MACROPRUDENTIAL FRAMEWORK REVIEW

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Simplifying the EU macroprudential framework: A call for clarity and efficiency

The European Union's current regulatory framework for banks is rightly seen as overly complex, leading to inefficiencies and overlaps between microprudential, macroprudential, and resolution frameworks. This complexity not only burdens institutions but may also undermine the effectiveness of prudential tools. A simplification initiative is now underway under the aegis of the European Commission and should strive to streamline the framework in a holistic fashion. In a context of uncertainty regarding the commitment of some jurisdictions to complete the full implementation of the Basel III standards, the focus should be on removing gold-plating elements and overlaps between the different regulatory frameworks, while preserving overall resilience and maintaining compliance with Basel III standards.

Fragmented Architecture and Overlapping Tools

The current framework is built on an approach, where microprudential tools address institution-specific risks and macroprudential tools target systemic vulnerabilities. However, in practice, these risks are often intertwined. For example, capital buffers such as the Capital Conservation Buffer (CCoB), and buffers for Global and Other Systemically Important Institutions (G-SII/O-SII), straddle both micro and macroprudential objectives. These buffers are non-releasable, yet they may overlap with national systemic risk buffers (SyRB), creating redundancy.

Similarly, the Pillar 2 Guidance (P2G), although not a formal capital requirement, is often perceived as such by the industry. It shares some features with macroprudential buffers: i) a shared objective of enhancing resilience to extreme shocks, ii) a form a releasability when supervisors allow banks to operate below the P2G in order to withstand stress situations; iii) a similar calibration method—just like the Countercyclical Capital Buffer (CCyB).

Finally, the interactions between micro, macro and resolutions frameworks can hinder macroprudential action when capital is bound by parallel requirements and cannot actually be used by banks when it is released for macroprudential motives.

Avenues to simplify the Macroprudential framework

Reducing undue complexity in the European regulatory framework should begin with removing elements of gold-plating compared to the Basel III standards.

First, the systemic risk buffer (SyRB) is unique to the EU and addresses structural risks usually covered by other buffers. Phasing it out would leave the CCyB as the sole releasable buffer, acting as a credit protection reserve to mitigate the risk of a credit crunch when systemic events occur. The transition would be smooth, as the general SyRB has only been implemented in a few jurisdictions. Sectoral SyRBs, often used to address real estate vulnerabilities, could be replaced by existing tools under the Capital Requirements Regulation (CRR), such as Articles 124, 164, and 458.

Second, as a second best, the reciprocation mechanism could benefit from a streamlining of the buffer architecture. Indeed, unlike the CCyB which benefits from automatic reciprocity up until a threshold of 2.5%, the SyRB relies on voluntary reciprocity. This process involves national authorities and multiple European bodies (ECB, ESRB, European Commission) in a lengthy administrative process to ensure compliance with ESRB recommendations. Automatic reciprocity would yield similar results while reducing administrative burdens and removing regulatory uncertainty for banks.

Third, the EU methodology for addressing Other Systemically Important Institutions (O-SIIs) is outdated, predating key institutional developments like the Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM). A revised approach should reflect the varying systemic footprints of institutions across jurisdictions and activities—such as domestic credit versus euro area-wide market operations. Introducing a floor and cap would reduce subjectivity and ensure more predictable outcomes.

Fourth, a coordinated approach between micro and macroprudential authorities is essential to determine the appropriate overall level of capital. Such a coordinated approach should refrain from being strictly mechanistic and should preserve national authorities' discretion in setting macroprudential tools, within the EU framework.

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Finally, the usability of releasable buffers must be preserved. Currently, multiple layers of automatic restrictions on distributions (MDA triggers) reduce their effectiveness. While MDA restrictions in the solvency framework should remain in line with Basel standards, those in the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) framework are EU-specific additions and could be removed. The UK has already eliminated automatic MDA restrictions in the leverage framework—a precedent worth considering.

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The necessity of a robust, efficient but also simpler macroprudential framework

The origins of modern macroprudential policy in the euro area can be traced back to the global financial crisis (GFC), which showed us that we had hitherto underestimated systemic risk, with serious negative consequences for the real economy. Banks did not fully grasp the impact of their individual actions on systemic risk, and supervisors were slow to identify imbalances building up in the system. Thus, a new set of prudential instruments was necessary to address this macroprudential dimension.

The GFC was particularly severe in the euro area, and its effects were heterogeneous across countries. An analysis of the drivers of these asymmetric effects revealed that a single monetary policy for countries with non-synchronous financial cycles needed to be complemented with country-based policies that addressed systemic risk developments across different jurisdictions. This gave rise to the creation of a macroprudential policy framework with substantial flexibility across countries.

Following the approval in 2013 of the first EU legislative package containing macroprudential rules and a series of improvements in the intervening period, now seems a good time to take stock and review the functioning of the framework. National authorities have gradually activated the available instruments, used more intensively in countries with a greater accumulation of systemic vulnerabilities in the post-GFC period.

The macroprudential framework has proved very useful, as it has provided the flexibility to accommodate national specificities. Therefore, as long as heterogeneity in structural characteristics and asynchrony in financial cycles persist across SSM countries, maintaining the current country-specific flexibility of macroprudential policy is an efficient and financial stability-enhancing approach.

Despite the progress achieved in recent years, it is time to acknowledge some room of improvement in the current prudential framework. While this framework is key to significantly improving the banking sector's resilience, it is increasingly evident that it has become too complex. For the sake of brevity, I will focus on capital requirements, even though complexity affects other dimensions (e.g. reporting requirements). In my view, this complexity is associated with the coexistence of different parallel requirements (risk-based, leverage ratio and resolution requirements), where each of these requirements is, in turn, a combination of complex elements. By way of illustration, under EU regulations, a credit institution may be subject to up to ten different incremental stacks in terms of own funds and eligible liabilities, according to our own evaluation.

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Hence, it is imperative that the entire regulatory framework be reviewed holistically to make it simpler, while preserving the resilience of the financial system.

As regards macroprudential policy, one avenue could be to revise the list of existing macroprudential instruments in EU banking legislation (CRD/CRR) and consider options to narrow down the toolkit. For instance, a potential solution would be to maintain the existing buffers for global and domestic systemically important institutions (G-SII and O-SII buffers, respectively), and merge the remainder (the countercyclical capital buffer – CCyB – and the systemic risk buffer – SyRB –) into a single buffer that would be redefined along the lines of the CCyB, with the possibility of activating it for all domestic exposures, as well as for sectoral exposures.

This new broad macroprudential buffer would allow for the build-up of more macroprudential space, thus strengthening ex-ante solvency while addressing the same potential risks with fewer instruments. Moreover, this approach would be better aligned with Basel III, which does not include an SyRB, and it would also facilitate reciprocity across countries.

After a decade of macroprudential policy in the EU, the macroprudential framework has proved to be a key factor in enhancing the resilience of the banking sector in the euro area, by addressing systemic risks while accommodating the persistent heterogeneity of financial cycles across countries.

In the current context of heightened geopolitical uncertainty, it is essential that the resilience built up is maintained. At the same time, we need to explore avenues to increase the competitiveness of our financial system, allowing it to efficiently perform its function of financing the real economy to support innovation and economic growth in Europe. As regulators, we can contribute to this process by designing a more efficient and simpler prudential framework that preserves the existing resilience as well as the national flexibility to address asymmetric shocks in a heterogeneous banking union.

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Streamlining bank capital regulation: Reducing complexity, preserving resilience

The Basel III standards, developed in response to the global financial crisis (GFC), have enhanced the resilience of the banking system, equipping it to withstand even significant headwinds. These reforms, while not yet finalised, have demonstrated their effectiveness in recent years in the face of various stormy spells. At the same time, the regulatory framework that has emerged is highly complex. Even though there are many sound reasons for complex rules in a complex financial system, I believe that simpler rules are possible. Of course, it remains imperative to maintain the resilience built up in the aftermath of the GFC. Simpler rules do not mean less stringent ones.

One possible way of achieving this can be found when reviewing the capital regulation for banks. Higher requirements for both the quality and quantity of bank capital as well as the introduction of macroprudential capital buffers were cornerstones of the international reforms. The macroprudential capital buffers such as the Countercyclical Capital Buffer (CCyB) or buffers for systemically important banks were introduced to increase the resilience of banks against systemic risks. Currently, large banks in the European Union face multiple capital requirements in the going concern and gone concern regime. In each regime, the requirements are defined in risk-weighted as well as in leverage-based terms. This results in at least eight distinct stacks of capital requirements creating horizontal complexity due to their sheer number. Moreover, these stacks have to be met with different types of capital and can be used in different circumstances, which adds vertical complexity. For instance, both the capital and resolution framework currently make use of CET1 capital, which is commonly understood as the main loss-absorbing capital in a going-concern context. This leads to a potential conflict between the capital and resolution frameworks as well as supervisory and resolution authorities when determining the point at which a bank is declared failing or likely to fail. In addition, capital is double-counted towards macroprudential buffers and leverage-based resolution requirements. If banks' risk densities are low, leverage-based resolution requirements can overlap with macroprudential buffers, which in turn limits the usability of these buffers.

Reducing regulatory complexity can enhance effectiveness without compromising resilience.

To address both horizontal and vertical complexity, the number of parallel stacks and layers would need to be reduced. To disentangle the going and gone concern frameworks, one could either define capital classes that only apply to one of the frameworks – CET1 under going concern and non-CET1 under gone concern – or earmark CET1 management buffer to fulfil gone concern requirements. This would significantly reduce the number of capital stacks and eliminate potential conflicts between frameworks and authorities. At the same time, it would also increase buffer usability by limiting the overlap of requirements. Additionally, merging some layers would reduce the number of layers within each stack. One method of consolidation would be to introduce a single, non-releasable capital buffer that combines microprudential and macroprudential requirements on top of Pillar 1 requirements, alongside a single releasable buffer, combining the CCyB and the Systemic Risk Buffer (SyRB). While both buffers would increase the capacity of banks to absorb losses, the releasable buffer would allow macroprudential authorities to support credit supply during severe downturns by providing capital relief to the banking system. Altogether, the consolidated capital buffers would increase transparency and ease banks' capital planning, without reducing resilience.

Another angle to approaching simplification, focusing more on smaller banks, is the ongoing debate about proportionality in Europe, often discussed under the "Small Banking Box" framework for small, low-risk institutions. A clear pathway towards achieving proportionality would be to strengthen the small non-complex institutions (SNCI) framework in the European Union, which already provides small banks with some degree of relief. Any expansion to this framework would need to preserve the ability to safeguard financial stability. More conservative standards could compensate for less precise measurement of risks. Looking at small banking regimes in the United Kingdom and Switzerland, empirical evidence shows that fewer regulations, combined with higher requirements, can maintain resilience and protect financial stability without causing any competitive distortions.

FRANK VANG-JENSEN
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Macroprudential reform – the necessary step toward a competitive Europe

Despite the progress towards creating a single banking market in the last decade, cross-border competition in banking services remains far below where it should be. There are a few reasons for this. Differing consumer protection and insolvency rules pose challenges to cross-border institutions, as does the non-transferability of deposit guarantee contributions. But the most significant issue is posed by the complex macroprudential requirements.

This issue not only limits cross-border competition in banking services. It also holds back the development of a more competitive and secure EU. As Enrico Letta and Mario Draghi have pointed out, finance is crucial for addressing Europe's security, defence, energy and technology challenges. But without deeper pockets – both public and private – to fund large-scale projects, the EU risks falling further behind other regions. To keep pace, Europe must simplify the regulatory maze that hampers cross-border banking consolidation. America has giants in financial services. China is building them. Europe needs them as well.

The EU and its member states have significantly gold-plated international macroprudential standards. Decisions affecting banks' capital and business planning are published abruptly and inconsistently, without full analysis of overlaps with other capital requirements. Each member state's unique macroprudential approach adds uncertainty for banks contemplating cross-border business models. Furthermore, there is currently no authority in charge of assessing whether the aggregate capital requirements for a banking group are proportionate to its overall risk profile. This regulatory patchwork creates uncertainty for banks, deters them from pursuing cross-border business models, and leads to an unlevel playing field.

Nordea is supervised by the SSM and operates across four main jurisdictions (Finland, Sweden, Denmark and Norway) in a branch setup. Consequently, we have eight different macroprudential buffers adding up to 8.3%, 15 different borrower-based measures, nine other macroprudential measures under CRD/CRR such as risk weight floors, and five other macroprudential measures under national law. These sum up to 37 separate measures, decided by six different authorities. The more countries a bank operates in, the more complex the framework.

The EU should prioritize macroprudential reform to boost cross-border banking, and make it a central to the Commission's 2026 banking sector competitiveness review. The goal should be a simple and harmonised, risk-based framework, with safeguards against double counting of capital requirements. Elements of European gold-plating of the global Basel framework should be removed, with Level 2 regulation ensuring competent authorities don't overstep the intention of legislation. This simplified framework should ensure bank resilience and funding in all phases of the economic cycle, allowing buffer use when needed.

Addressing these issues would significantly boost competitiveness for banks and customers alike. It would improve the risk sensitivity of banks' capital requirements and level the playing field within the EU/EEA. By removing barriers, European banks could increase their financing capacity, thereby creating a better environment for the region's businesses to compete effectively against their US and Chinese counterparts. Ultimately, these changes are critical for securing a strong and independent EU.

How could this be achieved? First, we need simplification. The goal should be a streamlined framework with a clear distinction between structural and cyclical buffers. EU-specific additions such as the systemic risk buffer should be removed altogether due to rigidity and a risk of overlaps with other measures.

Second, we need more centralisation. Macroprudential policy, like most prudential rules, should be set at the EU level. If not, EU-level coordination must be strengthened to ensure consistent decisions and common methodologies across member states.

Third, we must eliminate the overlapping elements of the current framework. Macroprudential measures should only address risks that microprudential ones can't cover and that aren't already handled by other member states. To achieve this, we could require the microprudential supervisor to provide an opinion, which would consider whether the overall capital requirements match the institution's risk profile.

Europe's tangled banking rules are throttling its financial sector and wider economy.

Finally, we need clearer guidelines on choosing macroprudential measures. Capital measures often fail to address risks in lending practices. Instead, borrower-based measures should be the first choice to cover risks related to business practices and cycles, rather than relying on capital buffers.

Europe's tangled banking rules are throttling its financial sector and wider economy. The choice is clear: we maintain the status quo and fall behind, or we make the necessary macroprudential reforms and unlock the continent's true economic potential.

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Towards a more cohesive macroprudential framework in Europe

The European Union's financial system has become increasingly integrated over recent decades. However, macroprudential supervision remains fragmented across Member States. While this decentralized framework allows for tailored responses to domestic vulnerabilities, it weakens the effectiveness of systemic risk management at the EU level and clearly does not support the calibration of capital requirements at either a consistent level within the Union or a globally competitive one.

One of the key issues stems from the divergence in national macroprudential regimes. The lack of consistency in the application of macroprudential measures leads to several adverse effects. The introduction or increase of countercyclical capital buffers (CCyB) in an unfavorable economic environment (e.g., Hungary) raises competitiveness concerns. Such measures not only amplify cyclical pressures within the affected country but may also indirectly impact other closely interconnected EU economies, thereby affecting the Union as a whole.

Several cases across the EU also raise concerns about excessive capital requirements, where the combined buffer requirement (CBR) for larger banks reaches or exceeds 8 percentage points (e.g., Bulgaria, Croatia, Sweden, or Iceland). This approach—considering microprudential add-ons such as Pillar 2 Requirements (P2R) and Pillar 2 Guidance (P2G)—can push minimum capital requirements close to 20%, despite substantial overlaps in the objectives of the various supervisory tools applied.

Coordination between microprudential and macroprudential supervision in Europe remains fragmented. While the ECB supervises individual institutions under the Single Supervisory Mechanism, systemic risk management is largely handled by national authorities with support from the ESRB (European Systemic Risk Board). This division leads to mandate misalignments, limited data sharing, and institutional complexity, which hinder timely and coherent decision-making. Moreover, the lack of effective coordination may result in significant overlaps in buffer requirements.

The existence and calibration method of the O-SII buffer also deserve reconsideration. Given that major global economic competitors (e.g., the US and China) have not introduced such a buffer, its phase-out at the EU level should be seriously considered. If retained, centralized decision-making on EU level would be necessary, as small and medium-sized European banks headquartered in smaller countries are disproportionately burdened. This raises concerns not only about competitive neutrality for these institutions but also disadvantages the economies of the respective countries due to the higher capital costs of lending.

Simplifying the macroprudential framework is both reasonable and feasible.

Simplifying the macroprudential framework is both reasonable and feasible. Centralizing the calibration of O-SII and CCyB buffers should be considered to ensure uniform application, while closer coordination with microprudential supervision should be required in the determination of systemic risk buffers (SyRB). Introducing a cap on the aggregate level of macroprudential buffers could help prevent excessive requirements. Institutional roles must be clearly defined to prevent duplication and ensure coherent policy implementation. Furthermore, standardizing reporting and communication practices across jurisdictions would enhance transparency and comparability.

However, simplification must not come at the expense of flexibility. The framework must remain adaptable to emerging risks and national specificities. Looking ahead, a more centralized macroprudential regime could significantly enhance the EU's ability to manage systemic risks. A "single jurisdiction" approach would entail granting an EU-level authority—potentially a reformed ESRB—greater powers to implement binding macroprudential measures across Member States. Centralization would enable more consistent policy responses to systemic threats, improve crisis management through coordinated interventions, and reduce regulatory arbitrage, thereby fostering deeper financial integration.

At the same time, preserving local discretion is essential for tools that are more effectively calibrated at the national level. Therefore, macroprudential decisions related to indicators such as loan-to-value (LTV) and debt-to-income (DTI) ratios should remain under national control.

In conclusion, the EU's macroprudential architecture must evolve to meet the demands of an increasingly interconnected and dynamic financial system. While national discretion remains important, greater harmonization, simplification, and centralization are essential to ensure consistent and effective responses to systemic risks. By enhancing coordination between micro- and macroprudential supervision, streamlining the framework, and moving toward a single jurisdiction model—with appropriate safeguards— the EU can build a more resilient and integrated financial system capable of withstanding future shocks while preserving sustainable growth and economic competitiveness.