

SIMPLIFYING EU BANKING REGULATION



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Clearer, Smarter, Leaner, Stronger: simplification is not de-regulation

Over the last fifteen years, the European Union has made significant efforts to increase the resilience of its financial system. We can be proud of the progress that we have made so far both in terms of regulation, as the final package of Basel 3 has been implemented with the entry into force of CRR3, and supervision, with the successful integration of the Single Supervisory Mechanism. The European banking system has withstood the Covid-19 crisis, the subsequent high inflation and interest rate hike cycle and the 2023 banking turmoil. Its resilience is a testament to the hard work of European supervisors, regulators and bankers.

This success should not prevent us from reflecting on ways to improve, by simplifying, our regulatory and supervisory framework. Calls for simplification are ubiquitous these days, and it is most certain that not everyone understands it the same way. As EU supervisors though, we cannot stress enough that simplification should not mean deregulation, but more effective and efficient regulation. The EU has

been a leading force behind the Basel 3 framework, which should remain the cornerstone of banking regulation in all jurisdictions.

A first step towards simplification should be to conduct a “holistic” assessment of all the standards that apply to EU banks, including level-2 and level-3 texts. This work should encompass micro-prudential, macro-prudential, resolution requirements and help us identify areas where the cumulative layers of regulation have produced unintended consequences, in the form of undue complexity or additional requirements, with no value added for financial stability.

Without pre-empting the conclusions of such an assessment, there are already some well-identified areas with high potential for simplification.

As the recent EBA stacking order and capital buffers report clearly shows, there are many more overlapping layers of capital requirements and triggers of automatic restrictions on distributions in Europe than in other jurisdictions, and these features are not mandated by Basel 3. Comparisons can be misleading, but they can also give us food for thought as they shed light on EU-specific added complexities. Obvious first steps in that simplification direction would be for example to align the European MREL requirements with the Basel TLAC requirements for large banks or to streamline the multiple parallel MDA triggers, which can create uncertainty in the forward-looking management of capital.

Simplification should not mean deregulation, but more effective regulation.

Securitisation is another telling example where simplifying the current EU framework, while maintaining the important safeguards that were introduced after the 2007-08 financial crisis, could contribute to reviving the market and therefore enhancing banks’ capacity to finance the green and digital transitions. As detailed in a recent position paper by the Banque de France and the ACPR¹, several

simplification levers could be activated, such as more proportional due diligence requirements, streamlined transparency requirements, enhanced supervisory convergence or more efficient SRT process. The fast track pilot project recently announced by the SSM is, in this respect, a step in the right direction.

More fundamentally, another well-known EU-specific complexity lies in the fact that our Banking Union is still incomplete. We need to finally start making progress on cross-border banking integration within the European Union. To that end, we should remove existing obstacles to cross-border liquidity and capital flows, with sufficient guarantees in terms of intra-group support; and we should set up a hybrid deposit guarantee system to ensure European support for national systems as a last resort.

Lastly, we as supervisors need to pursue our efforts to simplify and streamline our supervisory practices, towards a more risk-based approach. With the “SREP of tomorrow”, the SSM has rightly begun to do so, with greater prioritisation of supervisory activities and a much shorter process. Besides, there is room for further simplification of existing processes, for instance by standardising supervision tools at the SSM level, as this will make the best use of resources and enhance efficiency, or fine-tuning the organisation between vertical and horizontal supervisory activities, in order to reduce the ‘prudential burden’ for both banks and supervisors.

Simplifying the EU regulatory framework is a most daunting task, but it is essential to ensure that the complexity of our framework does not act as an obstacle to our policy goals.

1. *All-hands-on-the-green-deck-BDF-ACPR-position-paper-on-securitisation.pdf*



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Prudential regulation strengthens European financing and financial stability

Bank Resilience comes from Stability

Over the past several years, the European banking sector has remained resilient to shocks and experienced limited direct impact, despite the elevated uncertainty, arising particularly from geopolitical and cyber risks. At the same time, lending has continued to support economic activity and contributed to absorb the most adverse impacts of some of the shocks confronting EU firms. This has been built on the foundation of financial stability that we have fostered through the implementation of post-GFC regulation.

It was these very conditions that allowed banks to weather the COVID-19 pandemic; preventing a health and economic crisis from turning into a financial crisis. Banks were able to support customers and firms with liquidity, which also subsequently ensured a quick rebound of the economy. The revamped regulatory framework also provided for resilience to the shocks of the Russian invasion of Ukraine, which triggered wider

geopolitical tensions, driving up energy prices and intensifying inflationary pressures across the globe. Equally, following the banking crisis in March 2023, it was these Basel rules that helped prevent broader financial contagion.

Throughout this time, EU banks have maintained strong capital positions as well as achieving historically high profitability in 2024. The capital and liquidity positions of EU Banks are strong. The CET1 ratio stood at 16.0% and the leverage ratio at 5.7% as of June 2024, comfortably above the regulatory requirements. LCR also remained at robust levels of 161%, with NPLs remaining at historic lows.

The Net Benefit of implementing the Banking Package

As structurally leveraged institutions, banks need sufficient capital to absorb shocks, but too much can result in a higher cost for the economy and hamper future investment.

Firstly, the robust regulatory framework provided strengthens the governance and the measurement of risks, which allows banks to be better equipped to take good credit decisions and adequately manage their risk. Secondly, macroeconomic impact assessments performed by the EBA, ECB and competent authorities, show that these regulatory reforms have only short-term economic costs, which are far outweighed by the long-run benefits coming from a reduction in the frequency and severity of financial crises.

**Resilience and
competitiveness come
from the stability
Basel provides.**

Lastly, no evidence shows the cost of regulation has led to credit being rationed, with evidence pointing that, on the contrary, credit supply flows well when banks are strong, and those banks with higher capital ratios are better able to support the economy through an economic cycle.

Creating a Globally Effective and Efficient Regulatory Framework

The EU is implementing the Basel III standards, and the EBA is supporting this trajectory through the delivery of its assigned mandates. While there is a clear pathway of implementation ahead of us in the EU, it is essential this is mirrored across jurisdictions to ensure global

financial stability and a level playing field. Remaining uncertainties on content and timing threaten the global compromise reached. The full benefits of Basel III may only be realised if the standards are implemented as intended by all member jurisdictions.

At this juncture, more than a decade has passed since the GFC, and it is high time to implement what has been already agreed and follow the most recent GHOS pledge to implement Basel III in full and consistently. Only then will it be an appropriate point to monitor and provide for certainty within the framework. We should continue to work together for a set of common standards that will preserve open financial markets and capital flows across the world.



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Fighting red tape in EU financial services regulation

At the beginning of her new mandate, the Commission President has announced a remarkable change of course: competitiveness, simplification and burden reduction have become the new political objectives of the new European Commission. This change is arguably more than welcome and also overdue, given how much Europe's industry and also Europe's financial services sector have lost ground over the past couple of years.

While everyone can agree in principle with the notion of cutting unnecessary red tape and burdensome reporting obligations, the matter tends to get more complicated when one gets into the weeds of things. With the omnibus proposals aiming to reduce non-financial reporting obligations, the Commission has proven that they mean business, yet those proposals have proven controversial among some stakeholders and the jury is still out if they are going to be implemented quickly.

A critical stocktake

While addressing the burdensome sustainability reporting and due diligence requirements is a welcome first step, we must not stop there. On

the contrary, following its simplification agenda, the European Commission should conduct a critical assessment of the Union's entire body of financial services regulation to identify unnecessary complexities and red tape. In that context, the Commission should also not shy away from giving recently adopted legislation such as the most recent iteration of CRD/CRR another hard look. It is widely considered that the European approach to implementing Basel III is among the most complex in the world, which is particularly problematic as other large players such as the United States are increasingly unlikely to implement the Basel III finalisation package in the first place. Arguably, such a stocktake cannot be done by Commission officials alone, but should be based on a broad stakeholder consultation in order to identify those elements that cause the biggest amount of administrative burden.

A new accountability framework for the ESAs

Such a critical stocktake of the body of EU financial services legislation should not stop at the level of Directives and Regulations, but should also look at delegated and implementing. Often such implementing legislation contains highly technical, and often highly onerous provisions. The same goes for so called level 3 legislation taking the form of guidelines or Q&As prepared by the three European Supervisory Authorities. For such measures, the ESAs enjoy a high degree of freedom as there are no political checks and balances. In the past, this has sometimes resulted in ESA guidelines being excessively complex and burdensome.

**The ESAs should be
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This insight also leads to broader and more fundamental questions about the decision-making process within the ESAs. When it comes to designing guidelines or Q&As, the only level of accountability is the Board of Supervisors, who tend to judge any proposals only by financial stability standards and often overlook general competitiveness or proportionality aspects completely. Against that background and to achieve a more holistic perspective in EU policymaking, we need to think about a new accountability framework for the European Supervisory Authorities

that at the very least also involves the European Commission in the design of level 3 measures.

Fight against goldplating

While the European Supervisory Authorities can be a little overzealous in some areas, there are other where they have been too timid or have not had the right tools. One of the ESAs' most important jobs is to achieve supervisory convergence. One key element of supervisory convergence is to make sure that national supervisors do not stack up additional requirements on top of already burdensome European rules. Addressing and ultimately preventing such instances of so-called "Goldplating" would already go a long way in fostering Single Market integration and would enable companies to operate across borders much more easily. The general rule should be that - unless otherwise and explicitly permitted - that the level of ambition targeted in any Directive should be the level of ambition that Member States are implementing, not more, not less. While the Commission has some tools at its disposal to foster Single Market integration, most notably infringement procedures, they can be quite heavy handed and lengthy. In order to tackle "lesser" violations that do not quite rise up to the level of an infringement procedure, the ESAs should be given an effective toolkit to deal with instances of "Goldplating". Such a reform should feature prominently in any new ESA review.



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Towards a more competitive banking regulation in Europe?

Stability oriented prudential regulation

Since the GFC the European banking regulation has focused on improving risk-based regulatory capital and capital management. As risk detection and mitigation are the main goals of prudential regulation, European banks are now much closer to the point when higher risk activities cannot go undetected and unaddressed. Greater risk sensitivity and granularity has clearly made the European financial system safer and more stable.

Basel 3 and its implementation through CRR3 are the most recent landmark steps in this direction. A much more integrated supervisory landscape additionally reinforces the resilience of the sector. The underlying ultimate objective is clear: only a well-capitalised banking sector equipped with sophisticated risk mitigation tools can sustainably serve the economy and spare the society externalities associated with excessive risk-taking.

No space for simplification in the current regulatory paradigm

The very notion of regulatory simplification does not sit comfortably

with this direction of consistent regulatory developments based on the course chosen several years ago. Simplification can help eliminate some of its most vexing complexities. MDA triggers in the incremental stacks for solvency and resolution purposes may serve as an example. However, arguably such complexities are not a flaw of the system but rather its intended characteristics. What now may be approached as excessively complex technicalities has been meant to reinforce sophistication of the regulatory paradigm.

Excessive stability at the price of competitiveness

Yet there is a price to pay for the increased systemic stability and resilience, a cost for all the regulatory sophistication cherished and developed since the GFC. Low risks inescapably entail low returns. They are not conducive to innovation because innovation always requires risk-taking. Banks certainly have a significant role to play in covering European investment needs. However, the evolution of the regulatory landscape in Europe has not stimulated modern investment banking activities. Quite to the contrary, it has contributed to very conservative approaches to risk-taking in banking activities. And very conservative business models promoted by the European regulatory paradigm may not be in a position to proactively seek potentially more profitable business opportunities.

This point leads to another one, related to compliance costs and global competition. Risk detection and mitigation entails additional compliance costs. This is precisely why the US Basel III Endgame, proposed by the Biden administration, met with such a huge resistance from US banks before it was abandoned immediately after the Trump administration had taken over.

One can denounce the US policy choice as potentially undermining financial stability, making non-EU banks more prone to excessive risks taking. But at the same time higher risk appetite and lower compliance costs make the very same banks more competitive and capable of pursuing modern investment banking activities. It makes them more profitable and expansion-ready, while the regulatory straightjacket and the resultant low risk appetite have put their EU counterparts in a more difficult position. This is arguably why the Draghi Report called the EU to “assess whether current prudential regulation, also in light of the possible upcoming implementation of Basel III, is adequate to have a strong and international competitive banking system in the EU”.

In the SIU Communication the Commission announced that it will “publish in 2026 a report assessing the overall situation of the banking system in the Single Market, including the evaluation of the banking sector’s competitiveness”. It does not promise any bigger paradigm shifts, though, while the very idea of simplification implies that only tweaks at the margins are needed. This may lull European decisionmakers into self-congratulations while non-EU banks improve their competitiveness.

Deregulation may not be the best expression for what ought to be done to prevent the EU from losing distance to front-runners – undoing regulation for the very sake of reversing previous developments may do more harm than good. We should be mindful, however, that the principles and objectives of banking regulation crucial for the system’s resilience several years ago may not be entirely adequate today. And EU regulation is still stuck with a policy paradigm undermining the very foundations of the sector’s competitiveness. With the Basel III Endgame discarded now the call expressed in the Draghi Report to review prudential regulation more profoundly should be taken very seriously.



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From regulatory simplification to regulatory efficiency

The new European Commission has outlined its strategic roadmap, the Competitiveness Compass, which translates key insights from the Draghi and Letta reports into a structured policy agenda for the upcoming years. This framework aims to align EU policies with the evolving global landscape by prioritizing strategic autonomy, reducing dependencies, enhancing security and defence, and closing the innovation gap. At the same time, it suggests starting a process of regulatory simplifications aimed at enhancing both the efficiency and quality of decision-making, while addressing the fragmentation of the single market.

Regarding the financial sector, the ongoing simplification plans are expected to rationalize existing requirements and align the current regulatory framework with EU strategic priorities, while safeguarding financial stability. These are, of course, very much welcome developments.

Over the past 15 years, regulatory enhancements, combined with banks' own efforts to improve their practices, have enabled Europe to build a highly resilient banking system. This strength was evident during the pandemic

and the crises affecting US regional banks. However, this has also led to an increasingly dense and complex regulatory framework, with multiple levels of rules and several European and national authorities involved.

Against this backdrop, the quest for regulatory efficiency could be divided into three fronts: a) addressing the multiplicity of rules; b) reducing complexity; and c) adjusting regulatory instruments and approaches.

First, the multiplicity of rules. In recent years, there has been a proliferation of regulatory layers, including Level 1 directives and regulations, Level 2 technical standards, and Level 3 guidelines ('soft law') applicable across Europe. All this adds up to national legislation (eg: to transpose EU directives) and the corresponding EU and national authorities responsible for their monitoring and enforcement.

Consequently, more often than not, the supposedly soft law becomes de facto hard law, with little distinction from Level 1 rules in practice. Finding a common ground for EU-rules cannot come at a cost of creating multiple overlays of technical standards, principles, guidelines, best practices, and similar others. Gold-plating practices also amplify the net impact of regulatory standards, making them, in practice, much more burdensome than initially anticipated.

Moreover, there are unilateral measures such as windfall taxes, that distort the level playing field, increase market fragmentation and affects banks' profitability with a consequent impact on their resilience and the provision of credit to the real economy.

A chance to rationalize existing rules, reduce complexity, and use better regulatory instruments.

Second aspect is complexity. The Commission has launched proposals to simplify ESG-related reporting and disclosures requirements. But streamlining requirements is just one part of the solution. It is also relevant to ensure consistency among requirements, simplify classifications and avoid adding up requirements without a clear cost-benefit justification.

Most importantly, there are logical technical limitations in the regulatory

approaches and metrics to deal with new risks such as ESG. The Green Asset Ratio is one clear example. It is a reality that, from a technical point of view, to design a robust and consistent metric in just a few years is a very difficult task. By means of comparison, for 'canonical' risks such as credit or liquidity risk, it took more than 50 years to develop.

Another clear area of action is securitizations. The current framework is creating obstacles for investors and institutions. It would be helpful to explore areas where more flexibility could be introduced (eg: using principles rather than rules), better align requirements with risks, and establish simpler and faster due diligence rules.

Third, choosing adequate instruments. Especially for new risks such as digital, cyber, and climate risk, it is necessary to avoid a 'capital-centric' view. Simply more capital does not seem to be the best solution for all types of risks. These new risks require more flexible, adaptive, and qualitative approaches. They are eminently dynamic and evolving. Focus on outcome-based regulations would also provide greater flexibility.

It is also essential to avoid over-interventionist approaches which can closely resemble price-based regulation. This can seriously affect commercialization of financial products and services, including insurance.

In conclusion, the new political cycle in the EU begins with extraordinary challenges. However, it also comes with a clear vision for the path that Europe should follow regarding regulation: to improve efficiency. We have a clear chance to rationalize the multiplicity of existing rules, reduce complexity, and use better and fit-for-purpose regulatory instruments for new risks.



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Less but better: simplifying EU rules for a more competitive financial sector

Regulation is instrumental in the proper functioning of economies and societies. It creates the rules of the game for businesses and markets, while protecting the rights of citizens.

Through regulation, EU institutions have also integrated the Single Market by adopting common standards that allow for frictionless trade while concurrently protecting consumers and the environment.

Over the years, the EU has developed a sophisticated regulatory system. Yet, EU regulation has been growing faster than in other advanced economies along with its complexity. The question now is how to rethink the EU's approach to regulation.

Firms operating in the EU face an intricate regulatory web which can create unnecessary constraints, stifle innovation, and hinder their competitiveness on the global stage. While this particularly affects small and medium enterprises, heavily regulated

sectors like financial services are also deeply impacted.

The development of the Single Rulebook has benefitted financial institutions by setting a common set of rules. Yet, the volume and prescriptiveness of some of these rules, coupled with the complexity and length of the regulatory process, create a significant burden for a sector that is the foundation for the competitiveness of the entire European economy.

The accumulation of legislative change often leads to very complex regimes with overlaps and inconsistencies. For instance, climate transition plans' requirements have been introduced in multiple ESG regulations with inconsistent definitions and misaligned application scopes.

This complexity is further exacerbated by the growing tendency of EU legislators to delegate rulemaking powers to regulatory agencies when political issues remain unsolved at level 1 thereby affecting legal stability and introducing economic costs without explicit political negotiations.

Furthermore, the average 18-month duration of the EU legislative process does not allow to deliver results at the needed pace, particularly in the fast-evolving digital space. Regulation usually changes on first contact with the realities of the market, so it often needs to be revised soon after application. This ultimately affects the stability of regulatory frameworks.

**Simplification shouldn't
be just about recasting,
but especially about
adopting a new approach.**

Fragmentation introduced at national level adds an extra layer of complexity. Member States regularly "gold plate" EU legislation when transposing directives while national competent authorities often interpret and enforce rules differently. This misalignment across the EU undermines the EU's common goals while creating risks of regulatory arbitrage.

Turning to the external dimension, the increasing reliance of EU legislation on extraterritorial clauses in a changing context of limited global cooperation and increased sensitivities around national sovereignty is also a source of major challenges for in-scope companies. Conflicting requirements across regions

risk inhibiting cross-border flows, such as channelling sustainable finance to where it is needed most.

Against this background, we believe that a change in approach is urgently needed. EU institutions should prioritise simplification.

We therefore welcomed the recent publication of the Omnibus package related to ESG legislation, which tables helpful proposals to streamline existing complex rules.

Yet, simplification should not be just about revisiting the stock, but especially about adopting a new regulatory approach.

Going forward, we believe that the development of new legislation should always consider the practical implications in terms of international competitiveness, and final rules should not go beyond what is necessary to achieve policy objectives. There is a difference between essential and 'nice to have'.

Second, legal clarity should not be left to technical standards, which in turn should not be used to address unresolved political issues nor to introduce measures with significant economic effects without explicit political arbitration.

Third, the supervisory approach should promote convergence and minimise fragmentation across Member States to fully reap the benefits of a single market and attract greater domestic and foreign investments.

Finally, strengthening international cooperation is of paramount importance as current regulatory challenges are global and interconnected by nature. Local rules should be consistent with international standards and strive to be interoperable.

As the Draghi report highlights, now it is time to act. The reasons behind this shift in perception have never been so compelling, and we are pleased to see that the Commission is making proposals to deliver simplification.

In this context, at Standard Chartered, we remain fully committed to engage with policymakers as they grapple with how to address today's fast-moving policy questions in a fashion that supports both growth and international coordination.



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Competitiveness of the EU financial sector: Simplifying the regulatory framework

The competitiveness of the European Union financial sector hinges on having resilient, profitable, and attractive banks that can effectively contribute to financing the economy. A competitive financial sector fosters investor confidence, creates economic growth, and plays a vital role in shaping the future of Europe's economy. However, achieving this competitiveness is increasingly challenged by the fragmentation of the single market and the complexity of the regulatory landscape. In recent years, regulations have often become a barrier to growth and innovation, as they have grown excessively complex, fragmented, and misaligned with the needs of the financial sector. Simplifying the EU regulatory framework is thus an essential task.

Regulation: A double-edged sword

Regulation can be either a powerful lever for enhancing the competitiveness of banks if it provides certainty through a clear and straightforward legal framework, or a burden if it becomes overly complex, compliance-focused

instead of risk-based, or inefficient. Complexity needs to be assessed not only in quantitative terms (the number of regulations), but also in qualitative terms (i.e. complexity in the language, or the multiple cross-references to other pieces of legislation).

Over the years, the EU's financial sector has witnessed a growing rulebook, where regulations often overlap across various levels (EU-wide, national, and local), creating fragmentation. Different jurisdictions regulate the same areas but with varying speeds, approaches, and priorities, in some cases with extraterritorial reach. Operating in such an environment creates significant challenges for international banks, particularly in managing compliance costs and aligning policies across multiple jurisdictions.

But the excessive regulatory burden is not the only obstacle that stifles competitiveness. Other challenges include the failure to complete the Banking and Capital Markets Union. Additionally, the increasing intersection of banking regulations with horizontal legislation— especially in the digital and climate change domains — requires a cross-sectoral approach, so that their design does not create additional burdens on an uneven playing field.

Prioritizing simplification for a more competitive Europe

The European Commission has rightly recognized simplification as a key objective. Through the Competitiveness Compass they have outlined a set of measures to address regulatory complexity and promote economic growth. The objective is clear: simplify EU rules, align policies across member states, and improve the speed and quality of decision-making processes.

It is time to streamline and simplify the EU financial regulatory framework for the future.

A significant part of the simplification agenda includes focusing on reducing the administrative burden. The simplification of banking rules would foster a more resilient financial system. A stable and predictable regulatory landscape that is well-understood by all stakeholders is crucial for maintaining a competitive edge in the global financial markets.

Steps toward regulatory simplification

The simplification process needs to occur across all levels of regulation— Level 1 (EU laws), Level 2 (Delegated acts), and Level 3 (Q&As and Supervisory guidelines), and in all areas (prudential, sustainability, and digital regulation). It is key that simplification at one level does not imply more regulation at another level or at Member State level. The EC should also examine regulations that are in the pipeline, assessing whether they are needed or not.

A robust impact assessment must precede any regulatory changes to evaluate not only the implementation costs, but also the overlap with existing regulations, its coherence with international standards, and the impact on the competitiveness of European banks. If certain regulations are not meeting their intended objectives, regulators should revise or discard them. The burden of the proof should lie on the part of the need to regulate.

One of the most effective ways to simplify regulation for global banks is through greater regulatory convergence, to ensure that banks do not have to comply with disparate rules in different markets. At the same time, we should avoid extraterritoriality that often implies that EU banks compete abroad with more demanding standards than local players.

Conclusion

Simplification of the EU regulatory framework is a crucial ingredient of improving the EU banking sector competitiveness. Through a combination of reducing unnecessary complexity, converging regulations across jurisdictions, and conducting thorough ex- ante and ex-post impact assessments, the EU can create an environment that fosters growth and innovation. That will not only benefit financial institutions but also ensure that Europe remains an attractive market for investment and economic activity. It is time to streamline and simplify the EU financial regulatory framework for the future.