REDUCING CUMULATIVE COMPLEXITY IN EU BANKING REGULATION AND SUPERVISION

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Financing Europe's rearmament: A new public-private compact

Europe's rearmament is not only a defence challenge but also a financing challenge. Decades of underinvestment, fragmented procurement and limited industrial cooperation have weakened the European Defence Technological and Industrial Base. At a time of growing geopolitical uncertainty, Europe must mobilise both public and private capital to expand production capacity, foster innovation and strengthen strategic autonomy. Existing European instruments provide a strong foundation, but they must be scaled up and better coordinated to deliver the required impact.

Public authorities will remain the central actors. Defence is a public good and only governments can provide the long-term demand that enables industry to invest. National defence budgets, joint procurement programmes and EU initiatives such as SAFE and EDIP should establish predictable multi-year procurement plans and clear capability priorities. Private financial actors, meanwhile, should provide growth capital, project financing and risk-sharing mechanisms to accelerate industrial expansion and technological innovation. The objective is not to replace public funding with private investment but to use public resources to crowd in significantly larger volumes of private capital.

To achieve this, public-private financing models have to be adapted to the specific characteristics of defence. Unlike most sectors, defence projects involve long development cycles, a limited customer base, export restrictions and substantial political risk. Traditional commercial lending is therefore often insufficient. Governments and EU institutions should expand the use of guarantees, advance purchase commitments, blended finance structures and long-term framework contracts. By reducing uncertainty and improving revenue prospects, these instruments can make defence investments more attractive for banks, institutional investors and private-equity funds.

A particular focus should be placed on SMEs and mid-sized companies, which form the backbone of Europe's defence supply chain. These firms often face difficulties accessing working capital, growth financing and equity despite being critical suppliers of advanced technologies and components. Supply-chain financing programmes linked to major defence contractors can improve liquidity, while public guarantees can reduce lending risks for commercial banks. Dedicated defence-focused investment funds and EIB-supported equity platforms should help innovative SMEs finance capacity expansion, digitalisation and research activities.

The challenges are not identical across Member States. Larger countries such as France, Germany, Italy and Spain benefit from established industrial champions, deeper capital markets and stronger national financing capabilities. Smaller and Eastern European Member States often face greater financing constraints despite rapidly growing defence requirements. The priority should therefore be to ensure equal access to European financing instruments and to facilitate the integration of smaller firms into cross-border supply chains. A genuinely integrated European market requires that competitiveness, rather than geography, determines access to capital.

At the same time, Europe must strengthen industrial cooperation without undermining national strategic interests. This requires a pragmatic balance between sovereignty and integration. Member States should jointly develop and procure capabilities where requirements converge, while retaining control over genuinely sovereign technologies and operational decisions. Cross-border industrial partnerships, common standards and coordinated procurement can reduce duplication and increase efficiency, while allowing each country to preserve strategic competencies and sustain domestic industrial participation.

European financing instruments also need to keep evolving. The European Defence Fund (EDF) should provide greater continuity between research, development and procurement, ensuring that successful projects reach industrial scale. EDIP should focus on incentivising collaborative procurement and expanding production capacity across Europe. SAFE, with its large-scale loan facility, can increase long term demand which is a prerequisite for major industrial investments. InvestEU should develop dedicated defence windows, while guarantee schemes should be expanded to mobilise institutional investors.

Finally, the European Investment Bank has become a critical enabler of Europe's defence ambitions. Recent changes to its lending policy and expanded support for security, defence, dual-use technologies, SMEs and innovative companies are important steps forward. Further expansion of EIB-backed financing, combined with national promotional banks and private-sector participation, could create a powerful European defence investment ecosystem.

Europe's rearmament will succeed only if financing, industrial policy and defence planning are aligned. By combining public leadership, private capital and stronger European cooperation, the EU can build a more resilient, innovative and competitive defence industrial base capable of meeting future security challenges.

SHARON DONNERY

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One market, one rulebook: integration is Europe's best simplification strategy

The debate on simplification and competitiveness starts from a position of strength: Europe's banks are better capitalised, more liquid and more profitable than in the past. What many still lack, however, is scale. A bank seeking to serve customers from Rome to Riga must still navigate national variations in what is intended to be a single European rulebook.

Capital and liquidity cannot yet move freely across borders within banking groups, and directives are still transposed differently across Member States. The European Commission's report on the competitiveness of the European banking sector points to the same conclusion: fragmentation prevents Europe's banks from reaching the scale of their global peers. We share this diagnosis: Europe's complexity problem is, at its root, a fragmentation problem. The single greatest simplification measure available to Europe is therefore integration itself. And this matters all the more in an environment of heightened geopolitical, cyber and operational risk, where complexity may draw resources away from good governance and risk management.

Important parts of the regulatory framework – including governance, licensing and fit and proper assessments – still take the form of directives that are transposed nationally and sometimes supplemented in different ways. National and regulatory constraints keep capital and liquidity within subsidiaries of cross-border groups rather than allowing them to be managed more efficiently at group level. Around 80% of banks' loan portfolios are still national, with cross-border deposits accounting for only 2%. Together, these barriers force banks to operate parallel structures, duplicate processes and navigate a patchwork of local rules. Some of these arrangements may reflect prudential concerns, but taken together they add complexity and limit the benefits of a more integrated banking market.

Simplification through integration would have benefits well beyond large cross-border banking groups. For example, extending the small and non-complex institutions regime would embed proportionality more firmly within the single rulebook.

Three integration measures would deliver the greatest simplification gains.

First, the single rulebook should become truly single. A structured review of options and discretions, together with a shift from directives to directly applicable regulations wherever divergence serves no prudential purpose, would reduce complexity at its legal source. A simpler framework is one that is applied consistently across Member States.

Resilience trapped in national silos cannot fund the investment Europe now needs.

Second, the banking union should be treated as a single jurisdiction. Cross-border capital and liquidity waivers within groups, and the lifting of ring-fencing measures, would allow banks to manage their resources on a European scale. This requires trust, and trust requires the architecture to be completed: a European deposit insurance scheme with a clear implementation timetable and a European framework for liquidity in resolution. Depositors should be able to rely on the same level of protection across the banking union.

Third, banks should be able to report the same information once, instead of reporting similar data several times to different authorities. A more integrated European reporting framework, shared by statistical, prudential and resolution authorities, would reduce overlap and duplication and make reporting more efficient. That would save time and resources for banks and improve the consistency of the information authorities receive.

Supervisors should apply the same discipline they ask of others. ECB Banking Supervision is therefore also simplifying. In practice, this means simpler procedures, more delegated decisions, more streamlined reporting, more targeted inspections and clearer supervisory guidance. The result is supervision that is more risk-focused, faster and easier for banks to navigate.

Rules for the single market should, wherever possible, be written once at European level, as regulations. But simplification must not stop in Brussels or Frankfurt. Complexity should not reappear through national add-ons, parallel requirements or unnecessary internal complexity within firms. In this context, banks also have a role to play by simplifying their structures, rationalising their use of internal models and improving the quality of their data.

The bar stays where it is: simpler requirements, not lower requirements. Resilience is what enabled European banks to continue financing households and firms through a pandemic, an energy crisis and a trade shock. But resilience trapped in national silos cannot fund the investment Europe now needs. Fragmentation is both a complexity problem and a competitiveness problem, and the answer to both is the same: more Europe, not less.

JONATHAN OVERETT SOMNIER
Acting Executive Director – European Banking Authority (EBA)

From complexity to resilience: Simplifying the Single Rulebook

Since 2011, the EU banking system has successfully strengthened resilience through successive reforms. The framework we helped shape proved resilient through COVID-19, the Ukraine war and the 2023 turbulences, following the collapse of Silicon Valley Bank. The challenge now is different: retaining resilience while ensuring that the way these cumulative reforms interact is efficient, proportionate and understandable to those involved. Europe's banking framework must become more agile and the EBA is playing its part, delivering on its 2025 report on the efficiency of the framework.

A key aim is to reduce complexity through a simpler but robust Single Rulebook. One part is looking at the flow of new regulatory mandates. But the EBA is also tackling the stock: looking at the prudential framework section by section to identify efficiencies. Initial priorities have been credit risk and reporting where we have consulted on simplifications we can deliver ourselves. In other priority areas legislative change will also be needed.

The capital stack is one such priority. 15 years of reforms resulted in 10 different capital stacks for large banks, with multiple layers and interactions. In the CET1 stack alone, beyond Pillar 1, there may be six layers of different Pillar 2 and buffer requirements. Overlapping tools, repeated treatment of similar risks and differences in implementation across authorities add to the burden.

The EBA's June report on stacking orders weighed where this complexity outweighs the prudential benefits. It set out recommendations across micro-, macro-prudential and resolution areas, targeting constraints that add complexity without a corresponding gain in resilience.

Our core message is that complexity can be reduced through cleaner and more focused measures, without weakening resilience. Existing instruments should be used more consistently: microprudential tools to focus on micro risks, removing macroprudential adjustments, while being more rigorous so that Pillar 2 requirements (P2R) address only risks not captured elsewhere and Pillar 2 Guidance (P2G) returns to its original purpose of non-binding guidance which supervisors can opt not to set where banks are well-capitalised after stress and have sound capital planning.

Many of these capital framework changes require legislation, but our recently updated EBA SREP guidelines advance some of these simplifications through more consistent supervisory implementation. The guidelines are 30% shorter, reflect the strengthened Pillar 1 including the output floor, place greater emphasis on emerging or residual risks and the supervisory measures they warrant.

> **Complexity can be tackled through cleaner and more focused measures, without reducing resilience.**

We see room for legislative simplification for the leverage ratio stack. Rare P2G uses could be addressed in the risk-based stack. Leverage ratio P2R could also be reshaped as a buffer, improving buffer usability.

Similarly in macroprudential policy legislation combining the countercyclical and systemic risk buffers into a single releasable buffer would reduce layers and simplify the MREL stack. We also see room for a more harmonised O-SII buffer framework much of which could be advanced at regulatory level.

While in resolution, we propose greater legislative alignment between TLAC and MREL eligibility, a simpler calibration of subordination requirements, and more standardisation within MREL. An ad hoc prudential regime may also create scope for further simplification.

This work continues. The next priorities include home-host balance, waivers and governance and remuneration. Each responds to the need for a holistic reassessment of how the EU framework operates. While completing the Banking Union and establishing the economic needs of a more autonomous EU remain political tasks, the EBA contributes to ensuring that we have a regulatory framework best able to support a competitive Single Market while preserving resilience.

Simplification is not limited to regulation. It also concerns how Europe's network of prudential, resolution, conduct, payments and cryptoasset authorities at both EU and national level work together. As the place where these authorities come together, the EBA is exploring with them whether, and where, greater coordination could improve efficiency. This could open the way to reducing burdens for banks while enhancing authorities' ability to carry out their tasks with a more holistic and shared view of risks and measures.

Simplification isn't about removing regulation or supervising less. We want to ensure that the tools contribute efficiently to resilience and the Single Market while eliminating unnecessary duplication, ensuring that authorities and institutions can focus resources where they provide most value. This is how we should take the Single Rulebook forward.

EMMANUELLE ASSOUAN

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A closer Banking Union for a stronger banking system

During the last 15 years, the EU has taken major regulatory and supervisory steps to enhance the resilience of its banking sector. However, despite significant progress, the Banking Union (BU) remains incomplete, constraining the banking sector's ability to enhance its competitiveness, finance the digital and climate transitions and support economic growth on a Union-wide basis. Integration of the banking sector has fallen short of what could have been expected. Cross-border business remains limited and only a small number of banks have a truly pan-European approach. Cross-border groups continue to be managed and supervised largely as collections of national entities rather than consolidated EU firms, which is a source of inefficiencies and vulnerabilities. Further integration would deliver three benefits: resilience, competition and simplification.

First, integration would strengthen financial stability and the resilience of the sector by enhancing risk diversification at system level, reducing vulnerability to localised shocks through swift mobilisation of financial support. In this regard, it is necessary to unlock the current 230bn euros of liquid resources trapped in BU subsidiaries, as reported by the ECB.

Second, it would reinforce the banking sector's competitiveness and ability to finance the EU's strategic investments by channelling excess savings towards productive uses. Fragmentation limits economies of scale and efficient resource allocation, reinforcing structural disadvantage in activities where scale and technology investments are decisive. The EU economy benefits from a diversity of business models, which must include large, cross-border banks active across the Single Market and competing globally with peers, especially in activities such as investment banking where "playing the size card" is crucial.

Finally, it would be a source of simplification for supervisors and stakeholders, and would improve access to financial services for clients, in particular corporates operating in multiple Member States. Genuine simplification will become a reality when supervisors in the EU no longer need to consider a bank's nationality, and when a client can readily borrow from a bank based in another Member State.

The current lack of integration can be explained by multiple factors that prevent banking groups from operating seamlessly across borders including non-prudential ones. This is however largely compounded by prudential and supervisory requirements that act as "ring-fencing" measures and disincentivize cross-border activities, constraining the circulation of capital and liquidity within groups as recognized by the ECB HLTF report. It is thus decisive to bolster the BU by implementing a truly integrated economic framework that will ensure a more efficient allocation of means.

After over a decade of efficient and unified risk monitoring by the SSM and its well-integrated cross-border teams, the framework is sufficiently mature to finally implement cross-border liquidity waivers and allow for cross-border capital and internal MREL waivers. In addition, intragroup exposures within the BU should be permanently excluded from the large exposure framework, reflecting the effectiveness of our common supervision and resolution systems.

To avoid the pitfall of supervisory gold-plating, such waivers should be granted by right if conditions are met. To answer possible concerns on the capacity of local subsidiaries to withstand shocks, additional safeguards should be considered to ensure that there are no doubts on the parent's obligation to support them when necessary. Powers of supervisory and resolution authorities could be enhanced to further ensure intra-group support and allow for supervision and resolution to be conducted on a genuinely consolidated and holistic basis, thereby improving the protection of depositors and creditors, as advocated by the Commission. In parallel, efforts could also be pursued to improve EU crisis management framework by enhancing cooperation between national deposit guarantee schemes and developing liquidity support mechanisms ensuring an equivalent protection of all depositors across the EU.

It is high time to move forward to reap the full benefits of the Banking Union.

Shifting the focus of supervision from the individual to the consolidated level is one of the key aspects of a broader, fundamental debate on our capacity to trust each other and assume shared responsibility, rather than keeping siloed prerogatives. In particular, there is a need for a holistic assessment of the adequacy of overall requirements and interactions between micro, macroprudential and resolution frameworks, which could take the form of a regular conference of the four heads of ECB, EBA, SRB and Commission. This assessment should also involve the Governors of national central banks to ensure an extensive view of financial stability matters.

Only by implementing such decisive simplification can we reap the full benefits of the BU and ensure that the banking sector plays its part in supporting EU broader goals.

JACEK JASTRZĘBSKI
Chair of the Board – Polish Financial Supervision Authority

How to simplify EU banking regulation without weakening it?

Working in both academia and supervision helps me see the debate on simplifying and deregulating EU banking regulation not as a technical task, but as a question for regulators: which parts of the framework still serve a prudential purpose, and which are merely accumulated rules from the past?

It is widely recognised in institutional economics that rules often evolve more slowly than market challenges. Pressures can push institutions in different directions, making formerly complementary arrangements increasingly inefficient. Therefore, a necessary condition for institutions' efficiency is their ability to adapt to changing circumstances, and the role of policymakers is to facilitate and catalyse that adaptation.

Before going further, one crucial distinction - often blurred in the current debate - must be made: simplification is not deregulation. Deregulation removes rules and it can be driven either by a desire to ease standard or because a rule's rationale no longer exists. Deregulation of the second kind is generally desirable. Deregulation of the first kind belongs to the craft of supervision, such as calibrating capital and liquidity requirements to limit failures without harming profitability. Simplification, by contrast, means the same standards but expressing them through fewer, clearer, better-organised rules. It is usually less demanding than deregulation, yet both processes often become entangled, making their practical separation difficult.

Referring now directly to EU banking regulation. A high cumulative regulatory burden relative to its prudential value may arise, first, from supervisory standard and ad hoc reporting. Are all these reporting requirements necessary for supervisors to perform their tasks effectively? Second, a set of capital and liquidity rules continues to grow. Do all these rules provide a coherent framework adequate to the current risk landscape? Third, it is worth examining whether disclosure obligations, such as Pillar 3 and ESG reporting, have not expanded faster than investors' capacity to absorb them. Fourth, another question is whether procedural and legislative complexity - with its many regulatory and technical standards - imposes administrative costs disproportionate to their prudential content.

What should be the most important guiding rules in changing EU banking regulation? First, the resilience of the sector should always be preserved. The focus should be on changing the form of the requirements (simplification) rather than their substance (deregulation). It does not mean that we should not think about deregulation, since we definitively should. We should also use a regulatory version of Ockham's razor: remove unnecessary complexity where the prudential rationale for a rule is no longer present, while preserving risk-based minimum requirements essential for financial resilience.

Challenge lies in the purposeful, coherent, and restrained evolution of rules, not rewriting them.

A number of initiatives aimed, among other goals, at simplifying EU banking rules were presented in 2025-2026, in particular the ECB High-Level Task Force report on simplification from December 2025, the EBA's 2025 efficiency report, and the April 2026 reporting consultation. It lies beyond the scope of this short essay to address the many points and proposals raised in these documents. What is needed, however, is to build a coherent plan - a roadmap - based on them.

Now, coming back to some fundamental rules that should guide us in reforming EU banking regulation, let me conclude this short essay with the following warnings. First, regulatory changes framed in terms of simplification or deregulation may be more likely to gain support, even when they do not actually deliver simplification or deregulation. Second, one must always ask whether the element being simplified or deregulated is genuinely unnecessary (or poorly designed) in terms of its purpose - such as reducing system risk - or whether it is simply costly for the industry. Third, market-based or self-regulatory solutions often provide benefits comparable to regulation but at lower cost, which makes counterfactual analysis essential: how the market would operate without regulation. Fourth, harmonizing regulation at the EU level is not automatically a form of simplification or deregulation; it must always be assessed whether the lack of harmonization in a given area is itself a key source of regulatory inefficiency.

I believe that the simplification (and wise deregulation also) of the EU banking rules is worth undertaking and we should not avoid it by referring to one of the philosophers who said that stillness is the most refined form of movement.

LÁSZLÓ BENCSIK

Deputy Chief Executive Officer – Otp Bank

Euro adoption as a driver of European financial integration

Simplification and deeper integration have been central objectives of both the Banking Union and the Single Banking Market. While regulatory and supervisory integration receives most attention, monetary integration remains equally important. For OTP Group, operating across diverse European markets, the recent euro adoptions in Croatia and Bulgaria have provided valuable insights into the economic and financial effects of joining the common currency. At the same time, Hungary's renewed commitment to eventual euro adoption has brought the Eurozone back to the forefront of policy debate. This article assesses the case for euro adoption through the lens of economic convergence, financial development and European integration.

From a macroeconomic perspective, the experience of the past two decades does not suggest that euro adoption has entailed a measurable growth sacrifice, nor that it has consistently delivered markedly higher economic growth. Controlling for initial income levels, countries that adopted the euro have exhibited divergent convergence paths. Lithuania and Malta outperformed the trend in terms of convergence towards the EU average level of GDP per capita in PPS, while Estonia, Slovakia, and Slovenia converged more slowly than the trend would suggest. Outside the monetary union Poland and Romania achieved above-trend convergence, whereas Hungary and - to some extent - the Czech Republic underperformed relative to the trend.

Although the growth effects of euro adoption are not unambiguous, the balance is tilted in favour of the common currency by the fact that the Central and Eastern European countries using the euro have generally experienced lower and less volatile inflation. Since 2008, the difference between the average inflation rates of euro area and non-euro area member (changing composition) CEE and SE(E) countries has reached 0.8 percentage points, with the gap widening significantly during periods of inflationary shocks.

Experience also suggests that euro adoption is associated with higher banking market penetration. Average penetration rates of non-financial corporation and retail loans are 5 and 10 percentage points higher, respectively, in new euro area member states than in non-euro countries. This reflects lower interest rates, greater policy credibility and stronger fiscal discipline, as compliance with euro area fiscal rules can support higher-quality economic governance and reduce procyclicality.

The most common findings of euro adoption were: credit rating upgrade shortly after the decision to adopt the euro, significant deposit inflows just before the euro conversion and a substantial increase in housing loan penetration.

Euro adoption can reduce fragmentation and deepen integration.

Regarding Hungary, roughly 70% of external trade is conducted with EU member states, meaning that the country could benefit substantially from lower transaction costs. Hungary's business cycle is broadly synchronized with Germany's which reduces the probability of asymmetric shocks reducing the potential costs of giving up an independent monetary policy. The credibility gains stemming from euro area's fiscal governance framework could raise the manoeuvring room of the domestic fiscal policy to stabilize the economy. The experience of countries that joined earlier to the euro area shows that a substantial part of yield convergence typically takes place already during the year preceding entry into ERM II. The Hungarian example of recent months reinforces this observation as Hungarian 10-year government bond yields have declined below their Polish counterpart and clearly diverged from their Romanian counterpart with which it previously moved closely together. Beyond its direct economic implications, euro adoption would signal a commitment to deeper European integration and could help secure Hungary's place in the EU's core should the Union evolve further towards a multi-speed Europe.

In summary, the macroeconomic arguments tend to favour euro adoption, albeit with the important caveat that the introduction of the euro is not without risks and side effects. Slovakia's frequently cited experience of stalled convergence illustrates that euro adoption is not a remedy for all structural economic challenges. The Slovak case also highlights the importance of the conversion rate chosen at entry. During its participation in ERM II alone – in which the Slovak economy was experiencing strong signs of overheating -, the Slovak koruna appreciated by roughly 30% against the euro. While this appreciation undoubtedly facilitated compliance with the inflation criterion required for euro adoption, it may subsequently have created a competitiveness disadvantage that potentially contributed to the slowdown in the country's convergence process. Another important side effect experienced by some countries was that the measures that artificially suppressed inflation in order to meet the inflation criteria for euro adoption proved unsustainable and later caused excess inflation.

HARM BOTS
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Coordination, trust and risk-based approach should drive EU banking reforms

In the context of accelerating global competition for capital, rapidly diverging regulatory frameworks in other major jurisdictions, and the EU's own financing needs, actions to enhance the EU banking sector have become increasingly important. The current review of the regulatory and supervisory framework represents an opportunity to strengthen both resilience and competitiveness. These initiatives have the potential to enhance the effectiveness of the regulatory framework and to unlock capital and liquidity for productive use, support the real economy, as well as improve the EU's attractiveness as a destination for international banking activity. At the same time, some of the potential changes are still too incremental. Bigger steps and greater speed are needed.

International banks play an important role in financing European corporates, facilitating cross-border investment flows, supporting capital markets, and providing access to global liquidity pools. At the same time, they increasingly face the challenge of managing multiple versions of what was originally intended to be a common global framework. Regulatory fragmentation creates added complexity and does not add to prudential benefits.

This is why it is so important that the EU review takes these factors into account. The proposals outlined in the European Commission's recent report are directionally the right ones. Collectively, these measures would make a significant contribution to the further integration of the European financial market and enhance its overall attractiveness. However, these changes risk not being sufficient.

Firstly, regarding the implementation of Basel standards, we observe that many jurisdictions are introducing national specificities or deviations from the agreed framework. Although targeted simplifications or adjustments to the original standards may be justified, an increasingly fragmented implementation of Basel standards across jurisdictions risks creating additional barriers for international banking groups. A coordinated discussion at the Basel Committee level would therefore be beneficial, with a view to evaluating whether certain aspects of the standards should be revisited and harmonised globally.

Secondly, important frictions remain within the European Union itself. National gold-plating, restrictions on the free allocation of capital and liquidity, divergent regulatory expectations, differences in insolvency regimes, and other national divergences continue to generate considerable administrative burdens for cross-border banking groups. These inconsistencies not only increase compliance costs and regulatory risk but also reduce operational efficiency.

Less regulatory fragmentation and more balanced supervision should be the focus of reforms.

Thirdly, greater emphasis should be placed on proportionality in both regulation and supervision. The current framework relies heavily on fixed thresholds to determine whether an institution is considered significant, while meaningful simplifications tend to be reserved for only the smallest institutions. In both regulatory and supervisory discussions, insufficient attention is often paid to important factors beyond size, such as business models, membership of a larger banking group, the nature of local activities, and the regulatory environment of the parent institution's home jurisdiction. These factors are highly relevant when assessing the actual risk profile of a European entity. Incorporating them more systematically within the framework, and adopting a more genuinely risk-based approach, would be an important step forward.

Fourthly, a key objective of future reforms should also be to strengthen supervisory trust. The EU already possesses several mechanisms that can support such trust and cooperation, including equivalence frameworks, supervisory colleges, crisis management groups and extensive information sharing arrangements between authorities. This would allow for more proportionate supervision and for European subsidiaries of foreign banking groups to be assessed within the broader context of their group-wide risk management and regulatory oversight, resulting in a reduction of unnecessary duplication and inefficiencies.

In conclusion, the next phase of EU regulatory reform should focus on reducing unnecessary complexity, fragmentation and layering additional standards to global frameworks. Achieving this objective requires brave action and speed at the European and international level. A key aspect is a more risk-based and trust-based approach to the supervision of internationally banking groups. Special attention should be given to the role of third-country banking groups, whose continued participation contributes to competition, investment and financial integration within the EU. A framework that is proportionate, internationally coordinated and open to global banking activity will ultimately strengthen both the attractiveness and the resilience of the European financial system.

DENISE BAUER-WEILER

Member of the Management Board – UBS Europe SE & Head EMEA CORC – UBS

Europe needs outcome-based banking simplification

The post crisis regulatory reforms achieved what they set out to do. European banks absorbed the shocks associated with the pandemic and the market stress of 2023, and that resilience is a huge achievement. Yet, while each reform may have been justified in its own terms, the cumulative burden of successive reforms has become very significant. It is important now to take stock of how the accumulated layers work together. We welcome the European Commission's report on the competitiveness of the EU banking sector as an important starting point, but further work is now needed to simplify the regulatory regime, address the cumulative burden and ensure Europe remains competitive internationally.

The complexity of the EU banking framework lies less in individual requirements than in the way they interact. The interplay between the leverage ratio and the output floor is a good example: both are intended to act as backstops, yet in practice their impacts build on each other and they can increasingly become binding constraints rather than mere safeguards. When that happens, the framework is no longer operating as intended, and the burden it imposes is no longer ensuring additional safety. The test for simplification should therefore be cumulative: do the requirements as a whole remain proportionate to the risks they were designed to address?

The same logic applies to reporting. Rationalising reporting around the information supervisors genuinely need would meaningfully reduce complexity without harming resilience. The EBA's initiative to simplify EU supervisory reporting, for example, is an important step in exactly this direction, and we support it as long as it delivers concrete operational relief. This should also be accompanied by restraint in additional supervisory data requests, whether from national competent authorities or European bodies such as the ECB.

A simpler rulebook accompanied by an ever more granular supervisory approach would not amount to genuine simplification. Meaningful change requires supervision that is substantive, proportionate and risk sensitive, with a clear line between binding requirements and guidance. Objectives and incentives shape culture, which is why we support a secondary competitiveness mandate, on the model the UK adopted for its regulators in 2023. Financial stability, market integrity and consumer protection would unambiguously remain the primary mandate. But competitiveness and proportionality objectives need to be translated into practical incentives for the institutions and supervisory teams responsible for implementation. The corollary is that banks must accept more responsibility for interpreting and implementing requirements themselves, instead of seeking supervisory cover for every judgement. The goal is a system in which boards and supervisors spend their time on key and emerging risks, not compliance mechanics.

Simplification should address cumulative effects, not just individual rules.

Finally, we must keep the rest of the world front of mind. The United States has re-proposed its final Basel III implementation package on terms considerably more proportionate than first envisaged, and the Bank of England's Financial Policy Committee has re-examined the overall level of capital in the UK system against a decade of evidence and concluded it could be more flexible without weakening resilience. Neither is a race to the bottom. Both are mature jurisdictions testing their frameworks against outcomes and the EU could benefit from similar scrutiny. The experience of the market risk rules shows what happens otherwise: implementing ahead of others created a level playing field issue that has since required repeated postponements and mitigating measures. Fundamentally, delivery of a level playing field is the foundation on which the original Basel standards were built. Alignment with Basel standards and with major jurisdictions is thus not a concession to industry; it is the condition on which European banks compete for global business on equal terms. The same principle should apply to market access. Maintaining open and internationally connected financial markets is an important path for the European economy to secure urgently needed investment and should remain a key consideration. Policymakers should remain aware of the impact that barriers to cross-border financial activity can have on European competitiveness and resiliency.

Policymakers are not being asked to choose between stability and competitiveness. Rather, the ask is for an alignment of the European Commission, the ECB and the EBA behind the simplification agenda to examine the framework as a whole, embed the right guiding principles in the institutions that run it, and calibrate with open eyes to the world outside. Given the importance of the banking sector in funding Europe's strategic priorities, this is a significant opportunity to enable Europe to thrive and one we cannot afford to miss.

FRANCIS DONNAT

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Safe but shackled: Europe needs to unlock the competitiveness of its banks

Since the 2008 financial crisis, Europe has fundamentally transformed its prudential framework. This evolution was necessary, and the results are undeniable: European banks are now among the most resilient in the world.

At the same time, growing complexity has increased capital requirements, weighing on competitiveness and financing capacity of European banks. The need to reassess how prudential requirements affect banks' financing capacity was a key takeaway from the Draghi Report and is reflected in the European Commission Communication on the Competitiveness of the Banking Sector, a welcome step towards greater regulatory efficiency in Europe.

Europe needs massive investment to finance the climate and energy transition, digital transformation and defense. Yet while lending by US GSIBs grew by around 10% in 2025, compared with only 1% in the European Union, European banks face rising capital requirements that risk constraining the financing capacity needed to support Europe's strategic ambitions.

- **De-complexifying is now vital**

Over the past decade, the European banking framework has accumulated layer upon layer of additional regulatory instruments. Alongside Level 1 regulations and directives, lawmakers and supervisors have progressively added delegated acts, technical standards and guidelines, but also various forms of soft law (Q&As, supervisory expectations, etc.).

It is legitimate to question the marginal value added of these successive layers of regulation. In that respect, we fully share the Communication's emphasis on reducing administrative burdens, improving regulatory coherence and making simplification a key lever for restoring growth and investment in Europe.

- **The evolution of supervisory practices**

Supervisory practices have expanded considerably. Every year, banks receive thousands of supervisory decisions, assessments, targeted reviews, information requests, and supervisory measures. Supervisors also make increasing use of guides, supervisory expectations, and other instruments that may not always be legally binding but are in practice.

- **The risk of accumulating capital requirements**

The continued accumulation of capital requirements has become a growing concern for European banks, as successive layers of prudential, macroprudential and resolution rules increasingly overlap and address similar risks. The combination of Pillar 1 requirements, Pillar 2 add-ons, macroprudential buffers, leverage ratio constraints and MREL obligations has contributed to a steady increase in effective capital requirements, often without a comprehensive assessment of their cumulative impact. Supervisory and model-related requirements have contributed to significant RWA inflation. The GARP-European Banking Federation study estimates that the resulting capital add-ons exceeded €100 billion over the past three years for the 15 largest European banks, equivalent to up to €1.5 trillion in financing capacity.

- **An incomplete Banking Union**

This complexity is amplified by the incomplete Banking Union, which forces cross-border banking groups to maintain trapped capital and liquidity, duplicative governance structures and multiple reporting frameworks across jurisdictions. This increases complexity, costs, limits cross-border integration and prevents European banks from devoting more resources to finance the needs of the European economy.

- **Delivering change without delay: four priorities for reform**

Europe needs a simpler, more predictable and coherent regulatory framework to strengthen European banks' ability to finance the economy.

Financial stability remains a priority, but Europe needs a simpler, more predictable, and coherent regulatory framework to strengthen banks' ability to finance the economy.

First, Europe should pursue a genuine regulatory simplification agenda aimed at limiting the proliferation of Level 2 and Level 3 texts, streamlining reporting obligations, and improving the consistency of prudential requirements.

Second, supervisory practices should evolve to incorporate competitiveness as a relevant consideration within the prudential mandate. Such an approach would make it possible to systematically assess the economic impact of new prudential measures and avoid an accumulation of constraints whose costs may exceed their expected benefits.

Third, the interaction between the different layers of capital requirements should be reviewed and simplified to eliminate overlaps and prevent certain risks from being double counted.

Fourth, completing the Banking Union is of the outmost importance to further strengthen financial integration and support the efficiency of the European banking market. Priority should be given to the removal of unjustified barriers to the movement of capital and liquidity within cross-border banking groups.