

Macroprudential framework review

The panel addressed the ongoing review of the EU macroprudential framework, which has played a central role over the past decade in strengthening the resilience of the European banking system. The introduction of macroprudential buffers in the aftermath of the global financial crisis (GFC) significantly enhanced banks' loss absorbing capacity and enabled the financial system to remain robust and continue supporting the economy even in periods of severe stress. However, there is a growing consensus among policymakers and market participants that the framework has become increasingly complex, multilayered and heterogeneous. This reflects the need to accommodate differences in financial structures, risk profiles and economic conditions across member states, but it has led to overlapping instruments, diverging methodologies and inconsistent supervisory practices. The coexistence of EU level coordination and predominantly national implementation has contributed to fragmentation, raising concerns about transparency, proportionality and the overall effectiveness of macroprudential policy.

These challenges are particularly significant for cross border banking groups, which often face multiple or overlapping capital requirements that address similar risks using different instruments. Diverging national approaches to risk assessments and legal interpretations can result in materially different outcomes for institutions with comparable risk profiles and in some cases can create de facto capital ring fencing and limit the efficient allocation of capital and liquidity. This may ultimately distort the level playing field, increase compliance costs and curb the competitiveness of the European banking sector.

In this context, the discussion was structured around three themes: the sources of complexity and heterogeneity in the current framework as well as their practical consequences for banks; the structural drivers of complexity, including possible avenues for simplification; and the way forward, which includes the options to enhance convergence, improve governance and ensure the framework remains effective and proportionate while preserving the flexibility needed to reflect national specificities.

1. Complexity and heterogeneity in the macroprudential framework: sources and consequences

1.1 Growing complexity and governance challenges

A regulator observed that significant governance and coordination issues have arisen in the macroprudential framework, particularly since the creation of the Single Supervisory Mechanism (SSM). The proliferation of specialised instruments and buffers makes it increasingly difficult to maintain a clear and

comprehensive view of the overall capital framework, thereby weakening its readability, consistency and effective governance.

1.2 Heterogeneity: justified differences and unwarranted divergence

1.2.1 Heterogeneity can be a reflection of the structural differences between national financial systems

An official noted that some heterogeneity in macroprudential policies is legitimate, reflecting genuine structural differences between national financial systems. Some economies remain largely bank centric and have relatively underdeveloped capital market. In some, banking sector maintains a capital surplus above regulatory requirements so it can absorb losses and continue providing financial services even in highly stressed scenarios. Therefore, structural features of an economy necessarily affect the calibration of macroprudential policy

1.2.2 Unwarranted divergence is driven by non risk factors

An official emphasised that not all divergence is justified by the underlying fundamentals of national economies, however. The differences in the timing and ambition of countercyclical capital buffer (CCyB) activation or in the scope of the systemic risk buffer (SyRB) can be products of institutional capacity gaps, political pressures or variations in methodology.

1.3 Inconsistent application of tools and a lack of transparency in the framework

An industry speaker observed that the SyRB is an EU specific form of gold plating that does not exist in the Basel framework. The concept of systemic risk is subjective and there has been considerable variation in application in practice. A broad interpretation of systemic risk and a lack of accountability for eliminating overlaps is resulting in a suboptimal situation. Commercial real estate (CRE) is an instructive example. Banks employ prudent risk management practices when doing CRE business. The primary approach is via Pillar 1 credit risk management; Pillar 2 is employed when a supervisory authority deems this insufficient. However, there are three EU systemic risk buffers related to CRE and five countries apply risk weight floors to it. It is not clear why these buffers and floors remain in place.

A regulator responded by noting that CRE risks have not been resolved uniformly. While some member states have addressed these vulnerabilities, others are still undergoing restructuring or facing unresolved issues, such as parts of Scandinavia and Germany. This continued uncertainty justifies the persistence of calibrated macroprudential measures.

Clearly, banks face considerable heterogeneity. In practice, a bank has no visibility on the capital regime it

will encounter if it decides to operate in another country. A macroprudential review would be an ideal opportunity to address the heterogeneity and uncertainty in the framework.

1.4. Buffer usability, market constraints and ring fencing as obstacles to effectiveness

1.4.1 Limitations on buffer usability: market reactions and regulatory interactions

An industry representative explained that the EU's well intentioned supervisory measures have created practical challenges for banks. In practice, buffers are not always used for their intended purpose. National authorities often consider issues such as market reactions, level playing field concerns and interactions with other prudential requirements. In particular, the usability of buffers remains a key issue. Banks are often reluctant to use buffers due to the risk of negative and unpredictable market reactions.

1.4.2 Capital ring fencing and broader regulatory constraints on cross border resource allocation

An industry representative pointed out that capital ring fencing within the EU restricts the movement of capital and liquidity, limiting the capacity of banking groups to support struggling subsidiaries or allocate resources. For instance, challenges arise from the duplication of macroprudential elements within the resolution framework. The market confidence charge (MCC) increases Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements, which can be particularly restrictive in Central and Eastern Europe (CEE), where strong real economic growth, higher than usual inflation and increasing penetration are contributing to double-digit credit expansion. Meeting these needs requires rapid growth in both capital and MREL-eligible instruments. While banks may partially address capital needs through more conservative dividend policies, securing large-scale and continuous issuance of MREL-eligible debt is far more difficult. It is costly, sensitive to market conditions and exposes banks to execution risk, especially in unstable environments. These challenges may slow the region's economic convergence.

2. Understanding complexity: structural drivers, effectiveness and options for simplification

2.1. Structural drivers of complexity and resilience

2.1.1 A resilient framework shaped by structural factors and successive shocks

A regulator emphasised that the macroprudential framework has ensured that the financial system continues to support the economy during periods of severe stress. In contrast to a decade ago, the EU banking sector is now robust, profitable and capable of sustaining lending even in highly uncertain conditions. The framework's complexity is not accidental but

reflects the economic and institutional environment in which it was developed. Established in the aftermath of an asymmetric crisis, it matured during a succession of shocks and the evolution of a more 'permanent' macroprudential stance. It is only natural that different member states require different macroprudential policies.

2.1.2 Cautious simplification and the complementary roles of micro and macroprudential policy

A regulator stressed that simplification efforts should be approached with caution. Any reduction in complexity must not endanger financial stability or the capacity to address evolving and heterogeneous risks across the Union. Simplification should carefully balance the objective of reducing complexity with the need to preserve financial stability. Microprudential supervision should remain the first line of defence; macroprudential policy should play a complementary role.

2.2 Preserving the benefits of the existing framework while addressing convergence gap

A regulator agreed that good progress has been made over the last decade. The macroprudential framework has been a positive development. Some macroprudential challenges can be addressed through macroprudential policies, such as capital buffers or borrower based measures (BBMs). However, it is important to differentiate between solving a problem and discontinuing a policy. A policy may be part of the solution and should not necessarily be discontinued because the issue has been resolved. While it is sometimes necessary to release a buffer, it is not always sensible to stop a policy simply because a problem has been addressed. The historical circumstances in which the EU macroprudential framework was created help to explain some of the present difficulties with its governance. The EU's macroprudential policy framework took this form because the economies and markets of EU member states are not fully synchronised or integrated. This shows why further efforts to increase convergence between member states are needed.

2.3 Towards simplification and convergence

2.3.1 Layered complexity of the capital framework

An industry speaker agreed that the current buffer architecture is highly complex, with layers of capital requirements stacked on top of each other like the layers of a lasagne. Understanding these buffers and how they interact with each other is a challenge for banks and investors. At the base of the lasagne is the Pillar 1 capital requirement, which is typically set at 8%. This is accompanied by the static capital conservation buffer (CCoB). One way to simplify this requirement would be to define the Pillar 1 requirement as 10.5% rather than '8% plus CCoB'. The macroprudential layers comprise the CCyB, SyRB and the systemically important financial institution (SIFI) buffers. Individual capital requirements also exist, such as the Supervisory Review and Evaluation Process (SREP) ratio. Further simplification is possible in this layer. Differentiation should certainly be made between the significant institutions supervised by the European Central Bank

(ECB) and the less significant institutions (LSIs), which come under national supervision.

2.3.2 Implementing the ECB's 'two buffer system' could drive simplification and convergence

An industry representative noted that in December 2025 the ECB issued a structured proposal aimed at simplifying the system. The cornerstone of this proposal is the transition to a unified 'two buffer system', which would consist of a non-releasable buffer and a releasable buffer designed to address cyclical risks, which could be deployed during downturns. The non-releasable buffer would combine the CCoB with the higher of the Global Systemically Important Institution (G SII) or Other Systemically Important Institution (O SII) buffer to reflect structural and institution-specific risks, forming a stable and permanent part of banks' capital. The releasable buffer would merge the CCyB and SyRB and would be used to address cyclical and macroprudential risks, allowing authorities to release capital effectively during downturns. This would create a more coherent and integrated set of instruments, enhancing efficiency and reducing administrative burdens. Ultimately, the objective is to ensure that capital requirements more accurately reflect systemic risks. A simplified, harmonised and more targeted framework would support financial stability and competitiveness.

An industry speaker agreed that the overall structure of the EU's macroprudential buffer system could be simplified substantially. This approach would improve the readability and usability of capital requirements for both banks and investors. Further simplification is possible in other areas, including the SREP framework, but it should be carefully calibrated to ensure that it strengthens, rather than weakens, financial stability. The detailed design of any new framework will require additional input from national competent authorities.

3. The way forward: governance, convergence and policy trade offs

3.1. Enhancing risk sensitivity and reducing methodological divergence

An industry representative noted the importance of understanding the extent to which the macroprudential framework is risk-based or methodology-driven. Studies suggest that around two thirds of macroprudential requirements are driven by methodology or its interpretation rather than underlying risk. While the EU's push for convergence is to be welcomed, the framework remains only partially risk-based. In this context, it will be necessary to clarify the extent of discretion left to national authorities. In some cases, these decisions may reflect domestic political considerations rather than underlying risk. Ultimately, from a banking perspective, more centralised decision-making at EU level would be preferable to the current system. Without further reform, issues of interpretation and predictability are likely to persist, particularly for banks operating across multiple jurisdictions.

3.2 Improving governance and coordination at EU level

3.2.1 Harmonised rules, fragmented markets: towards centralised buffer setting and clearer guidance

An industry speaker remarked that, although the EU's banking regulation rules are completely harmonised, its banking markets are not. The significant differences between product offerings reflect different client needs and preferences. Under the current system, a functional buffer regime would need to consider 27 sets of country-specific risks and the preferences of 27 different national competent authorities (NCAs). It is important either to centralise the setting of buffers or to provide additional guidance to NCAs. Currently, the responsibility for macroprudential policy lies with different types of authority in each member state, usually the central bank or the banking authority. Harmonising the rules and the responsible authority and providing clear guidance would enhance predictability, align buffer parameters more closely and make it easier for investors and banks to operate.

3.2.2 Striking the right balance between EU level coordination and national discretion

A regulator remarked that removing national authorities from the macroprudential framework could distance decision making from country-specific market circumstances. One solution to this issue is to enable NCAs to use a common toolbox. In some cases, centralised decision making can fail to take into account the specific situation of member states. There must be a balance between EU level and national decision making. It is important to retain awareness of local circumstances and avoid excessive centralisation. The use of common benchmarks would be an improvement, but any common decision making must also take national circumstances into account.

A regulator commented that Italy and Germany both have economies based on small and medium-sized enterprises (SMEs), but German SMEs tend to be much bigger and generally operate in different sectors. Italy cannot make the same decisions as Germany and vice versa. The economic damage caused by this would result in substantial economic and social pushback.

3.3 Distinguishing justified heterogeneity from unwarranted divergence

An official cautioned against equating greater EU-level centralisation with prudential soundness, warning that such a one-size-fits-all approach would be both analytically flawed and politically counterproductive. The EU framework should be able to distinguish between heterogeneity justified by national conditions and that driven by other factors. The experience of capital and liquidity ring-fencing has demonstrated the risks of insufficient coordination, pointing towards the need for greater harmonisation in some respects and greater flexibility in others. Any EU-level framework would inherently risk being disproportionate for certain countries and banks. The ESRB should play a greater role in identifying potential misuse of macroprudential space and in providing clear criteria for distinguishing legitimate national action from regulatory

protectionism. The right approach is methodological convergence, incorporating soft law, shared analytical frameworks and capacity building. Introducing EU-level calibration of national capital buffers should be approached with considerable caution. Ultimately, risk profiles differ significantly across Member States.

3.4 Improving implementation: enhanced coordination could mitigate capital stack overlaps

An industry speaker emphasised that Pillar 1 should remain the foundation of the capital framework. She stressed that excessive overlaps in the capital stack point to a lack of coordinated oversight and to the absence of a clear, consolidated view of cumulative capital requirements, resulting in inefficiencies and reduced transparency for banks. Aligning macroprudential decisions with EU-wide stress testing methodologies could reduce discrepancies across jurisdictions. The question of decision-making remains central to addressing overlaps. While the microprudential supervisor could act as the sole decision-maker, this raises concerns about the level playing field and institutional complexity. As a practical step, the role of supervisory colleges should be strengthened. The home supervisor could be tasked with identifying and eliminating overlaps in the capital stack across jurisdictions. This would enable a more coordinated and quantitative assessment of total capital requirements while maintaining the participation of national authorities.

3.5 The limits of stress testing and coordination mechanisms in guiding capital decisions

A regulator noted that EU stress tests have evolved into an exploratory tool to assess system-wide vulnerabilities, rather than a basis for capital-setting or supervisory decisions. It is important to approach these issues with caution, without overestimating the precision of available tools. It is unrealistic to suggest that a supervisory college can guarantee the supply of financial services to the economy during a period of stress.

Conclusion: balancing resilience, fairness and convergence in a complex framework

The Chair summarised the discussion, noting that it will be challenging to resolve the issues with the macroprudential framework. While there is broad agreement on the need for resilience, especially in the current geopolitical climate, the framework must be fair to all market participants. While the EU macroprudential framework has proven effective in strengthening resilience, the complexity and fragmentation of the system pose important questions. There is broad agreement on the need to improve coherence and usability, but there are differing views on the appropriate balance between EU level convergence and national discretion. Simplification and convergence should therefore be pursued with caution. Any reforms must preserve financial stability and the ability to address diverse and evolving risks across the Union. In this context, the ongoing review represents an important opportunity to enhance the consistency and effectiveness of the framework while carefully managing the trade offs inherent in its evolution.