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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
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**Executive Summary of the Roundtable on Balancing Prudential Regulation and
Competition Considerations in Banking**

Annex to the Summary of Record of the 147th meeting of the Competition Committee

5 December 2025

This Executive Summary by the OECD Secretariat contains the key findings from the discussion of the Roundtable on Balancing Prudential Regulation and Competition Considerations in Banking held during the 147th meeting of the Competition Committee on 1-5 December 2025.

More information related to this discussion can be found at
<https://www.oecd.org/en/events/2025/12/balancing-prudential-regulation-and-competition-considerations-in-banking.html>

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Executive Summary of the Roundtable on Balancing Prudential Regulation and Competition Considerations in Banking

By the Secretariat¹

On 5 December 2025, the OECD Competition Committee held a meeting to discuss balancing prudential regulation and competition considerations in banking. Considering the background note prepared by the OECD Secretariat, the written contributions, and the discussion, the following key points emerged:

1. Prudential regulation underpins financial stability but fundamentally shapes competition in banking markets.

Banking systems are inherently vulnerable due to maturity transformation, asymmetric information, and interconnectedness, which can amplify shocks and undermine confidence. Prudential regulation, particularly licensing, activity restrictions, and capital requirements, is therefore indispensable to ensuring stability, protecting depositors, and maintaining the flow of credit to the real economy. At the same time, these rules shape market structure by influencing entry, expansion, and the viability of different business models. As a result, prudential frameworks do not only safeguard stability; they also play a decisive role in determining how competitive and dynamic banking markets are over time.

2. The relationship between prudential regulation and competition involves both tensions and complementarities.

The discussion highlighted a fundamental “in-or-out” dilemma in the design of prudential frameworks. Expanding the regulatory perimeter can strengthen resilience but may raise barriers to entry and expansion, while leaving firms outside the perimeter may support contestability but create stability risks if those firms become systemically relevant. Despite these tensions, prudential regulation and competition can also be mutually reinforcing. Prudential regulation can reduce information asymmetries and enhance market confidence, supporting effective competition. In turn, competition can improve efficiency, foster innovation, and reduce reliance on a small number of dominant institutions. The key policy challenge is therefore one of calibration: ensuring that prudential tools support stability without unnecessarily restricting rivalry and market dynamism.

3. Certain areas of prudential design raise particularly acute risks for competition, especially in periods of stress.

The roundtable identified a number of domains where trade-offs are most pronounced. Capital requirements, while critical for absorbing losses, can act as a significant barrier to entry or expansion, particularly for smaller or newer institutions if not proportionately designed. The scope of permissible activities also shapes competition, especially as digitalisation enables new forms of service provision and entry by non-bank actors. Partnerships between incumbents and new entrants can generate efficiencies but may also entrench existing market positions, steer innovation along incumbent-preferred paths, and blur regulatory boundaries.

¹ This Executive Summary does not necessarily represent the consensus view of the Competition Committee. It does, however, encapsulate key points from the discussion, the delegates’ written submissions, and the panellists’ presentations.

Particular attention was given to crisis-driven interventions. Stabilising mergers and public support measures may be necessary to preserve confidence in the short term, but they can have lasting consequences for competition and contestability. Consolidation driven by stability concerns may increase concentration, reinforce “too-big-to-fail” dynamics, and create expectations of future support, including risks of “rescuing the rescuer” in subsequent crises. These dynamics can reshape market structure for decades and raise barriers to alternative business models. This underscores that prudential responses to crises, while essential, must be carefully calibrated to avoid entrenching incumbency and weakening competitive pressures over the longer term.

4. Promoting contestability through proportionate, risk-based frameworks is central to balancing prudential regulation and competition.

A recurring theme in the discussion was the importance of contestability as a guiding principle for assessing competition in banking. Beyond static indicators such as concentration, contestability, captured through the ease of entry, expansion, and orderly exit, offers a more reliable proxy for effective competition in banking markets. Prudential frameworks can support contestability when they are proportionate to risk, scalable across institutions of different sizes and business models, and regularly reviewed to avoid becoming unnecessarily restrictive. Measures such as tiered licensing, risk-based capital requirements, and tailored regulatory pathways for new entrants can help preserve competitive dynamics while maintaining resilience.

Equally important are credible exit and resolution regimes, which play a pro-competitive role by enabling the orderly failure of inefficient institutions without destabilising the system. By making exit feasible, such frameworks reduce reliance on consolidation as a crisis response and limit the build-up of “too-big-to-fail” expectations. Together, these elements help ensure that prudential regulation supports both trust and market openness.

5. Effective co-ordination across authorities is essential in an evolving and increasingly interconnected financial ecosystem. Banking markets are shaped by a wide range of policy domains, including prudential supervision, competition enforcement, consumer protection, and data governance. As financial services become more digital and interconnected, these domains increasingly overlap, and decisions in one area can have significant implications for others. The discussion emphasised that sustained co-operation between authorities is therefore critical to identifying trade-offs early, designing coherent policies, and avoiding unintended consequences. Institutional arrangements such as formal co-operation agreements, joint analyses, and regular dialogue can support better alignment of objectives. Ultimately, maintaining banking systems that are both stable and competitive requires co-operation across policymakers and enforcers to ensure that regulatory frameworks remain proportionate, adaptable, and supportive of innovation and long-term consumer welfare.