

To

European Commission
Submitted via “have your say” website

Date: April 19th, 2026

Reference: Targeted consultation on the competitiveness of the EU banking sector

Dear European Commission,

With reference to your targeted consultation on “the competitiveness of the EU Banking Sector” dated 11 February 2026, we are pleased to hereby submit the response of our association, representing ESMA registered Credit Rating Agencies.

Our response focuses on the only question directly relating to credit ratings which states the following:

Question 46: Exposures to Member States’ central governments, or third country jurisdictions assessed as equivalent, when denominated and funded in domestic currency, receive a 0% risk weight under the Capital Requirements Regulation, as provided for by the international standards. Such 0% risk weight applies regardless of credit rating, exempts the sovereign bonds from large exposure requirements, and classifies them as high-quality liquid assets. However, this treatment does not apply to sovereign exposures denominated in Euro issued by non-Euro Area Member States. Should that treatment be expanded to sovereign exposures issued by non-Euro Area Member States and denominated in Euro and how would this affect the holdings of sovereign debt by banks? Please elaborate.

We first would like to recall the international standards linked to sovereign exposures, which provides for the following risk weights depending on the external rating¹:

Risk weight table for sovereigns and central banks						Table 1
External rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk weight	0%	20%	50%	100%	150%	100%

¹ See page §20.7 and 20.8 on page 251 of the Basel III standard available here: <https://www.bis.org/baselframework/BaselFramework.pdf>

This international standard further mentions that “at national discretion, a lower risk weight may be applied to banks’ exposures to their sovereign (or central bank) of incorporation denominated in domestic currency and funded⁴ in that currency.”

The international standards therefore allow for the application of a lower risk weight and does not necessarily mandate the use of a 0% risk weight for exposures denominated and funded in domestic currency.

In the BIS discussion paper entitled “the regulatory treatment of sovereign exposures” dated December 2017, the BIS states the following: “Most notably, the risk-weighted framework includes a national discretion that allows jurisdictions to apply a 0% risk weight for sovereign exposures denominated and funded in domestic currency, regardless of their inherent risk. This discretion is currently exercised by all members of the Committee.”²

The EU Capital Requirements Regulation included in its Article 114 (5) the same preferential treatment to “exposures to the central governments or central banks of Member States denominated and funded in the domestic currency of any Member State” until 31 December 2017 with a gradual phase out until 2020.

The current proposal by the European Commission to apply the preferential treatment to “sovereign exposures issued by non-Euro Area Member States and denominated in Euro” would result in reinstating the former practice but limiting it to Euro denominated debt only.

We believe that sovereign exposures are not risk free and that sovereign exposures denominated in non-domestic currencies carry the additional risk of currency movements. We therefore don’t support the envisaged proposal to treat Euro denominated exposures issued by a non-Euro sovereign. Additionally, the proposal would represent a major deviation from the international standards, thereby increasing the EU non-compliance with these international standards.

We thank you for your kind consideration of this response.

² See page 5 in the document available here: <https://www.bis.org/bcbs/publ/d425.pdf>