of the overall risk report in the last quarter, small banks are required to update their reports only once a year, rather than quarterly. BaFin also highlighted the existing flexibility, which small entities do not always use. An example is the area of **outsourcing**, where they have more freedom in managing service providers or using a group or network outsourcing management system instead of their own internal system.

BaFin expects that around **950 entities** (i.e. three-quarters of German credit institutions) will benefit from these simplified requirements. This is because **the definition of “small institutions”** that BaFin uses in its Minimum Risk Management Requirements (MaRisk) is based – with a few exceptions – on the definition contained in the CRR. Hence, commercial and savings banks that are SNCIs within the meaning of the CRR are considered small institutions within the meaning of MaRisk too. In this way, BaFin ensures greater consistency between regulatory terminology and thresholds applied at national and EU level, making it easier for banks to comply with regulations issued by different authorities.

In mid-2025, the two German institutions that are jointly responsible for the supervision of the German banking sector outlined a plan to reduce and simplify the regulatory burden on small banks operating in the EU. These proposals were put forward by the German banking supervision authority (BaFin) and the German central bank (Bundesbank) in a **joint position** entitled “*A simple regulatory regime for small and non-complex EU banks*”.²¹ It was a **non-paper**, i.e. an informal document presented to start a discussion on a given topic. The next step may be to take more specific action, including legislative work.

The proposals presented by BaFin and the Bundesbank are based on the following assumptions:

- **Proportionality** – regulatory relief is not an end in itself but rather properly calibrated requirements that take into account the actual risk profile of small banks;
- **Eligibility** – objective and understandable criteria;
- **Voluntary participation** – the ability to opt in and opt out of the system;
- **Financial stability** – rules for small banks must not threaten the stability of the entire banking/financial system;
- **Level playing field** – no distortion of competition between small and large banks.

The proposals of BaFin and the Bundesbank for the above-mentioned system for small banks relate to the following areas:

- **Capital requirements.** It is proposed to replace risk-based capital requirements (Total Risk Exposure Amount) with a simple leverage ratio. According to the CRR, the leverage ratio is 3% – BaFin and the Bundesbank have not indicated any quantitative proposals, but it seems that the minimum leverage ratio could be set at a level similar to the Swiss regime for small banks (8%) or the US system (9%). The proposed change would affect the Pillar 1 requirements (P1R), the components of Pillar 2 (P2R, P2G) and the combined buffer requirements. Part of this requirement could be held in the form of a releasable buffer, acting as a macroprudential instrument comparable to the countercyclical capital buffer.

²¹ R. Helbig, *Small banking regime – an initiative by BaFin and the Bundesbank*, Banking.Vision, 4 September 2025.

- **Liquidity.** It is proposed to abolish the Net Stable Funding Ratio (NSFR), i.e. the structural refinancing ratio within the regime for small banks. It could be replaced with a simple “lending ratio”, meaning a maximum acceptable loan-to-deposit ratio (e.g. 90%). Moreover, at least 10% of assets should be held in high-quality liquid assets (HQLA). Such simplification would achieve comparable supervisory outcomes while radically reducing complexity.
- **Reporting.** A comprehensive consolidation and simplification of reporting obligations is proposed. The numerous current reports would be replaced with an “integrated reporting form” covering key information relevant to the supervisory authority. Furthermore, the reporting frequency would be reduced depending on the risk of the entity. This would significantly reduce the administrative burden on banks but without risking a loss of information relevant to the systemic assessment made by supervisory authorities.
- **Stress testing.** It is proposed to exempt entities covered by the small banks system from the extensive supervisory requirements for the future stress testing program. Instead, supervisory authorities could initiate top-down stress tests with standardised scenarios and simplified data input.
- **Remuneration.** It is proposed to exempt banks with a low proportion of variable remuneration from the extensive requirements of the CRD (Articles 92-94). This would require a criterion limiting variable remuneration to a specified percentage of total remuneration.

The scheme would be available for banks with total assets of **less than EUR 10 billion** and operating mainly on the “domestic” market (at least 75% of operations within the European Economic Area). Banks using the system would not be allowed to hold any assets in cryptocurrencies (e.g. bitcoin), but they could hold small amounts of derivatives or assets for trading purposes (trading book). It is estimated that **around 1000 banks in Germany**, many of which hold capital well above regulatory requirements, could qualify for the scheme based on these criteria.²² The German banking system consists of around 1400 credit institutions, including around 25 large banks (significant institutions) supervised directly by the ECB.

As emphasized by the Bundesbank president, **simplifying banking regulations is not synonymous with deregulation.** In his view, deregulation at the expense of financial stability is not an option, so the focus should be on simplifying regulation, supervision and reporting.²³

Finally, it is worth adding that BaFin and the Bundesbank believe that the concept of proportionality and simplification of requirements for small banks should be better reflected in **the EBA guidelines.** In their opinion, the number and content of EBA guidelines is insufficient in this respect.

3. European Central Bank – recommendations of the High-Level Task Force on Simplification

In March 2025, the ECB’s Governing Council established the **High-Level Task Force on Simplification** to develop recommendations for simplifying the European regulatory, supervisory and reporting frameworks while maintaining a resilient banking sector in Europe. The Task Force was created during the ongoing international debate on the excessive complexity of financial sector regulations, and its scope was consistent with the European Commission’s simplification initiative (Omnibus).

²² *Europe’s small banks need simplified rules. Guest contribution by Michael Theurer and Mark Branson in the Frankfurter Allgemeine Zeitung, Deutsche Bundesbank, 12 September 2025 (www.bundesbank.de).*

²³ *Simplifying banking regulation: task force presents its proposals, Deutsche Bundesbank, 11 December 2025 (www.bundesbank.de).*

The **Task Force’s recommendations were endorsed by the ECB’s Governing Council** and presented in the report published in December 2025.²⁴ It is important to note that, in parallel with the proposed simplifications, the authors of the recommendations called for the full, timely and faithful implementation of the Basel III framework in all jurisdictions.

The recommendations cover three main areas of **simplification**:

- Simplification of the European **regulatory framework** (Recommendations 1-9);
- Simplification of the European **supervisory framework** (Recommendations 10-11);
- Simplification of the European **reporting framework** (Recommendations 12-17).

An overview of the recommendations is provided in the table below.

Table 5
ECB Task Force recommendations on simplifying the European regulatory, supervisory and reporting frameworks

| Recommendations on simplifying the European regulatory framework | |
|--|---|
| Recommendation #1 | Reducing the number of capital stack elements in the prudential framework that exceed those foreseen by the Basel standards (e.g. capital buffers, leverage ratio, etc.) |
| Recommendation #2 | Improving the going-concern loss-absorbing capacity of the capital stack by adjusting the design or the role of AT1 and Tier 2 instruments |
| Recommendation #3 | Expanding the degree of proportionality in the EU under the existing SNCI regime in a prudent manner (including further increasing consistency in the application of the principle of proportionality in supervision) |
| Recommendation #4 | Reciprocating measures automatically up to a certain threshold, combined with, and conditional on, a more standardised application of macroprudential tools |
| Recommendation #5 | Aligning the MREL and TLAC frameworks more closely, including reducing the complexity of MREL, and limiting undue interactions between the going- and gone-concern frameworks |
| Recommendation #6 | Refocusing EU prudential law from directives to regulations, increasing harmonisation and regulatory transparency, and streamlining level 2 and level 3 acts |
| Recommendation #7 | Simplifying the EU-wide stress test, streamlining the methodology and increasing the usefulness of results from both a system-wide and bank-specific perspective |
| Recommendation #8 | Making the ECB Governing Council responsible for taking a holistic view of the overall level of capital demand within and across the banking union, while fully adhering to the principle of separation of competences (macroprudential policy decisions should remain at national level) |
| Recommendation #9 | Finalising the savings and investment union and completing the banking union to reduce national fragmentation and allow for more efficient capital markets |

²⁴ *Simplification of the European prudential regulatory, supervisory and reporting framework*, European Central Bank, December 2025; *Governing Council proposes simplification of EU banking rules*, ECB press release, 11 December 2025 (www.ecb.europa.eu).

| Recommendations on simplifying the European supervisory framework | |
|---|---|
| Recommendation #10 | Strengthening and completing the Single Rulebook to simplify and harmonise supervisory practices and help deepen the internal market in banking |
| Recommendation #11 | Reconsidering the level of prescriptiveness of legislation governing supervisory processes to identify areas where more risk-based approaches can be implemented |
| Recommendations on simplifying the European reporting framework | |
| Recommendation #12 | Encouraging European authorities to foster mutual data sharing (e.g. by operationalising the Better Data Sharing Regulation) and promoting a regular coordination of EU-level data collections (through an EBA-led change management process and via the Joint Bank Reporting Committee (JBRC) under common rules of procedure) |
| Recommendation #13 | Formulating a long-term vision within the JBRC, which would include monitoring the progress of initiatives to establish a fully integrated reporting system at European level for statistical, prudential and resolution purposes |
| Recommendation #14 | Defining a supervisory tolerance margin for minor errors to be disregarded |
| Recommendation #15 | Publishing an inventory of non-market sensitive reporting requirements imposed on banks – the European Commission should ensure such publication either directly or by mandating the relevant authorities through level 1 regulation |
| Recommendation #16 | Establishing explicit obligations to conduct periodic assessments to validate the relevance and up-to-dateness of reporting requirements, based on objective criteria |
| Recommendation #17 | Fundamentally reforming the EU public disclosure process by terminating the parallel transmission of supervisory and disclosure data |

Source: European Central Bank, December 2025.

The above recommendations have been presented to the European Commission, which intends to publish a report assessing **the overall situation of the EU banking system** in the Single Market, including the evaluation of the European banking sector’s competitiveness (as announced in the Commission communication of March 2025 on the savings and investment union²⁵). In February 2026, the Commission launched a two-month consultation on the competitiveness of the EU banking sector.²⁶ The results of this consultation will be the basis for the above report on the EU banking system, which is scheduled for the third quarter of 2026.

In December 2025, along with the above Task Force’s recommendations, the ECB also published its **report on streamlining European banking supervision**.²⁷ The report outlined several initiatives and planned measures under the SREP reform and the Next-level supervision project, which were launched in 2024 and 2025, respectively. One of the matters raised in the ECB report was the need to focus on **proportionality in reporting for SNCIs**. The ECB will work on integrating the SNCI concept within

²⁵ *Savings and Investments Union: A strategy to foster citizens’ wealth and economic competitiveness in the EU*, European Commission, Brussels, 19 March 2025.

²⁶ *Consultation document: Targeted consultation on the competitiveness of the EU banking sector*, European Commission, Brussels, 11 February 2026.

²⁷ *Streamlining supervision, safeguarding resilience: the ECB’s agenda for more effective, efficient and risk-based European banking supervision*, European Central Bank, December 2025.

the ECB FINREP regulation. The ECB actively supports the EBA's work on further reductions of disclosure requirements for SNCIs and it will review, in cooperation with the EBA, the frequency of certain templates for SNCIs (set in the implementing technical standards), risk-based reporting triggers, etc. Moreover, proportionality in supervision for **less significant institutions (LSIs)** will also be reviewed by the ECB and this review is to examine the sub-set of LSIs included in the existing SNCI framework. Finally, the ECB and national supervisors will continue their work on reinforcing the use of proportionality already granted by the existing framework, which covers the frequency and depth of the SREP assessment, internal assessment processes (ICAAP/ILAAP), sector-wide stress testing, etc.

In terms of **timeline**, the above-mentioned SREP reform is expected to be completed in 2026, and the Next-level supervision project is to be implemented in 2026 and beyond. This year and next, the ECB envisages the following initiatives to enhance proportionality:

- By mid-2026: Reviewing application of proportionality in supervision of LSIs and especially SNCIs;
- By mid-2027: Introducing the SNCI category in the ECB FINREP regulation (however, it depends on EBA work on reporting requirements for SNCIs).

Part III. Situation in Poland

1. Current supervisory practice

In Poland, the fulfilment of the SNCI criteria set out in the CRR is assessed by the Polish Financial Supervision Authority (KNF). The KNF decided that **all cooperative banks that are participants of the institutional protection schemes** (the IPS of the BPS or SGB groups) will be **classified as SNCIs**. Polish cooperative banks that operate outside IPS have not been recognised as SNCIs, even though their assets do not exceed EUR 5 billion.

In the Polish context, it is worth considering the ECB's proposals to simplify the European regulatory, supervisory and reporting framework, in particular Recommendation #3, which envisages a gradual increase in proportionality in the EU within the current regime for SNCIs. In the ECB's opinion, this could be achieved, among other things, by **raising the current threshold**, which is one of the criteria for qualifying an entity as a SNCI. In the EU provisions introduced under the CRD V / CRR II package (2019), this threshold is **EUR 5 billion** and applies to the bank's total assets. Analogous thresholds in other countries are much higher, e.g. USD 10 billion in the United States, CHF 15 billion in Switzerland or GBP 20 billion in the United Kingdom. The ECB's proposal is therefore heading in a similar direction, and its effect is to **include more banks in the SNCI system**.

Raising the threshold would be **neutral for Polish cooperative banks** since all entities in this sector have significantly lower assets than the current EU limit of EUR 5 billion. According to the latest KNF data, the total assets of Polish cooperative banks at the end of 2025 amounted to about PLN 268 billion, i.e. EUR 63 billion (an increase of more than 11% over the year). This gives an average of about PLN 550 million or EUR 128 million (there are 488 cooperative banks in Poland). More than two-thirds of all cooperative banks in Poland have assets of PLN 300-500 million, and less than 10% of these banks have assets exceeding PLN 1 billion (the total assets of the largest Polish cooperative bank amount to approximately PLN 6 billion, i.e. EUR 1.4 billion).

2. Proposals of the cooperative banking sector

Keeping in mind the experience of other countries and proposed actions in the EU, Polish institutions should also join the debate on **simplifying regulations for small banks, including cooperative banks**. In particular, from the Polish point of view, such simplifications could include the following solutions:

- Reduced reporting frequency and simplified reporting forms;
- Reducing the number of capital and liquidity ratios that smaller banks must calculate and report (including simplifying the calculation of risk-weighted assets);
- Replacing some complex ratios with simpler ones;
- Simplifying the capital buffer system;
- Reducing and simplifying stress testing;
- Reduced frequency of internal assessment processes (regarding capital and liquidity adequacy) as part of the supervisory review and assessment process;
- Reduced frequency of comprehensive risk assessments conducted by internal audit;
- Removal of detailed outsourcing requirements.

In view of the above, **we appeal to national regulatory and supervisory authorities to actively engage in the ongoing work in the EU on regulatory simplification**, and in particular in actions aimed at implementing the above-mentioned postulates in relation to the Polish cooperative banking sector. It is also crucial **to avoid gold-plating** when transposing EU regulations into Polish law, i.e. adopting excessive regulations that do not stem from EU solutions.

Some proposals on regulatory simplification for smaller banks were formulated during discussions held in various forums within the Polish cooperative banking sector in 2025. The discussions highlighted **the need to restore proportionality in the supervisory authorities' approach to cooperative banks**, and the following proposals were formulated:

- Taking into account by the supervisory authority (KNF) the non-complex nature of cooperative banks and applying specific and proportionate solutions to them, e.g. issuing by the KNF **separate and simplified recommendations for small banks** and applying EBA guidelines to an adequate extent;
- Extending **the SNCI status to all cooperative banks**, including those operating outside institutional protection schemes (IPS);
- Modifying the Bank Guarantee Fund's approach to **identifying critical functions** in cooperative banks by appropriately raising the limit on deposits accepted by these banks from central or local governments, as well as differentiating the limits depending on the territorial scope of individual cooperative banks – in March 2026, the limit of PLN 100 million was raised to PLN 200 million, but a mechanism for periodic verification of this limit should be established, including specific conditions under which the limit would be raised;
- Changing the approach to the **assessment of risk management** (especially regarding credit risk and interest rate risk) in affiliated cooperative banks and independent cooperative banks, where there are no requirements tailored to the specific nature of these entities and the expectations of the Polish supervisory authority are sometimes too extensive (a similar problem concerns the area of **reporting**).

Finally, it should be emphasized that the security of cooperative banks is constantly supported by the affiliating banks (BPS and SGB) and monitored by the institutional protection schemes – this applies to the vast majority of the Polish cooperative banking sector.

Annex 1.

Regulation (EU) No. 575/2013 of the European Parliament and of the Council – selected provisions on definitions and derogations for small banks

Article 4(1)

(145) ‘small and non-complex institution’ means an institution that meets all the following conditions:

- a) it is not a large institution;
- b) the total value of its assets on an individual basis or, where applicable, on a consolidated basis in accordance with this Regulation and Directive 2013/36/EU is on average equal to or less than the threshold of EUR 5 billion over the four-year period immediately preceding the current annual reporting period; Member States may lower that threshold;
- c) it is not subject to any obligations, or is subject to simplified obligations, in relation to recovery and resolution planning in accordance with Article 4 of Directive 2014/59/EU;
- d) its trading book business is classified as small within the meaning of Article 94(1);
- e) the total value of its derivative positions held with trading intent does not exceed 2% of its total on- and off-balance sheet assets and the total value of its overall derivative positions does not exceed 5%, both calculated in accordance with Article 273a(3);
- f) the institution’s consolidated assets or liabilities relating to activities with counterparties located in the European Economic Area, excluding intragroup exposures in the European Economic Area, exceed 75% of both the institution’s consolidated total assets and liabilities, excluding in both cases the intragroup exposures;
- g) the institution does not use internal models to meet the prudential requirements in accordance with this Regulation except for subsidiaries using internal models developed at the group level, provided that the group is subject to the disclosure requirements laid down in Article 433a or 433c on a consolidated basis;
- h) the institution has not communicated to the competent authority an objection to being classified as a small and non-complex institution;
- i) the competent authority has not decided that the institution is not to be considered a small and non-complex institution on the basis of an analysis of its size, interconnectedness, complexity or risk profile.

CHAPTER 5. Derogation for small and non-complex institutions

Article 428ai

Derogation for small and non-complex institutions

By way of derogation from Chapters 3 and 4, small and non-complex institutions may choose, with the prior permission of their competent authority, to calculate the ratio between an institution's available stable funding as referred to in Chapter 6, and the institution's required stable funding as referred to in Chapter 7, expressed as a percentage.

A competent authority may require a small and non-complex institution to comply with the net stable funding requirement based on an institution's available stable funding as referred to in Chapter 3 and the required stable funding as referred to in Chapter 4 where it considers that the simplified methodology is not adequate to capture the funding risks of that institution.

Annex 2.

Comparison of the criteria and scope of application of simplified capital and liquidity requirements for small banks in Europe and the United States

| | EU | Switzerland | United States | United Kingdom | Germany |
|----------------------------------|--|--|---|--|--|
| | CRD V / CRR 2 package | Small Banks Regime | Community Bank Leverage Ratio | Strong and Simple Framework | BaFin & Bundesbank non-paper |
| | 2019 | 2019 | 2019 | 2024 / 2027 | 2025 |
| Main eligibility criteria | Total assets < EUR 5 billion | Total assets < CHF 15 billion | Total assets < USD 10 billion | Total assets < GBP 20 billion | Total assets < EUR 10 billion |
| Capital simplifications | Simplified counterparty credit and market risk calculation | Lifting of RWA calculation and related capital buffers, introduction of leverage ratio requirement | Simplified method of calculating the leverage ratio: Tier 1 capital / average total consolidated assets | Lifting of Basel III market risk capital requirements, counterparty credit risk and CVA calculation, simplifying the market risk framework | Lifting of RWA calculation and related capital buffers, introduction of leverage ratio requirement |
| Liquidity simplifications | Simplified NSFR requirement | Lifting of NSFR requirement | – | Lifting of NSFR requirement (if retail deposit ratio > 50%), lifting of Pillar 2 liquidity add-ons | Replacing the NSFR with a simple loan-to-deposit ratio |

Source: Own elaboration based on: S&P Global (European Banking Brief) and OCC (US Treasury), Federal Reserve and FDIC.