

SIMPLIFYING EU BANKING REGULATION



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Making supervision more effective without compromising resilience

Simplification is a growing focus within the European banking sector. At the ECB, we are moving beyond rhetoric and implementing concrete changes to make supervision more efficient and risk-based, while preserving the strength of the prudential framework.

Balancing efficiency with prudential standards

At the ECB, we understand simplification as reducing undue complexity in supervisory processes and requirements without weakening prudential standards or undermining resilience. This work is not new. We started this journey by harmonising the Supervisory Review and Evaluation Process, following recommendations from the High-Level Task Force on Simplification. We have now taken the next step by publishing a comprehensive reform agenda for European banking supervision.

A key principle of simplification is predictability. When supervisory expectations are clearer and engagement more transparent, banks can anticipate supervisory judgements better and allocate resources to managing material risks, rather than navigating procedural complexity.

From a supervisory perspective, complexity is justified when it delivers proportional benefits for financial stability and risk assessment. However, complexity can reach a point where additional granularity or procedural layers no longer enhance supervisory outcomes. This occurs when requirements become repetitive, reporting obligations duplicate existing information or processes slow down without improving the quality of decisions.

Competitiveness requires deeper integration and harmonisation

The renewed focus on simplification is closely linked to discussions on the competitiveness of the European banking sector and the wider European economy. While competitiveness matters, it is important not to misdiagnose the problem. The main constraint on European banks' competitiveness is the lack of scale and integration resulting from an incomplete Single Market. Competitiveness in Europe will not be strengthened by lowering capital standards, but by achieving deeper integration and greater harmonisation.

Harmonisation is central to simplification itself. Applying one coherent framework across the European Union is inherently simpler than navigating 27 separate national regimes. However, simplification efforts must be aligned with national supervisory practices. If national authorities introduce additional requirements or divergent interpretations, complexity will simply shift rather than decrease. Close coordination is therefore crucial to ensure that simplification gains at the European level are not offset by fragmentation at the national level.

The ECB is delivering concrete reforms

In December, the ECB published a comprehensive reform agenda setting out how European banking supervision will become more efficient, effective and risk-based within the existing legal framework. The reform programme rests on two mutually reinforcing foundations: the use of technology and a shared supervisory culture.

Technology is a key enabler of simplification. Digital tools, automation and advanced analytics allow supervisors to process large volumes of information more efficiently, reduce manual and repetitive tasks and better integrate data across supervisory processes. At the same time, simplification must be anchored in supervisory culture. A forward-looking, integrated and risk-based supervisory mindset is essential to translate streamlined processes into better outcomes.

We understand simplification as reducing undue complexity without weakening prudential standards.

These changes will have tangible effects on banks' day-to-day supervisory interactions. Digital and fast-track processes for fit-and-proper assessments have reduced processing times. In addition, a dedicated fast-track approval process for low-risk own funds transactions aims for decisions within two weeks once fully operational. Supervisory reporting has been streamlined by reducing duplication across data collection, improving alignment between regular reporting, stress testing and ad hoc requests, and applying a stronger focus on materiality.

Going forward, we will review our ECB guides to further streamline supervisory expectations, remove overlaps and improve accessibility.

Each level of governance has a role to play. Legislators can reduce complexity by consolidating requirements in primary legislation. Supervisors can streamline implementation through clearer guidance and more efficient processes. National authorities can support simplification by aligning their practices with European standards.

1. ECB (2025), *Streamlining supervision, safeguarding resilience: the ECB's agenda for more effective, efficient and risk-based European banking supervision*, 11 December.
2. *Ibid.*



KARLHEINZ WALCH

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The Deutsche Bundesbank's perspective on simplifying financial regulation

First things first: the post-GFC reforms have made European banks much more resilient. This resilience is likely to pay even greater dividends in a world of upended certainties. So, preserving resilience must be our chief concern. But while a certain degree of complexity in regulation is inevitable in an intricate financial economy, we see significant scope for simplifying the regulatory framework without jeopardising resilience.

The financial industry itself acknowledges that a degree of complexity is needed. That complexity ensures risk sensitivity and fairness in individual cases. When rules are very simple, they require more stringent safety measures in the shape of increased capital requirements.

But even so, financial regulation has become ever more intricate over the years because small and detailed requirements have been added to the existing framework. While these additions were often well-intentioned, they have collectively created a regulatory

environment that imposes significant administrative burdens on banks and supervisors alike. Simplification, then, is not merely a goal in itself but a means to achieve greater clarity and reliability in the financial system.

However, simplification must not be confused with deregulation. The protective effects of regulation, which safeguard the stability of the financial system, need to remain intact. Efforts should instead focus on streamlining processes and reducing unnecessary red tape.

At the German national level, the Deutsche Bundesbank and BaFin have long worked together to deliver on these objectives. These efforts have shown that it is indeed possible to simplify regulations and supervision for smaller banks without undermining safety standards. Examples include our risk tolerance framework and waiving periodic inspections. However, incremental changes are no longer sufficient to address the growing complexity of financial regulation.

That's why we are calling for a more sweeping paradigm shift in the regulation of small banks. One promising approach could be to introduce a small banking regime. That regime would be open to small banks that run simple business models and operate primarily within the euro area. It would provide a more proportionate regulatory framework for those institutions, reflecting their lower complexity and their more conservative risk profiles.

The rules are not too strict, but they are complex, often cumbersome and sometimes contradictory.

Under that framework, the intricate, risk-based capital requirements could be replaced by a simpler leverage ratio. But to ensure that these banks maintain sufficient capital to absorb potential losses, that leverage ratio would need to be set significantly higher than the Basel III minimum of 3%.

The benefits that this kind of regime offers would be considerable. For one thing, it would no longer be necessary to collect, process and repeatedly update the extensive sets of data needed to calculate risk weights. Moreover, the risk-based buffers and pillar 2 requirements would no longer apply. Additionally,

the comprehensive regulatory reporting requirements that are currently in force could be streamlined, making compliance less time-consuming and less costly. Reporting and disclosure obligations would be scaled back as well, in terms of their frequency and scope. That would significantly reduce the administrative burden on small banks, allowing them to allocate their resources more efficiently.

Another proposal put forward by the Bundesbank and BaFin addresses the capital stacking order, which could be made far simpler through two key measures.

The first measure involves focusing on appropriate forms of capital. It is about using the most suitable types of capital for different purposes. For instance, Common Equity Tier 1 (CET1) capital could be designated for requirements related to ongoing operations ("going concern"), while non-CET1 capital could be reserved for requirements in the event of resolution ("gone concern"). This targeted allocation of capital types would enhance clarity and ensure that the regulatory framework is better aligned with specific needs in different scenarios.

The second measure concerns the consolidation of similar buffers. Capital buffers that serve comparable functions, such as the countercyclical capital buffer and the systemic risk buffer, could be merged into a single, unified buffer. That would eliminate redundancies and make the capital framework less complex.

We are pleased that many aspects of our proposals have found their way into the report by the High-Level Task Force on Simplification, a body created by the ECB's Governing Council. This report highlights our shared commitment to creating a simpler and more efficient regulatory framework within the European financial system. In our view, it provides an excellent basis for the further legislative process.



HELMUT ETTL

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Boosting efficient prudential rules and supervision without diluting resilience

The growing complexity within the prudential framework is no accident: it reflects years of well-grounded, incremental fixes that have strengthened resilience and safeguarded financial stability amid new sources of volatility and digitalisation; but it has also created interpretative layering, duplication, and uneven usability. In 2025, the EBA's Task Force on Efficiency of the Prudential and Supervisory Framework (TFE) articulated a set of ideas to restore coherence and predictability while safeguarding risk sensitivity and the Single Market. Its programme should form the backbone of a broader, evidence-based simplification effort across prudential banking supervision, resolution and beyond.

Improving coherence, usability and consistency of Level 2 and Level 3 measures while avoiding further layers of complexity

While, in general, Level 2 and Level 3 measures have shown to be strong convergence tools, the TFE puts forward an explicit, evidence-based methodology to prioritise—or deprioritise—new mandates. It assesses complexity and stakeholder sensitivity, identifies affected institution categories, and weighs both the burden on institutions and the usefulness for supervisors,

including whether objectives could be achieved through ex post convergence rather than additional ex ante harmonisation. Applied to upcoming mandates, the methodology provides a concrete mechanism—subject to agreement with the Commission and co-legislators—to prevent deliverables that are “nice to have” from becoming permanent features of the framework.

In parallel, the EBA has launched a systematic review of existing Level 2/3 products through thematic “building blocks”, as credit risk or governance and remuneration. These reviews are not limited to repealing outdated acts, but aim to reduce overlap, remove redundant legacy elements and clarify the EU prudential approach within each block. The TFE also identified a practical lever: modernising the Single Rulebook through interactive and machine-readable formats that link Level 1/2/3 texts and Q&As and reduce manual tracking.

Towards a holistic assessment of capital, leverage, liquidity and resolution requirements

The regulatory framework for credit institutions now spans micro and macro prudential and resolution rules, alongside AML, market conduct, consumer protection and emerging ESG, digital and AI requirements. While this has enhanced resilience, its growing complexity calls for more holistic coordination. The EBA is reviewing how to streamline capital, buffer and MDA requirements and the interaction between own funds, leverage and TLAC/MREL, with a report expected in summer 2026. At the same time, the EBA will promote greater harmonisation of key risk management concepts and supervisory expectations across frameworks. Moreover, stronger cooperation among authorities is essential: the EBA will explore supervisory platforms, strengthen information sharing and data reuse, and assess common IT solutions. A further operational strand concerns data, with integrated reporting across prudential, resolution and statistical needs supported by a common glossary and data dictionary.

Avoiding unintended cumulative effects while preserving risk sensitivity

Echoing broader ECB concerns, the EBA can act as a “coherence engine” across frameworks by systematically identifying overlaps, clarifying interactions between micro- and macroprudential and resolution requirements, and addressing layering that creates double counting or buffer non usability. Institutionally, the EBA points to revisiting the roles and

granularity of Level 1/2/3 instruments, relying more on directly applicable rules, and introducing a bulwark against constant fine tuning.

The EBA can act as a “coherence engine” across frameworks.

Are proportionality tools well targeted—or do they need redesign?

The TFE evidence is nuanced. Proportionality is already embedded in reporting: SNCIs submit only around 30% of the data required from large institutions, and more than 2/3 of templates include proportionality features. However, the TFE shows that such clauses are not always fully used in practice, notably in SREP implementation, highlighting the role of supervisory discipline alongside legal design. The EBA therefore calls for a more systematic application of simpler rules for SNCIs within a single-bank regime and explores expanding the SNCI category without creating a separate small-bank regime that could undermine the Single Market.

Conclusion

The EBA's role is not to dilute prudential standards, but to curate the Single Rulebook: prioritising what genuinely harmonises, consolidating and digitising what already exists, and continuously testing the framework for inefficiencies—so that risk sensitivity is preserved while coherence and efficiency improve.



ANTONY JANCIC
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Rebalancing Europe's rulebook for a more competitive banking sector

Europe's prudential rulebook is rightly praised for its resilience. Forged at a time of crisis, and updated with the experience of 2008 as a very present memory, it is natural that the rules governing bank prudential requirements, governance arrangements, supervisory practices and other core functions were produced with stability at the forefront. These layers of requirements, whether enshrined in EU law as regulations or directives, or implemented through technical standards and guidance, were designed primarily to prevent crises and to safeguard Europe's depositors, businesses, and wider financial system.

Like a ship caught in a storm that is then repaired at sea, the rulebook we have now reflects the job that needed doing. Yet it is not refined nor simple, and if starting again in the safety of a drydock, it is a ship that could be redesigned and optimised to sail further and faster while remaining safely afloat.

Now the momentum is building to reconsider the rulebook. The European Commission's simplification agenda is welcome and should be embraced as an opportunity to course-correct. **However, simplification alone is not enough if the outcome is to benefit the broader EU.** The

fundamentals that drive the provision of finance must be brought into focus. Competitiveness is also key, and the approach of peer jurisdictions must be considered.

The layering of bank capital requirements and buffers in the EU is significantly more complex than in the US. Large EU banks can face two types of risk-based Pillar 2 requirements and more than five systemic buffers, compared with no Pillar 2 requirement and three buffers in the US. This is before considering risk-based resolution requirements, and the leveraged based capital stacks that sit alongside them.

Back in July 2024 the European Banking Authority (EBA) published a report assessing the EU framework, finding that EU banks could be subject to up to ten distinct incremental capital stacks. Seven have distribution restriction thresholds, with triggers applied at varying levels. Buffers, such as Pillar 2 Guidance, sit on top of some and within others, whilst banks must also maintain their own operating and management buffers above these stacks.

The EU prudential framework is not just more complex, it is also stricter in applying international standards in certain areas. The Financial Stability Board's standards for Total Loss Absorbing Capacity (TLAC), for example, were incorporated in the EU alongside an additional set of TLAC-equivalent requirements in the form of Minimum Requirements for own funds and Eligible Liabilities (MREL). MREL applies to all European banks, regardless of size or systemic importance, albeit with some tailoring for the smallest entities.

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If competitiveness is to be encouraged, the gold-plating that has been incorporated must be challenged. Where it is needed, it should stay, but where it is not reflective of the risks posed, it should be withdrawn or replaced.

Furthermore, simplification must also extend to supervision. Current supervisory processes add materially to operational complexity. Whilst we have seen encouraging movement as part of the 'Next Level Supervision' initiative, a more risk-based and proportionate approach is still needed to avoid excessive burdens. Although intended

as guidance, supervisory expectations are frequently applied as if they had a significance similar to level-one law, providing banks with little room to adapt them to their particular circumstances and business models.

Observers will be factoring this into their own assessments, and investor perceptions remain mixed. On the one hand, a stringent prudential framework can shield EU banks from vulnerabilities. For example, the application of liquidity and funding requirements to all EU banks helped them largely avoid the turmoil experienced by some US regional banks in 2023. On the other hand, duplicative reporting requirements increase operating costs. Capital and liquidity constraints along national boundaries create barriers to cross-border consolidation, hindering the emergence of pan-European banks with the scale to compete globally.

Recommendations from the European Central Bank's High-Level Task Force, and the European Commission's consultation on competitiveness move in the right direction. We are encouraged to see the Commission asking tough and open questions that show willingness to listen to what changes could improve the competitiveness of European banks.

However, meaningful progress will require political will to overcome national interests in favour of broader European objectives. Whatever comes out of the Commission's upcoming report will be followed by a need to implement changes to the rulebook. It is here that the European Parliament, Council and Commission should embrace the opportunity to streamline the rulebook and enable Europe's banks to move into a more competitive future, free of unnecessary burden and better able to support the Union's financing needs.



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Fragmented supervision: a structural challenge for pan-European banking

The objective of a genuinely pan-European banking market has long been a cornerstone of the European integration project. Yet for banking groups operating across multiple Member States, regulatory complexity and national divergences in supervisory practices continue to create significant operational and strategic challenges. These challenges go beyond compliance costs and directly affect how capital, liquidity, governance and risk are managed at group level, limiting the benefits that crossborder integration is meant to deliver.

While the Single Supervisory Mechanism has delivered important improvements, meaningful differences remain in supervisory expectations, reporting requirements and the interpretation of EU legislation. Banks are frequently subject to overlapping horizontal campaigns and institution specific reviews covering similar risk areas, as well as multiple data requests for information already provided through regular supervisory channels. This duplication absorbs considerable

management attention and resources, with limited incremental benefit for financial stability.

The incomplete nature of the Banking Union further amplifies these inefficiencies. Persistent ringfencing practices, particularly in relation to capital, liquidity and loss-absorbing capacity, continue to reflect a predominantly national approach to supervision. Although understandable from a domestic prudential perspective, these practices significantly constrain the fungibility of resources within crossborder groups. As a result, pan-European banks are often required to operate as a collection of standalone entities rather than as integrated groups, reducing diversification benefits and increasing overall resource needs.

In this context, meaningful simplification is difficult to achieve without clearer legislative recognition of crossborder banking groups at EU level. The continued emphasis on solo supervision, combined with conservative approaches to waivers and groupwide risk management, entrenches fragmentation. A reassessment of the appropriate balance between solo and group-level supervision, grounded in the actual risk profile, governance and controls of institutions, would support a more efficient supervisory framework without weakening safety and soundness.

Current proportionality mechanisms also warrant closer scrutiny. In practice, proportionality is often applied primarily on the basis of size, without adequately reflecting differences in business models, complexity or risk appetite. As a result, banks with relatively simple and low-risk activities may face requirements similar to those of far more complex institutions. A more nuanced application of proportionality, incorporating qualitative criteria and supervisory judgement, would better align requirements with actual risk.

**A single banking market
cannot function with
persistently fragmented
supervision.**

As the European Commission advances its work on the future of EU banking, concrete signals are needed to demonstrate that simplification has become a genuine strategic priority. These could include stronger convergence of supervisory practices, a systematic review of reporting

requirements to eliminate duplication, greater reliance on risk-based and principles-based supervision, and clearer guidance on reducing unjustified ringfencing within the Banking Union. Enhanced coordination between prudential and resolution authorities would further improve efficiency.

From an operational perspective, fragmentation also affects data management, internal controls and strategic planning. Divergent national expectations often require banks to maintain parallel systems, local governance layers and additional control functions, even when risks are centrally managed. This reduces transparency at group level and slows decisionmaking during periods of stress. Moreover, the accumulation of national specificities complicates long-term investment decisions and weakens the business case for further crossborder expansion. A credible commitment to simplification would therefore not only enhance supervisory efficiency but also support competitiveness and growth across the European economy. In a global context where banks compete with institutions subject to more integrated frameworks, the cost of fragmentation risks putting Europe at a structural disadvantage. Addressing these issues requires political will, supervisory trust and a shared understanding that financial stability and integration are mutually reinforcing rather than conflicting objectives. A more coherent framework would allow supervisors to focus on material risks while enabling banks to operate more efficiently. This shift is essential for the next stage of European financial integration. It would also reinforce credibility and foster trust among stakeholders. In practice, it matters. Now.



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Safer banks, simpler rules: preserving the Single Market with simplification

Regulation since the global financial crisis has made the European banking system markedly safer. Yet the cumulative regulatory requirements now risk undermining the Single Market's efficiency. Proliferating, prescriptive requirements at all layers of the prudential framework have moved the EU away from clear, principles based supervision toward prescriptive compliance that adds operational complexity with diminishing marginal benefits to resilience. By contrast, the UK, as an example, remains Basel-aligned while pivoting toward proportionality and competitiveness.

The interaction between capital, liquidity and resolution requirements in Europe, the "stacking", creates complexity and constraints. The EU's RWA framework, resulting from the combination of detailed calculation requirements set out in the CRR/CRD, associated Regulatory Technical Standards (RTS) and other Delegated Acts, and EBA Guidelines, creates significant complexity in the calculation of the capital ratio denominator which generates unnecessary and costly operational burden and leads to economic inefficiencies in the EU banking system, with firms compelled

to adopt overly conservative capital calculations (relative to true risk) to avoid unintended errors. In practice, the higher RWAs then drive increases in capital buffers and MREL and hence indirectly higher liquidity expectations both for going and gone concerns.

Opacity and lack of clarity in the derivation of Pillar 2R is another unnecessary complexity in the calibration of gone concern capital requirements that creates uncertainty for firms. While the ECB has acknowledged these challenges and sought to improve the process, it remains unpredictable, which hinders banks' ability to conduct capital planning with confidence and reduces the efficiency of capital deployment.

In addition, resolution requirements impose disproportionate costs and strategic constraints for global groups' EU subsidiaries. MREL calibrations are substantially higher than in non-EU jurisdictions due to gold-plating of international standards, and burdensome expectations around resolution planning capabilities create operational complexities.

Lastly, reporting multiplies the load. COREP/FINREP, Pillar 3 disclosures, statistical submissions among many others, including ad hoc supervisory data requests, often seek similar information using different taxonomies, validations, and cycles.

**We must deliver
competitiveness and
operational efficiency
without reducing safety
and soundness.**

The above-mentioned complexities lead to substantially higher operational burden and cost to operate, as well as conservative capital calculations which ultimately lead to reduced efficiency of capital deployment to the EU economy, resulting in structural headwind for investments, productivity, and long-term growth.

At the same time, the robustness of the EU prudential framework remains a cornerstone of market confidence and a pull factor for international capital. The objective of prudential simplification should therefore be a balance: enhance competitiveness and operational efficiency by pruning complexity and avoiding gold-plating that does not improve resilience, while preserving the

core safeguards that ensure safety and soundness.

- A focused agenda can deliver that balance:
- Keep Level 1 legislation more principles-based and curb proliferation of Level 2/3 measures and supervisory soft law
- Increase transparency in the decision making process for Pillar 2R, to enhance banks' abilities to accurately conduct capital planning
- Streamline stress testing by consolidating overlapping scenarios, locking methodologies earlier, and running efficient, transparent FAQ processes. For cross-border groups, reduce duplicative constraints where group frameworks already meet or exceed EU expectations
- Align MREL calibration with international standards to demonstrate the EU's commitment to the international resolution regime whilst allowing firms to deploy their capital more efficiently
- Trim reporting and disclosures. Remove duplicative templates, align taxonomies across prudential, statistical and resolution reports, and reduce frequency for low-materiality items, moving to "report once, use many times."

None of this is deregulation. Capital, liquidity, resolvability, and supervisory oversight are non-negotiable. The choice is between complexity that obscures risk and harms relative competitiveness, and simplicity that sharpens risk management, improves comparability, and frees capacity for investments, productivity, and long-term growth across the Single Market.