

Simplifying EU banking regulation and supervision

The session explored how to simplify the EU banking regulatory and supervisory framework while preserving financial stability and competitiveness. Participants highlighted that robust prudential standards and adherence to international norms must remain the foundation of Europe's resilience, but that simplification is necessary to improve efficiency and coherence.

Discussions focused on reducing unnecessary complexity in the capital and resolution frameworks, enhancing proportionality and risk-based supervision, and strengthening consistency across regulatory layers. Several speakers underlined that completing the banking union and deepening the single market remain essential to achieving meaningful simplification.

Attention also turned to operational aspects – data, reporting and coordination among authorities – where streamlining processes and eliminating duplication could significantly reduce compliance burdens. Finally, panellists pointed to political and structural obstacles, notably trust deficits and national sovereignty concerns, which continue to delay integration. Simplification, they agreed, should not mean deregulation, but rather a more coherent, transparent and efficient European framework that reinforces both resilience and competitiveness.

1. A clearer, more effective regulatory framework

1.1 Adherence to international standards and preservation of capital neutrality

A regulator emphasised that robust prudential regulation remains a cornerstone of Europe's banking resilience, and that simplification should never be mistaken for deregulation. Efforts to reduce complexity must go hand in hand with adherence to international standards and the adoption of a single rulebook for Europe, while maintaining capital neutrality. The goal is to enhance the effectiveness of the current framework without undermining resilience.

One key priority is to remove unnecessary gold-plating, double-counting and overlaps, and to eliminate superfluous complexity in both rules and supervision. Simplification begins with identifying what is redundant. Another objective is to advance the banking union, which is seen as an essential lever for substantial simplification.

1.2 Structural rethinking over layering

The Chair recalled that proportionality is a recurring theme in European regulatory debates, often discussed but seldom translated into action.

An official noted that the very need for simplification demonstrates that the current framework is overly complex. This complexity is not accidental; it reflects deliberate design choices and the EU's institutional structure. While all actors call for simplicity, the desire for exemptions by national supervisors multiplies complexity across 27 Member States, compounded by the three institutional layers — Commission, Council and Parliament.

When new legislation builds on an already intricate framework, it is legitimate to question why it would be any less complex. Proportionality is essential, yet it requires nuanced application across prudential, conduct, AML, ESG and resolution domains — some of which lend themselves better to proportionality than others.

Any Commission proposal must be carefully calibrated. Member States and industry bodies will first assess their compatibility with the regime and seek clarity on implementation, consolidation, and transitional arrangements. The simpler the framework, the greater the demand to be included. However, any gaps must be compensated for. Although everyone agrees on the need for proportionality and simplicity, discussions will inevitably focus on how to address these gaps. Sound justification and fine calibration are therefore indispensable.

1.3 Proportionality, risk-based approaches and better coordination across regulatory layers

A regulator expressed strong support for the high-level principles put forward — greater proportionality, risk-based supervision and consistency across regulatory layers. Yet, fragmentation within the EU means that what is seen as desirable in some jurisdictions may be considered essential in others, complicating harmonisation. Nevertheless, efforts must persist. The high-level ECB taskforce is examining regulation, supervision and reporting, with a particular focus on clarifying responsibilities between levels one, two and three.

Next year's Supervisory Review and Evaluation Process (SREP) reform is expected to yield simplification benefits. Within supervision, the Single Supervisory Mechanism (SSM) is advancing several workstreams aimed at streamlining authorisation procedures, internal model validation and reporting, in collaboration with the European Banking Authority (EBA).

Achieving meaningful change will take time. The post-crisis risk aversion threshold may have reached its limit, opening space for a more risk-based approach. Strengthened coordination among authorities is required to ensure a shared understanding of requirements.

An industry representative welcomed the taskforce's work, underlining the link between financial resilience and competitiveness. Key drivers include layering, review, alignment and prioritisation. Behavioural aspects should also be considered, and the ECB has already expanded its analytical scope in this direction.

These reflections on proportionality and coordination paved the way for a deeper look at structural reforms designed to strengthen the EU's competitiveness.

2. Structural and regulatory reform to boost competitiveness

2.1 Reviewing capital and resolution frameworks

2.1.1 Addressing vertical and horizontal complexity

A regulator noted that several areas lend themselves to simplification. First, vertical complexity arises from the multitude of buffers within the capital stack — a difficult aspect to modify but one that clearly requires review. Secondly, the coexistence of total loss-absorbing capacity (TLAC) and the minimum requirement for own funds and eligible liabilities (MREL) adds horizontal complexity to the resolution framework, suggesting opportunities for streamlining: Aligning MREL with TLAC is essential.

Eliminating the maximum distributable amount (MDA) triggers in both the MREL and leverage frameworks would enhance buffer usability and reduce reliance on non-risk-based management buffers, which could instead be integrated into existing risk-adjusted or Pillar 2 requirements. Renewed efforts are also needed to facilitate cross-border liquidity and capital mobility within Europe.

2.1.2 Balancing global consistency, resilience and capital stack complexity

A regulator explained that work is ongoing to define the guiding principles, notably the need to maintain global consistency and to assess the implications of doing so. The aim is to avoid disproportionate Basel implementation across all institutions.

Evidence can be provided where the framework does not function effectively, particularly concerning vertical and horizontal layers of the capital stack. A recent paper highlighted the operational difficulties caused by the cumulative nature and interaction of these layers. A holistic approach is needed to clarify the requirements and their future direction for supervised entities. These issues will be examined in the broader context of global standards and the preservation of overall resilience.

2.1.3 Strengthening confidence and competitiveness

An industry representative underlined that the EU's regulatory framework is demanding, combining multiple layers of capital, liquidity, resolution and ESG requirements. Without a structured review, it is difficult to maintain alignment and avoid duplication.

The taskforce should prioritise proportionality and risk-based approaches. Similar risks should be treated consistently across capital, liquidity and resolution regimes, with priorities clearly defined to focus on the most material risks. Benchmarking against global standards is also essential to ensure international consistency and to simplify levels 2 and 3.

A well-calibrated review could strengthen confidence in the EU banking framework, improve capital allocation, lower long-term funding costs, and enhance resilience. Reducing redundancy does not weaken stability; it allows supervisory focus to be directed where it matters most. The overarching objective should be to enable EU banks to support the real economy more effectively and compete globally, particularly with peers in the US and Asia.

2.1.4 Structural challenges in the EU

An industry representative described the perspective of a Japanese bank headquartered outside the EU. While recognising the EU's importance, the institution prioritises growth in the Americas and Asia-Pacific, where expected returns are higher. Within the EU, profitability and risk-adjusted returns lag behind other regions, reflecting both internal factors and high operational costs linked to fragmentation and regulation.

Nevertheless, the bank remains committed to supporting the EU, notably through infrastructure investment, which it considers vital to long-term regional stability. Large international institutions have a role to play in Europe's development. However, internal competition for capital requires clear evidence of economic viability to justify continued investment in the EU.

2.2 Strengthening the single market

A public representative distinguished between two forms of complexity in the European banking system: that stemming from European regulation itself, and that resulting from the incomplete banking union.

Some have proposed a "one in, one out" approach, whereby new regulation replaces existing rules; others even suggest a "one in, two out" model. Yet, the simplification needed to achieve a genuine banking union would rather require a "one in, 27 out" approach — removing national layers that still hinder the single market's full efficiency.

2.2.1 Tackling complexity in levels 1, 2 and 3

A public representative observed that the relationship between levels 1, 2 and 3 is often non-linear. Trilogues cannot capture every technical detail, and with 27 Member States and several political groups in Parliament, finding consensus on precise wording remains complex. Because many delegated acts are approved at the political level, not all provisions can be defined in level 1 legislation. Part of the responsibility therefore falls to the EBA and the Commission, even though legislators do not always fully assess the agencies' work or have the capacity to monitor their daily implementation. The supervisory framework also needs review, as multiple supervisors with different tools and mandates coexist, most of them at national level. Not all have authority to define or interpret

certain provisions. Both the banking union and the single market must therefore be simplified and made more coherent.

2.2.2 Improving levels 2 and 3

A regulator stressed that progress toward a genuine single market has been impeded by persistent shortcomings. Although Europe has a single rulebook, a single supervisor, and a banking union, it still lacks a fully integrated market. The ongoing debate on simplification must avoid worsening fragmentation.

One improvement area lies in the drafting of levels 2 and 3. A proliferation of mandates has led to excessive delegation of what should remain political choices at level 1, while level 1 itself sometimes over-specifies technical detail. In response, the EBA has introduced a methodology to prioritise and assess mandates, aiming to deprioritise 20% of existing requirements. The Commission has also proposed adjustments to reduce the impact of certain mandates on banks. Clarifying regulatory language is crucial. Provisions initially expressed as optional often evolve into mandatory obligations at levels 2 and 3. A recent SREP peer review found that although proportionality was embedded in the guidelines, it was later constrained by supervisory interpretation. This must be addressed: proportionality should be risk-based and aligned with each institution's risk profile, both in reporting and rule application.

2.2.3 Short-term duplication in reporting and long-term aspirations

A regulator distinguished between short-term issues and long-term objectives in reporting. The Joint Banking Reporting Committee (JBRC), with the ECB and statistical authorities, is developing a common data dictionary and a single reporting scheme. However, it remains unrealistic to expect banks to report each data item only once to a single authority.

Proportionality already exists in reporting — for instance, Small and Non-Complex Institutions (SNCIs) are subject to only about 30% of the requirements applied to larger banks. Yet, duplication persists, and the cost-benefit of certain reporting remains unclear. The EBA plans to create a directory of reporting requests with national competent authorities (NCAs) to help reduce the burden. A more holistic regulatory approach is needed. Level 2 mandates are handled by policy subgroups across 27 Member States, and while each mandate may be sound individually, their cumulative effect can be inefficient. Discussions on releasable buffers and their coordination should also follow a more integrated logic.

The current framework could be improved by ensuring that these issues are not left to individual authorities. Stronger alignment between financial stability and single market objectives is also necessary. National supervisors tend to focus on domestic stability, making it difficult for banks and micro-prudential authorities to fully promote single market integration.

While regulatory simplification remains a priority, data and reporting processes also require modernisation to achieve genuine efficiency.

3. Data, reporting and implementation tools

3.1 Ensuring a level playing field

An industry representative stressed that sound risk management is vital for firms seeking sustainable growth. Several areas of regulation and supervision would benefit from simplification. Maintaining harmonisation and a level playing field in banking and regulatory standards remains essential to prevent competitive distortions stemming from divergent international rules. Regulation should also be proportionate, reflecting institutions' size, business models and risk profiles. Flexibility within established frameworks is necessary to foster growth and should be calibrated to the material risks taken by each entity.

Resource-intensive reporting processes should be streamlined to remove duplication, inconsistencies and unnecessary compliance costs — particularly for smaller institutions, where consolidated group reporting could suffice. Reporting and supervisory requirements should apply proportionately, taking into account entity size and the operational capacity of EU subsidiaries and branches of third-country groups.

The Chair noted the difficulty of balancing proportionality with prudential oversight, while preserving a level playing field within the EU. An industry representative highlighted the importance of reviewing both the content and method of data requests. The current volume of regulatory reports and ad hoc supervisory demands is substantial. While data are valuable for effective risk management, it is necessary to distinguish between essential and merely desirable requirements through cost-benefit analyses adapted to different types of banks.

3.2 From fragmentation to efficiency

An industry representative outlined three core principles for more effective regulation: single submission and data sharing across authorities, proportionality calibrated to risk and complexity, and full clarity over the volume and purpose of reported information.

These principles could be implemented through common definitions that replace today's fragmented EU rules and guidance. Investment in regulatory technology (RegTech) will be crucial to enable centralised data collection and seamless information sharing, though this will also require a strong focus on system security. Overlapping reporting obligations should be eliminated so that firms are not required to submit similar data in multiple formats to different authorities. Regular feedback-loop testing should also be introduced to verify that supervisors effectively use the data collected.

Expected benefits include more consistent, risk-focused data for supervisors, reduced compliance and operational costs for banks, and enhanced efficiency and international competitiveness for the EU financial sector. Simplification should not be equated with deregulation; rather, it should aim to produce a more coherent and credible framework.

3.3 The ECB taskforce's role and key challenges

An industry representative observed that a lack of coordination among authorities – and even within supervisory teams – contributes to duplication, inconsistencies and conflicting requirements. Several initiatives are under way to address this, including a new agreement enabling the European Supervisory Authorities (ESAs) to share and reuse data, although national authorities remain outside its scope.

The high-level ECB taskforce will therefore play a crucial role in identifying duplication and reassessing reporting requirements. Two major challenges lie ahead: ensuring effective stakeholder alignment among numerous actors, and simplifying the simplification process itself to make reform both operational and sustainable.

While progress in data and reporting can enhance efficiency, achieving lasting simplification ultimately depends on addressing the political and structural barriers that continue to limit European banking integration.

4. Political and structural integration challenges

4.1 Delays from trust deficits and national sovereignty concerns

A public representative recalled that, during negotiations on the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), the European Parliament broadly supported the introduction of provisions to facilitate the use of the waivers to enable more flexible capital and liquidity allocation across the banking union. However, these proposals met strong resistance in the Council, reflecting a persistent lack of trust among Member States and ongoing concerns over national sovereignty.

Similarly, while the Parliament's Committee on Economic and Monetary Affairs (ECON) approved the establishment of a European Deposit Insurance Scheme (EDIS), progress has remained blocked within the Council. This stalemate continues to impede improvements in cross-border capital mobility and liquidity management within the EU. The home/host divide remains a major structural obstacle to deeper banking integration.

4.2 Ring-fencing, capital mobility and competitiveness

An industry representative noted that ring-fencing regulations may not fully apply to firms without fully developed EU models. Positive developments have been observed within the banking union, where reduced ring-

fencing has led to more efficient capital allocation. Nonetheless, some elements risk undermining EU competitiveness, which is particularly concerning given Europe's need to attract more global capital to finance its growth and transformation.

Third-country banking groups would benefit from national authorities retaining the ability to grant capital and liquidity waivers to branches under their supervision, provided reciprocal arrangements exist in other jurisdictions. Such measures would enhance intra-EU funding transfers.

Supervisory colleges and crisis management groups remain effective mechanisms for information sharing and coordination, resulting in more efficient supervision, better-informed decision-making and increased transparency. The Single Resolution Board (SRB) also plays a positive role by offering a single point of entry for resolution coordination.

4.3 National specificities and supervisory differences

An official observed that, despite several years of the Single Supervisory Mechanism (SSM) and harmonised regulation, cross-border banking activity in the EU remains limited. While financial market regulation is largely aligned, macroprudential policy still allows a degree of national discretion. This raises the question of whether differences in supervisory practices also constrain cross-border operations. National regulators may have legitimate grounds for differentiated approaches, reflecting local market specificities.

These issues warrant further analysis. Establishing a single supervisor would not necessarily solve them, as national expertise would still be required. Existing coordination frameworks — such as supervisory colleges and the EBA Board of Supervisors — already facilitate information exchange, and their effectiveness would not fundamentally change under a centralised model. The key question is what tangible benefits further centralisation would bring, given that structural changes often entail additional costs.

The Chair concluded by noting broad agreement that the current regulatory framework remains excessively complex, largely due to misaligned incentives and divergent interpretations across 27 authorities, each promoting its own perspective and definitions. The guiding principle should therefore be to reduce complexity while preserving the core objectives of existing legislation.