



Q&A

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From complexity to clarity: Strengthening EU financial regulation through smart simplification

Does the EU prudential framework strike the right balance between stability, growth, and competitiveness? To what extent can simplification and proportionality make regulation more effective? What are the expected impacts of digitalisation?

The EU prudential regulatory framework has been instrumental in safeguarding financial stability and protecting consumers and investors. The strengthened rules introduced after the financial crisis have made the sector more robust and resilient. However, the growing complexity of regulation now presents real challenges for both market participants and supervisors. Excessive complexity can hinder market development, create barriers to cross-border activity, and divert resources from core risk management and innovation.

To counter these challenges, the EU should focus on transforming the single rulebook into a simpler and more usable framework. Simplification is not about lowering standards, but about making rules proportionate, coherent, and easier to navigate — especially for smaller and less complex institutions. Proportionality should be further embedded at all levels, so requirements better reflect the size, risk, and business model of each institution. This will help foster a more diverse and competitive financial sector, where smaller players can compete on fairer terms.

Digitalisation also offers significant opportunities to reduce administrative burdens and improve compliance. A usable digital overview of level 1, 2 and 3 legislations facilitated by the Commission – a so-called digital rulebook – could for example make it easier for institutions to access and understand requirements, and for supervisors to identify overlaps and inconsistencies in the legislation.

Ultimately, a simpler, more proportionate and digitalised regulatory framework will support innovation, facilitate cross-border activity, and improve access to capital across the EU. This

is essential to deliver on the EU's broader objectives, including the green and digital transitions, and to ensure that European financial markets remain robust, competitive, and attractive for investment, supported by a well-functioning Single Market.

What are the main challenges to simplifying EU financial regulation? How can overlaps and inconsistencies across prudential, market, and ESG rules be addressed? Are changes in governance or drafting practices needed?

The main challenge in simplifying EU financial regulation is to achieve greater clarity and usability without compromising the core objectives of financial stability, market integrity, and investor and consumer protection. The EU's multi-level legislative structure—Levels 1, 2, and 3—offers flexibility but also creates risks of overlaps, inconsistencies, and unnecessary complexity. This can make the rulebook difficult to navigate for both market participants and supervisors, and we risk overlooking the essentials.

All the regulations are added for a reason. The individual rules or acts are seldom the issue – it is the sum of it all, that creates the real burden. So simplification is not just removing a few thorns. We need a broader approach.

To overcome these challenges, it is paramount to strengthen the quality and consistency of impact assessments at both EU and national level. Impact assessments should include realistic cost estimates, consider IT and digital requirements, and assess the effects across all relevant sectors. This will help ensure that new regulation achieves its objectives with the least possible burden and that existing rules are regularly reviewed for continued relevance and effectiveness.

A clear legislative hierarchy is also crucial. Level 1 rules should provide legal clarity and set the essential policy direction, while technical standards at Level 2 should remain technical in nature

and not be used to resolve political issues. This will help avoid situations where important decisions are left to be determined at a later stage, creating uncertainty and complexity.

Enhanced cooperation between EU institutions, national authorities, and stakeholders is needed to identify and address duplications, overlaps, and inconsistencies—especially as new policy areas such as digitalisation, data, and sustainability increasingly cut across traditional regulatory domains. The development of a digital rulebook could further support transparency and accessibility, making it easier to identify and eliminate redundant or outdated requirements.

Finally, changes in legislative drafting practices—such as clearer mandates, better alignment between levels, and a stronger focus on harmonisation—can help ensure that simplification efforts deliver real results. By focusing on these priorities, the EU can create a more coherent, accessible, and effective regulatory framework that supports both stability and growth.

How can proportionality be better embedded in the EU regulatory framework while preserving risk sensitivity? How to avoid distortions or loopholes?

At the core, prudential regulation is about risk. The higher the risk, the higher demands we set as regulators. The risk profile is a mixture of many factors, but the regulation should set out a clear path for smaller entities with limited risk exposure to act under a simpler framework. In the pursuit of a true level playing field, we run the risk of overcomplicating the rule book.

The Danish banking sector consists of more than 60 credit institutions, many of them small, local and with a simpler business model. Proportionality is integrated in our supervisory approach, from the intensity and frequency of inspections to the calibration of supervisory reactions and the expectations we communicate. Proportionality is already embedded in the EU regulation, notably through the harmonized category of small and non-complex institutions mainly in regard to reduced regulatory reporting requirements. However, the extent of proportionality in the EU regulatory framework could be broadened across levels 1, 2 and 3.

EBA guidelines that are generally applicable are designed to ensure a high and consistent standard across the EU. However, in practice smaller and simpler institutions may benefit from further clarification or supplementary national guidance to help them identify the most relevant areas of focus. Embedding such clarifications directly in level 3 products could further support proportionality and practical implementation.

Also, fewer, simpler, core regulatory requirements would often suffice for these institutions, rather than the finely calibrated and complex requirements that only the largest institutions are able to fully navigate within. On average, the prudential levels should be the same, but inevitably for some requirements

and for some institutions, requirements could be allowed to be both below and above the current levels, without having any material effect on the aggregate soundness of the system due to the limited size, spillovers, and interaction of these institutions.

The distinction between the complex and the non-complex institutions could vary from risk area to area, and some flexibility could be administered by national competent authorities to define and supervise the delineation within reasonable and well-defined limits to strike the right risk-based balance. The upcoming assessment by the Commission of the situation of the banking sector in the single market would be an opportunity to consider these issues and a stronger anchoring of proportionality in the regulation. The current work in EBA on simplification could also address these issues and provide a better basis for embedding proportionality in its regulatory products.

How can political consensus be built around targeted simplification initiatives without undermining broader regulatory objectives (e.g. investor protection, financial stability, sustainability)? How do we deliver concrete results when we talk simplification?

I often emphasize that simplification is not deregulation. The core elements of financial regulation—capital requirements, liquidity standards, resolution frameworks, and investor and consumer protection—must be preserved. A simpler rulebook can, in fact, strengthen supervision by focusing attention on the essentials and making rules easier to understand, implement, and enforce. The goal is to maintain robust safeguards while reducing unnecessary complexity, thereby supporting both stability and growth.

Moving forward, I suggest focusing even more on the following principles for simplification:

1. Impact assessments at both EU and national level.
2. A regulatory slowdown to allow recent rules to take effect before introducing new ones.
3. An accessible and navigable digital rulebook with a clear legislative hierarchy.
4. Less product-specific regulation and more harmonisation of existing rules.
5. Close cooperation between all stakeholders — EU institutions, national authorities, and the financial sector.

By adhering to these principles, we can ensure that simplification leads to tangible improvements for both market participants and supervisors, without compromising financial stability or consumer protection. Ultimately, simplification should be seen as a tool to make regulation more effective and future-proof, supporting the EU's ability to respond to new challenges and opportunities in a rapidly evolving financial landscape.