Ref. Ares(2026)8836398 - 17/09/2026

To: The European Commission

From: Finance Iceland

17 September 2026

Finance Iceland Comments: Competitiveness in the single banking market

Finance Iceland welcomes the European Commission's continued focus on strengthening the competitiveness of the European banking sector and further developing the Single Market for financial services.

A strong, resilient and competitive banking sector is essential for Europe's wider competitiveness. Banks play a central role in financing households, businesses, investment and innovation. It is therefore important that the regulatory framework not only safeguards financial stability and confidence in the financial system, but also enables financial institutions to operate efficiently, innovate and support economic growth.

Simplification without compromising resilience

Finance Iceland strongly supports the Commission's objective of simplifying the regulatory framework and reducing unnecessary complexity and administrative burden. [1]

The European regulatory framework for financial services has developed significantly over the past years, much of it for good reason. At the same time, the cumulative effect of new and increasingly detailed requirements should be kept under continuous review.

Simplification should not be understood as lowering prudential standards. Well designed simplification can, on the contrary, contribute to a more effective regulatory framework by making requirements clearer, more coherent and easier to implement and supervise.

Complexity can itself create operational challenges, increase compliance costs and divert resources away from activities that support customers, innovation and the financing of the

[1] Similar concerns have been raised by Nordic authorities, including in separate joint letters from the Nordic financial supervisory authorities in 2024 and the Nordic resolution authorities in 2025. Both initiatives underline the importance of a simpler, more proportionate and risk- based regulatory framework, while preserving financial stability.

economy. Regulation should therefore be proportionate to the risks it seeks to address and should avoid unnecessary duplication or overlapping requirements.

Proportionality and smaller markets

The principle of proportionality is particularly important from the perspective of smaller financial markets. Iceland participates in the European financial services framework through the EEA Agreement and Icelandic financial institutions are therefore subject to substantially the same regulatory framework as institutions operating in much larger European markets.

The underlying regulatory objectives are equally important irrespective of market size. However, the cost and operational impact of highly complex regulatory requirements can be proportionately greater for small institutions operating in small markets.

When considering measures to enhance proportionality for smaller and less complex institutions, Finance Iceland encourages the Commission not to automatically exclude institutions solely on the basis of their designation as domestic systemically important institutions. This is particularly relevant in smaller European banking systems, where institutions may be systemically important nationally while remaining comparatively small and less complex within the European banking sector.

Finance Iceland therefore encourages the Commission to continue considering the practical and cumulative impact of regulation on institutions of different sizes, business models and operating environments. Proportionality should be a practical consideration throughout the regulatory framework rather than an exception applied only in limited circumstances.

Consistency and the functioning of the Single Market

A competitive European banking market also requires a high degree of consistency in the application and implementation of common European rules.

National additions to European requirements, “gold-plating”, can increase complexity, create unnecessary costs and contribute to fragmentation of the Single Market. Such national requirements may be particularly burdensome in smaller markets. As noted in the Commission’s work on banking competitiveness, such „gold-plating“ in many cases comes on top of other country-specific regulatory and fiscal burdens, including special bank taxes and sector-specific levies, further increasing the cumulative cost and complexity faced by banks operating within the Single Market.

In this context, Finance Iceland considers it important that European initiatives aimed at simplification are supported by a consistent approach at national level, with due consideration given to proportionality, competitiveness and the effective functioning of the Single Market.

A regulatory framework for a competitive Europe

Europe has built a strong and resilient financial regulatory framework. Continued attention to its *effectiveness, proportionality* and *coherence can* help ensure that the framework also supports Europe's capacity to compete, invest and grow.

Finance Iceland therefore welcomes the Commission's emphasis on *competitiveness*, *simplification*, *proportionality* and further integration of the Single Market for banking.

A clear, proportionate and coherent regulatory framework can support both resilience and competitiveness.

Finance Iceland looks forward to the Commission's further work in this area and supports continued efforts to identify opportunities to simplify the regulatory framework, reduce unnecessary burdens and fragmentation, and ensure that European financial regulation remains fit for purpose in markets of different sizes and characteristics.

Finance Iceland

Íris Björk Hreinsdóttir

Íris Björk Hreinsdóttir

General Counsel / Director of Legal Affairs

iris@sff.is