

## SIMPLIFYING EU BANKING REGULATION



### NATHALIE AUFAUVRE

Secretary General - Autorité de Contrôle Prudentiel et de Résolution (ACPR)

### EU banking prudential framework: with wisdom comes simplification

In the aftermath of the great financial crisis, the EU succeeded in building a robust banking sector through the implementation of the Banking packages and the Banking Union. At the time, the elaboration of detailed rules was a necessity to ensure a harmonized implementation at EU level. Over the last 15 years, the body of regulation has nonetheless grown into an intricate landscape that would certainly benefit from simplification.

Simplification should uphold the principles that make the EU banking sector strong. EU must safeguard its two precious assets: the Single Market and its resilience. Two guidelines should therefore steer our action: preserve Basel compliance and remain capital neutral. Concretely, this means avoiding three pitfalls. First, simplification does

not mean deregulation. The EU sound prudential framework has shielded its banking sector in recent years, from Covid to the 2023 banking turmoil. The second trap is the status quo: the Noyer and Letta reports have clearly shown the pressing need to alleviate undue burden on EU financial institutions, and we are expected to transform this momentum into concrete changes. Lastly, the work on simplification is not about increasing capital requirements; in a context of global uncertainty, recent stress-tests prove that the EU banking sector is sufficiently capitalized.

Now, we should also beware of simplistic solutions that would prove to be detrimental to the overall soundness of the banking sector down the road. In this regard, introducing a tailoring regime in the EU is not an appropriate solution. Indeed, increasing proportionality may be appropriate when it comes to supervisory process and reporting, but we should be very cautious with proposals to water down regulatory requirements: small bank does not mean small risks. We have seen in other jurisdictions how lighter requirements prevented action on vulnerable banks and we should not give rise to fragmentation of the single market.

Similarly, we should be cautious with abstract solutions. Conceptual proposals, such as a strict separation of going and gone concern capital may not pass the reality test. We should stay in line with the intent of standards and international developments.

Our priority should be to eliminate EU goldplating and unnecessary complexity of rules and supervision, while maintaining financial stability. For instance, the current architecture for microprudential, macroprudential and resolution requirements should be reviewed in a holistic manner to neutralize overlaps and reduce uncertainty in institutions' capital planning. There are low-hanging fruits that could be implemented right away, such as removing MREL and leverage MDA triggers, dropping supervisory expectations for management buffers or aligning MREL over TLAC.

Other more technical issues warrant resolute action: dismiss any increase of Pillar 2 requirements that would come from the mere arithmetical increase of risk-weighted assets brought by the output floor, review the O-SII

methodology to better take into account the level of integration of bank activities, and drastically streamline macroprudential tools such as the Systemic risk buffer.

Supervision and reporting could also be greatly simplified without being detrimental to close monitoring of banks. We support initiatives for prioritization in the delivery of the many standards and guidelines mandated by CRR3, tangible results in risk-based SREP and quantitative objectives in reduction of the reporting burden.

**Simplification is not a brutal reversal, but an intelligent adjustment of existing foundations.**

Above all, simplification is an opportunity to strengthen further the Banking Union and the Savings and Investment Union. In spite of significant progress, the Banking Union remains incomplete due to insufficient financial integration. Ring-fencing policies count as a major obstacle toward banking integration as they unduly duplicate requirements and hinder the management of capital and liquidity at group level. The conditions are now met to ensure a safe implementation of the cross-border waivers that are needed to support cross-border consolidation. This would allow for better risk diversification and more flexible and efficient resources allocation in response to shocks. In parallel, we should continue to work towards a fast and pragmatic response mechanism to crises in the EU.

Finally, let us remember that simplification of the banking framework could also benefit the whole EU financial sector, for instance through the Commission's proposal for a more risk-based approach on securitization, which could unlock great financing potential for tomorrow's challenges.



## JOSÉ MANUEL CAMPA

Chairperson – European Banking Authority (EBA)

### Fostering simplification while preserving financial stability through efficiency

Over the last decade, Europe has taken decisive steps to strengthen its financial institutions. Today, our banks are better capitalised, more profitable and far more resilient than before the global financial crisis. This reflects the determined implementation of internationally agreed standards, including the Basel framework.

However, confronted with a complex regulatory landscape and challenging global environment, regulators and supervisors are tasked with a seemingly contradictory mission: maintaining financial stability while supporting competitiveness through simplifying the prudential framework. In my view, this is not a call for deregulation, but a plea for greater efficiency, clarity, and proportionality. These goals actually lie at the heart of the EBA's priorities.

#### Financial stability as a precondition for growth

Our first duty must be to preserve the resilience and credibility of the EU financial system. This means staying

committed to the Basel standards, which have served us well in episodes of stress. From a global pandemic to recent banking turmoil originating from overseas, our financial institutions remained stable, shielded by our sturdy regulatory and supervisory setup. Rolling back our rules could lead to weakening this resilience by reintroducing new risks. Furthermore, the EU framework provides legal certainty, predictability and credibility to our economic actors. These are preconditions to the conduct of sound, sustainable and growth-enabling business.

At the same time, there is latitude to help financial institutions take full advantage of the Single Market. Regulation should not be a barrier to cross-border activity or innovation. The time is ripe to take a long look at our framework, not to lower standards, but to ensure they are implementable, proportionate, and conducive to integration.

#### Preserving and deepening the Single Market and Banking Union

A well-functioning Single Market requires a coherent and fit for purpose regulatory framework. Rules must work in practice for both institutions and citizens. We can observe in some instances that complexity has prevented this from happening. For example, capital and liquidity waivers are consistently underused, reflecting not a lack of tools, but the difficulty of applying them on the ground. Similarly, last year's EBA report on the stacking order shed light on the intricate layering of capital and leverage requirements that banks must face. In this particular case, rules are further complicated by a complex institutional setup. Overall, this indicates that well-intentioned regulation can sometimes miss the mark when not sufficiently tailored to market realities.

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**It's not whether we have too many rules but whether we have the right rules for the outcomes we seek.**

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In light of this, a key component of our approach to simplification is making full use of proportionality. This has been a guiding principle in the EBA for years. For instance, since the establishment of its Advisory Committee on Proportionality in 2020, the EBA receives input on how to better embed this notion in regulatory products. Another example to our commitment to proportionality

is the development of a prudential regime tailored to investment firms. It ensures that rules cater to the risk profile and size of these actors. The EBA also produced two reports on the cost of reporting, identifying actions towards its reduction, with a focus on small and non-complex institutions.

What we must avoid, however, is tinkering with the framework until it becomes a patchwork of divergent interpretations. This would fragment the rulebook and ultimately undermine the Single Market.

This is why the EBA is engaging in broad reflection on all of its regulatory mandates. It will assess its Level 2 and Level 3 products with the aim of focusing efforts where they most improve clarity, efficiency, and implementation. This includes prioritising essential mandates, reviewing reporting requirements and increasing their predictability, as well as supporting supervisory convergence across the EU.

We are also engaging with EU co-legislators and stakeholders to contribute to a holistic assessment of the EU prudential framework. The question is not whether we have too many rules but whether we have the *right* rules for the outcomes we seek.

In conclusion, our goal is clear: maintain a robust and credible financial system that empowers institutions to operate efficiently across borders, thereby supporting economic growth. That means embracing efficiency without losing sight of effectiveness.



## NADINE WIEDERMANN- ONDREJ

Deputy Director General  
for Financial Market  
Regulation – Federal Ministry  
of Finance, Austria

### From burden to balance: Streamlining the EU's banking regulation

Over the past decades, the regulatory framework governing the banking sector has evolved into an increasingly complex and multi-layered system. This evolution has been triggered by horizontal expansion across various policy domains and vertical stratification across different levels of legal instruments, resulting in regulatory overlaps, inconsistencies, and redundancies. The fragmented nature of this framework imposes significant compliance costs, particularly on smaller and less complex financial institutions. While the overarching objective of this regulatory density is the implementation of common policy goals, the administrative burden is widely perceived as a constraint on the international competitiveness of European banks.

First it is important to understand that the complexity of the regulatory framework is an outcome of the process and procedures of the EU's law-making process. Because of differing national interests, EU financial rules often reflect

political compromise, leading to the inclusion of country-specific provisions or the delegation of technical detail to Level 2 and Level 3 instruments. What the Lamfalussy Process initially envisioned as a mechanism to improve legislative efficiency has, over time, resulted in a complex regulatory hierarchy.

The formulation of a rational and a systematic approach to simplification is therefore imperative starting point for any simplification efforts. Simplification must be understood not merely as the reduction of reporting requirements, but as the elimination of regulatory inconsistencies, duplication, and overlaps, and promoting a coherent regulatory approach. A comprehensive review should consider the cumulative impact of regulatory requirements on financial institutions of varying sizes and complexity, assessing not only their contribution to financial stability but also their implications for market efficiency, innovation, and competitiveness. Only through such a holistic and system-wide evaluation can regulators identify unnecessary burdens, conflicting provisions, and disproportionate compliance obligations.

The European Commission, as the initiator of legislative proposals, bears primary responsibility for ensuring that new regulatory initiatives are grounded in empirical evidence and accompanied by rigorous impact assessments. Effective interdepartmental coordination within the Commission—particularly among the relevant Directorates-General—is essential to produce coherent and integrated legislative proposals. While the development of individual legislative acts benefits from subject-specific expertise, a successful simplification initiative demands a cross-sectoral and interdisciplinary approach.

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effective regulation.**

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The principle of proportionality must be rigorously applied. However, regulatory frameworks that adopt a uniform “one-size-fits-all” approach or rely exclusively on quantitative financial thresholds overlook the systemic relevance of the regulation concerned. Accordingly, the application of the principle of proportionality must be considered within the scope and objectives of the relevant regulatory framework.

Regulatory texts should be clear, simple and predictable. Insufficient clarity at

the Level 1 legislation often leads to additional Level 2 and 3 measures that tend to add to the overall complexity of the regulatory framework. Furthermore, unexpected regulatory changes—especially those introduced before evaluating the effects of prior reforms—can add to compliance uncertainty.

A well-balanced and thoroughly prepared Commission proposal can facilitate negotiations with the co-legislators. While the legislative process remains inherently complex and subject to political contingencies, it is essential that both the European Parliament and the Council uphold the objectives of coherence, proportionality, and regulatory quality throughout the negotiation process.

Importantly, the simplification agenda is both prospective and retrospective. When evaluating existing legislation it must be acknowledged that any change—even one aimed at simplification—entails implementation costs. Nonetheless, a coherent and robust regulatory framework can itself constitute a competitive advantage for the European banking sector.

Finally, the role of digital innovation must not be overlooked. The integration of technological tools into the regulatory and supervisory processes has the potential to reduce compliance burdens through automation, improved data quality, and real-time monitoring. Digitalisation, when strategically implemented, can enhance regulatory efficiency.





## ERIC CLOUTIER

Partner, Group Head of Banking Regulations - Forvis Mazars

### Simplifying Europe's regulations and supervision as competitive necessity

The global financial regulatory framework has entered a phase of accelerated divergence and fragmentation. The US is moving away from gold plating regulations to placing competitiveness at the centre of its policymaking. In parallel, the UK has launched its own regulatory and policy review, anchored in its competitiveness and growth agenda for the financial sector.

Despite strong ambitions, EU remains slower to adapt as it is tied to its rule-dense, multi-layered architecture. The challenge is twofold: to recalibrate its regulatory and supervisory approach without compromising stability or fragmenting the Single Market, while responding with speed and coherence to avoid falling behind.

#### Calibration conundrum: speed without compromising the EU model

As Draghi warned, Europe's challenge is not just inertia, but also fragmentation and a lack of strategic focus.

The publication of the Draghi report initiated a robust discussion at the EU level. This led to recent actions, such as the Commission's launch of the Competitiveness Compass in January

2025, the securitisation reform package of June 2025, and the ongoing ESG Omnibus proposals – which all signal a shift toward more risk-sensitive regulation that supports growth and competitiveness.

But these remain targeted fixes. Progress remains slow and uneven, and changes must go further. They must be embedded structurally across the regulatory and supervisory framework and must look across the whole ecosystem of requirements (e.g. ESG) to deliver a coherent set of complementary and simple policies.

The credibility of the EU's financial system now depends on its ability to shift from reactive adjustment to timely, coherent and impactful delivery.

#### The missing link of the Banking Union

Both the Banking Union and capital markets integration remain stuck in circular discussions, making the costs of fragmentation increasingly visible. Years after the launch of the CMU, cross-border issuance, IPOs, and securitisation remain constrained by divergent insolvency rules, withholding-tax frictions, and fragmented supervision. Without resolving these barriers to integration, Europe risks falling further behind in attracting capital and scaling innovation.

While full centralisation may not be politically achievable, pragmatic steps can still deliver tangible benefits. These include finalising CMDI, harmonising key aspects of insolvency, introducing a single EU banking licence for cross-border groups, and reducing national gold-plating.

**To stay competitive the EU must urgently recalibrate its regulatory model with strategic intent.**

Meanwhile, the rapid proliferation of technical standards and guidelines has blurred the line between binding and non-binding rules, creating uncertainty and compliance friction. More structured policymaking, especially for Level 2 and Level 3 measures, must be anchored in early impact and cost-benefit analysis. The process should also include recalibration triggers and sunset clauses to address unintended asymmetries over time.

#### Embedding proportionality without weakening standards and competitiveness

Proportionality remains inconsistently applied, and smaller banks still face a compliance burden implementing regulations designed for significant institutions.

Some have argued for a dual rulebook, but this could fragment the Single Rulebook, complicate supervision, and create incentives for arbitrage. Another option is introducing a calibrated tiered approach, backed by quantitative thresholds. This would preserve a single legal structure, applying obligations gradually based on institutions' size, complexity, and risk profile. This could be complex to implement and would require strong coordination mechanisms and tailored guidance to support supervisory convergence and ensure harmonisation across jurisdictions.

Beyond proportionality calibration, another proposal is to embed a competitiveness test in every new EU financial-sector rule, benchmarking its impact against peer markets before adoption. A complementary idea is to introduce a supervisory-efficiency test to map oversight models against levels of market integration — helping policymakers assess whether current arrangements remain fit for purpose.

While no definitive solution has emerged yet, such ongoing industry dialogues reflect a recognition of the need for reform.

#### Looking ahead: from ambition to execution

The case for simplification, reform, and a sharper focus on competitiveness is clear. The EU must cut red tape, not the rules, and deliver with urgency. We are at a decisive juncture: failure to act now risks Europe's permanently falling to second tier financial markets behind the United States and the fast-advancing Asian centres.



## STANISLAS ROGER

Deputy Head of EMEA Division  
– SMBC Group & Chief Executive  
Officer – SMBC Bank EU AG

### Strengthening the EU regulatory framework by proportionality and simplification

In his 2024 report into European Competitiveness, Mario Draghi identified that regulatory burdens have an impact on the competitiveness and that the burden on European companies is high in comparison to similar economies. The EU Institutions have risen to this challenge, and it is welcome that the Commission has placed simplification at the heart of its 2025 Work Programme. The Savings and Investment Union, the Commission's flagship financial services initiative, lists simplification and burden reduction as key principles.

As a Japanese headquartered G-SIB bank with a growing footprint in the EU, we share this vision for a simpler regulatory framework, which we feel is best achieved by closely following the principles of proportionality and alignment with international standards. For both third country and EU banks, maintaining an international level playing field on regulation can help to reduce duplication, prevent deregulation and boost competitiveness.

#### Simplifying regulation

The EU is a global leader in sustainable finance and has developed a strong regulatory framework. However, it is also acknowledged that this is an area that could benefit from streamlined regulation. The Commission's recently published Sustainability Omnibus package reduces reporting burdens on firms while seeking to maintain a robust framework to address emerging risks. However, any regulatory change will lead to challenges for firms operating across different EU Member States, where existing rules may differ. For example, the changes proposed in the Omnibus to the Corporate Sustainability Reporting Directive (CSRD 2.o), while well intentioned, have provided a challenge for institutions established in Member States where the original iteration of CSRD (CSRD 1.o) has yet to be transposed into national law. This underscores the importance of coordination within the EU, especially for firms operating across different Member States.

Some recent regulatory initiatives, such as the implementation of the Basel Endgame rules on capital and reporting, can fail to consider the global nature of many banks in the EU. For internationally headquartered banks such as SMBC, the most effective way to simplify the EU's regulatory framework without compromising on the strength of EU regulation would be to align to international standards and maintain a level-playing field.

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#### Simplifying supervision

The establishment of the European Supervisory Authorities has improved harmonisation of rulemaking across the EU, reducing barriers for firms operating within the Single Market. However, there remains work to be done on completing the Banking Union and Savings & Investment Union, which have the potential to reduce frictions and deliver positive outcomes for consumers. Europe's largest banks, whether headquartered in the Union or not, are global businesses. The system of Supervisory Colleges for banks classified as G-SIBs provides an effective means for cooperation and sharing of information

between home and host supervisors. However, the same banks continue to face challenges from overlapping and extraterritorial regulations in both home and host jurisdictions, leading to additional complexity and cost. We would urge policymakers to consider the benefits of strengthening the supervisory college approach while identifying and removing unnecessary duplication.

#### Evolving regulation

While it is important that banks keep pace and adapt to changing regulation, it is also important that the regulatory framework remains up-to-date with the changing nature of risk and market practices. Through the recently released proposals on securitisation, we see encouraging signs of regulators seeking to reduce unnecessary burdens and recalibrate capital requirements to appropriately reflect risk. We hope that a similar approach can be applied to other parts of the prudential framework where risks have evolved over time and where current rules are limiting banks' ability to finance key infrastructure in the EU and leverage public finance commitments. For example, the risk weights for project finance guarantees remain high, despite data pointing to very low defaults, which is limiting banks' ability to support financing in areas of the economy deemed strategically important. We would encourage policymakers to address these points through international agreements at Basel Committee level.

By streamlining and reviewing regulations against the Commission's simplification mission, the EU's regulatory framework will remain resilient in the long term, while ensuring that the EU continues to be an attractive destination for international banks providing greater choice to European businesses and consumers.



## BRENT MCINTOSH

Chief Legal Officer &  
Corporate Secretary – Citi

### Rethinking complexity: A more effective Banking Union through simplification

Banking union has significantly strengthened the resilience of the banking sector in the EU. Capital and liquidity buffers have improved, and supervision has become more consistent across the Euro area. Yet the regulatory framework remains unduly complex and marked by overlapping rules, divergent practices and growing implementation burdens. With a stated commitment to increase EU competitiveness, the challenge now is to ensure that regulation and supervision work better for the broader economy. A more risk-based framework focused on safety and soundness would free up capacity, within both banks and supervisors, that could be redirected toward financing priorities such as defense, support of SMEs, the twin transitions and boosting EU competitiveness.

Across the European Supervisory Authorities, a mass of regulatory material has accumulated and become increasingly problematic for banks operating in Europe, both in terms of risk management and for compliance and IT functions. The European Banking Authority has issued more than 200 Implementing Technical Standards

and Regulatory Technical Standards, as well as thousands of Q&As. Adding in European Central Bank (ECB) guides and letters, the system has become unnecessarily burdensome and difficult to navigate. To avoid duplication and administrative strain, the EU framework should be simplified and refocused.

Regulation should not lead firms to build overly granular compliance processes simply to satisfy formalistic requirements. Instead, it should be more outcomes-focused and promote growth while allowing room for proportional implementation. Such a shift would encourage a more responsive compliance culture, aligned to evolving risks rather than static formalities.

Supervision should evolve in parallel. The Single Supervisory Mechanism (SSM) has brought important convergence, and recent efforts to streamline the Supervisory Review and Evaluation Process (SREP) are also a welcome step. Nonetheless, in practice SREP remains resource-intensive, with its range of additional supervisory activities such as on-site inspections, exams, thematic reviews and data requests that occur outside the regular oversight of SSM Joint Supervisory Teams. Continued progress is needed to ensure that supervisory engagement remains risk-based and proportionate.

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Also needed is greater attention to avoiding unwarranted duplication across the regulatory framework. In the area of resolution preparedness, the interaction between the EU's Minimum Requirement for Own Funds and Eligible Liabilities framework and the global Total Loss Absorbing Capital standard presents challenges for cross-border banks. While both aim to ensure that institutions hold sufficient loss-absorbing capacity, differences in calibration, scope and subordination requirements often lead to duplication. For banks subject to both, this can result in higher issuance volumes, increased funding costs and greater structural complexity. A similar issue arises with capital requirements,

where elements of Pillar 2 overlap with those already addressed under Pillar 1, resulting in inflated capital demands not proportionate to underlying risks. A more harmonized approach that removes double-counting and improves clarity and consistency for institutions would support more efficient planning.

The Single Resolution Fund (SRF), now funded beyond its target size, is another area that would benefit from simplification. With its €80 billion target reached, the case for continued annual contributions is increasingly tenuous. Allowing banks to retain these resources, subject to clear prudential safeguards, could reduce strain on long-term funding plans without undermining resolution readiness and unlock usable capital.

Across the board, the emphasis should be on proportionality and clarity. Efforts by the EU to simplify reporting obligations, prioritize mandates and reduce Level 2 and 3 overlaps are welcome. Refocusing regulatory attention on what is material, moving from "nice to have" to "need to have" should be the focus.

All of this said, simplification does not weaken the framework. The strength of the banking union lies in its credibility. The next phase of its development should focus on making rules coherent, predictable and risk-aligned. A regulatory environment that embraces principles over prescription, and risk over redundancy, will better serve supervisors, banks and ultimately the broader European economy.