

# Simplifying EU financial regulation

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This session took stock of the main sources of regulatory complexity and explored how simplification can be achieved without compromising the core objectives of the EU financial framework.

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## Introduction: Occam's razor versus political reality

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The Chair underlined the complexity of the simplification debate. Recent media coverage has increasingly invoked Occam's razor, the philosophical principle that the simpler of two explanations for the same phenomenon is preferable. This idea provides a useful lens for assessing whether EU legislation could achieve its objectives through more concise and streamlined rules. Despite a broad consensus in favour of simplicity, regulatory frameworks continue to grow more complex. Understanding the reasons behind this trend is essential for identifying ways to introduce meaningful change.

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## 1. Simplifying without weakening

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### 1.1 What should be simplified

A policy-maker stressed that any attempt to simplify regulation must start with a clear understanding of the sources of existing complexity. It is equally important to identify precisely which elements should be simplified and to establish accountability. EU processes are by nature more complex than those within individual Member States.

Determining what to simplify is particularly difficult in the financial sector, where a robust regulatory framework has demonstrably strengthened institutional resilience. Nevertheless, it is legitimate to ask whether this framework has become excessively burdensome.

Meaningful simplification requires collective engagement by legislators, regulators, supervisors and stakeholders. The multitude of legislative requests from stakeholders also needs to be taken into account. Achieving progress depends on a cooperative mindset, strong political will and the courage to implement change.

The Chair noted a widespread tendency to attribute gold-plating to other jurisdictions while failing to acknowledge it at home.

### 1.2 The burden of overly detailed rules

An industry representative observed that excessively prescriptive rules impose significant compliance burdens, diverting resources from business growth, economic support and the management of real risks. One concrete example is the level of detail required in supervisory reporting under the Digital Operational

Resilience Act (DORA). There are more than 90 data fields for third-party information and ICT providers. These fields do not provide equivalent value to supervisors, while the cumulative cost for firms exceeds that of a more focused data set.

Under the Anti-Money Laundering (AML) Regulation, the draft regulatory technical standards on risk profiling contain 156 data points for inherent risks and 120 for AML controls. Although level-one texts allow some flexibility, level-two regulations tend to add further layers of inflexible requirements.

Supervisory authorities and the forthcoming Anti-Money Laundering Authority (AMLA) each operate under their own mandates. This raises the question of whether such prescriptive legislation leaves sufficient discretion for case-by-case application. Complexity is also heightened by the EU's implementation of the BCBS 239 guidelines and disclosures mandated in the ECB's guide on climate related and environmental risks.

### 1.3 Digitalisation and other sources of regulatory complexity

An official underlined that the economy and society are inherently and increasingly complex. While regulation is often perceived as burdensome, economic strength also stems from the stability that rules provide. Regulatory frameworks reflect real-world complexity and must adapt to new challenges, particularly technological ones.

The crypto-assets sector illustrates this evolution. Some actors have proposed a dedicated supervisory body for crypto activities. However, the aim of the Markets in Crypto-Assets Regulation (MiCA) is to ensure these new services, as part of the financial system, are supervised by the relevant financial market authority.

Complexity is also fuelled by different market segments requesting tailored rules for their specific needs, and by domestic stakeholders seeking additional clarifications on proposed legislation. This dynamic results in increasingly detailed and fragmented rule-making, as national agencies – being closer to the market – add further layers to respond to these demands.

### 1.4 Simplifying EU supervision

An industry representative argued that the EU often treats the development and application of rules as a substitute for effective risk supervision. There is a reluctance to repeal outdated regulations and replace them with more appropriate measures, leading to regulatory accumulation and subsequent legislative interventions.

The involvement of multiple European Supervisory Authorities (ESAs) and national competent authorities (NCAs) in the same areas creates fragmentation and inconsistency. Macroprudential buffers illustrate this, as NCAs retain competence in this field, working against

the objective of a single supervisory mechanism focused on prudential oversight.

### 1.5 Complexity driven by implementation layers

An industry representative explained that much of today's regulatory complexity stems from the compromises needed to preserve local banking structures across 27 Member States while pursuing deeper integration. While financial stability and competitiveness are both important, the current framework focuses primarily on the former.

Level-one texts are generally well designed, but additional layers introduced during implementation such as level two measures, level three guidance and FAQs, increase complexity. Regulatory philosophy has also evolved from the restrictive Meroni doctrine—limiting agency powers to what was explicitly legislated—to the more permissive manifest error rule, which grants broader discretion that can only be challenged in clear cases of error.

DORA illustrates how cultural approaches to implementation often prioritise stability over efficiency. While ensuring safety is essential, excessive caution can dampen innovation and economic activity.

### 1.6 Regulatory simplification

An official noted that deprioritising low risks, as is being done in the United States, is challenging in Europe because any incident in the financial market typically triggers demands for greater security, particularly for consumers and investors. Political dynamics therefore tend to favour more stringent rules.

An industry representative highlighted that the EU regulatory environment differs from those in other jurisdictions. While the US is not necessarily a model, its approach and the UK's secondary competition mandate warrant attention.

In the AML sphere, FinCEN's modernisation efforts in the US aim to establish a more risk-based framework by deprioritising lower risks. This principle could be relevant for Europe.

Simplification does not mean stepping back from regulation but reallocating resources more intelligently. For example, real-time monitoring could replace some periodic reporting requirements. Greater investment in digital technologies could help streamline risk management and supervisory processes.

## 2. Priorities and tools to deliver effective simplification

### 2.1 Regular assessments and principles-based regulation

An industry representative suggested that periodic assessments should be undertaken to identify obsolete provisions that no longer support effective risk management. This could be accompanied by a temporary pause in new financial sector legislation,

limited to what is strictly necessary, to allow for a thorough evaluation of existing rules and a shift towards principles-based supervision.

Transitioning from a compliance-based to a principles-based approach requires courage, as it entails accepting that not every rule breach will be addressed. The key question is whether this model can support financial stability in the most efficient way for both regulators and the regulated, by creating a simpler environment.

Reporting should also be calibrated appropriately. For example, sustainability is a global issue and should be monitored at group level. A mechanism could be introduced to flag instances of gold plating, allowing a review to determine whether such practices should be applied across the EU or challenged at Member State level.

A policy-maker explained that the Commission is considering how principles-based approaches could be integrated without compromising on clarity and financial stability. This is an ongoing process.

The Chair noted that trust is central to this question. Current processes often prescribe how outcomes must be achieved, reflecting a lack of confidence in actors to deliver results independently.

### 2.2 Critical review, discipline and clarity

An official stressed that a regulatory pause should not simply postpone implementation but involve a critical evaluation of existing regulations as well as texts under negotiations. Political discipline and rigorous scrutiny of level-one legislation are essential. The Council' of the EU's rapid progress on the sustainability omnibus, with a general approach achieved within five months, illustrates this discipline. If the European Parliament acts similarly, matters can be resolved quickly. Such efforts reflect constructive collective self-criticism and demonstrate co-legislators' ability to act swiftly on these important matters.

Clarity is equally important and so is a shared responsibility between co-legislators and market participants, to be exercised both at level one and across European supervisory agencies at the level 2. Common supervision can also offer opportunities for simplification, especially in the case of systemic and cross-border actors.

The Chair observed that a lack of clarity often stems from fears that unidentified risks might emerge, leading to pre-emptive legislative measures. These are then elaborated at level two, reflecting a broader lack of institutional trust. While safety and security remain priorities, this comes at the expense of competitiveness.

At the EU level, there are both short- and long-term plans, and multiple task forces have been set up. Each ESA has its own simplification task force, which will eventually produce reports.

### 2.3 Embedding proportionality and industry engagement in EU regulation

An industry representative underlined the importance of proportionate regulation, noting that this dimension

can sometimes be overlooked. Tools such as cost-benefit analyses and ex post reviews, conducted before full implementation, could support this objective.

An industry representative stressed that applying proportionality requires focusing on the balance between value added and administrative burden, along with supervisors trusting in equivalent outcomes. It should not be determined by firm size alone, nor by imposing identical requirements on all institutions; the real need for each tool should be assessed.

Impact assessments should play a central role in clarifying problem statements that new legislation is being designed to solve before that legislation is proposed. Regulation should focus on managing risks rather than seeking to regulate client opportunities such as the proposed Financial Data Access (FiDA) regulation.

An industry representative added that the proliferation of soft law currently leaves no pre-litigation remedies. A structured feedback loop to ensure industry engagement should be introduced. She also highlighted that the EU is unique in limiting the involvement of senior industry practitioners in agencies and rule-making processes, which may hinder simplification efforts.

An industry representative further noted that industry must also take responsibility for advocating change and clearly articulating its priorities. Resources currently concentrated on compliance need to be freed up to focus on educating clients, investing in growth, deepening capital markets, enhancing innovation capacity and maintaining a forward-looking risk focus. Trust in the industry should not be taken for granted, and continued investment in governance, self-regulation and good risk culture is essential. Transparent and ongoing dialogue is therefore critical.

The Chair emphasised the importance of industry expertise at national level, especially in smaller countries, and of forums such as Eurofi for exchanging knowledge and perspectives.

## **2.4 The role of level two legislation**

### ***2.4.1 Political scrutiny and dialogue when drafting technical detail***

A policy-maker reported that the simplification agenda is gaining momentum. This is positive, but a balance must be maintained. While the need for simplification is widely recognised, not all aspects of legislation should be affected. A Commissioner for Simplification has been appointed, and each Commissioner is required to report annually on their simplification achievements.

Initiatives such as the Sustainable Omnibus Package aim to address legislative complexity by identifying elements that complicate implementation, including double reporting and overlaps. These initiatives are not comprehensive overhauls but focused. The sustainable finance omnibus is a good starting point, but not every legislative area will follow this model. Legislating everything at level one would worsen the situation, as

technical detail is often needed in financial regulation.

The drafting of level two legislation is often left to technical experts, raising concerns about the practicality of outcomes. This process requires closer scrutiny by those affected and more structured dialogue. This does not mean outsourcing drafting to users, but rather shifting the approach taken by drafters.

An industry representative proposed renaming the Commissioner for Simplification as the Commissioner for Deduplication.

### ***2.4.2 Critically assessing empowerments***

A policy-maker underlined that quality should take precedence over quantity. The Commission made an inventory of level two acts following legislation adopted between 2019 and 2024. This exercise identified 430 empowerments across key areas, including banking, AML and markets.

It would be useful to critically examine these empowerments to determine whether all are necessary or whether some could be postponed, given the challenges they pose for drafters, implementers and supervisors. Discussions between the Commission, Parliament and Member States have been productive. Ultimately, it is important to recognise that not everything requires regulation. Although checks and balances are in place, an overly legalistic mindset can make the system more complex. A cultural shift is also needed in this regard.

## **2.5 The 28th regime**

The Chair questioned whether eliminating level two and three legislations would be the right path towards simplification.

An industry representative proposed a more radical alternative: establishing a "28th regime," an opt-in pan-European rulebook for large, cross-border financial institutions operating in multiple jurisdictions. National authorities could then apply simpler, streamlined regimes to smaller, domestically focused banks that do not pose systemic risks. This two-tier structure would enable domestic banks to remain responsive to local needs, while providing internationally active banks with a coherent EU framework.

The Chair noted the challenges of aligning the 28th regime with national frameworks, citing solvency regulations as an example.

An official added that while there are frequent calls to design entirely new regulatory architectures, starting from scratch is not feasible because the system evolves continuously and is shaped by past developments.

The Chair concluded by noting two recurring dynamics: the belief that gold plating is always happening elsewhere, and the conviction that national specificities justify special treatment.