Reducing cumulative complexity in EU banking regulation and supervision

The discussion examined how the EU can reduce cumulative regulatory and supervisory complexity without weakening banking resilience. It addressed the practical scope for simplification, the conditions for sustainable competitiveness and deeper market integration, and the institutional and political challenges involved in delivering reform.

The Chair commented that banking simplification has been debated for many years, with recent initiatives and reports from the European Supervisory Authorities (ESAs) revisiting longstanding proposals. He framed the discussion around two questions: whether existing and proposed measures are sufficient and what further action is needed, and how simplification can be translated into the daily work of lawmakers and banks despite differing views on its scope.

1. Simplifying the regulatory and supervisory framework

1.1 Simplifying regulation without weakening prudential safeguards

1.1.1 Assessing cumulative requirements and regulatory overlaps

An industry representative stressed that simplification must not be confused with deregulation. Although individual rules may be justified, their cumulative burden must remain proportionate to their benefits. Each additional requirement should deliver sufficient value. Equivalent resilience might be achievable with fewer rules. An outcome-based assessment should determine whether requirements genuinely improve safety, or mainly add constraints, reporting and internal processes.

The leverage ratio and output floor are both designed as backstops, and their combined effect may become binding for ordinary banking activities. This raises questions about whether they still serve their intended purpose. Simplification should examine overlaps between capital requirements, leverage constraints, stress-testing buffers and resolution requirements rather than treat each layer separately.

1.1.2 Improving reporting, supervisory judgement and banks' responsibilities

An industry representative stated that supervisory reporting should focus on information genuinely needed to assess risks, rather than every potentially useful data point. The rulebook should impose clear, targeted requirements, including for emerging risks such as artificial intelligence, and focus on banks' ability to identify, contain and explain risks instead of perpetuating reporting obligations for their own sake.

Supervisory practice should allow greater discretion in order to reflect different business models and risk profiles. The boundary between binding requirements and non-binding guidance must be clearer, so that bank boards know when compliance is mandatory and when judgement is expected.

Simplification also requires reciprocal responsibility: banks must demonstrate that they can use the greater flexibility prudently and manage their risks effectively.

An industry representative observed that European authorities tend to focus on their respective mandates. She welcomed the European Central Bank's (ECB) initiative to establish its own task forces without waiting for the European Commission, but there should be coordination across authorities and Levels 1, 2 and 3 of the regulatory framework. An authority should take overall responsibility for fundamentally reassessing how rules are designed, with all relevant stakeholders contributing to this Europe-wide effort.

1.2 Improving regulatory coherence and supervisory coordination

1.2.1 Reviewing cumulative requirements and strengthening cooperation

A regulator highlighted that the European Banking Authority (EBA) had issued 21 recommendations over the preceding year to improve the regulatory and supervisory framework. The Commission's communication is a transparent and constructive assessment, and he hoped that most, if not all, of its proposals would be implemented.

After 15 years of successive reforms, an assessment is needed of whether the cumulative framework delivers its intended outcomes while preserving its achievements. Improvements could involve legislative amendments, regulatory adjustments or practical changes in interactions between competent authorities, resolution authorities and other stakeholders. Home-host arrangements remain central. The EBA has strengthened deposit guarantee schemes (DGSs) through improvements to funding arrangements, stress-testing guidelines, peer reviews and revised guidance on cooperation and coordination.

Greater consistency and information sharing are needed across microprudential supervision, macroprudential oversight and resolution. Progress in cooperation between the Single Supervisory Mechanism (SSM) and the Single Resolution Board (SRB) could be extended to other authorities, to make regulatory and supervisory assessments more consistent and predictable.

1.2.2 Reducing national divergences and improving regulatory practices

A regulator stated that divergent national transposition and the implementation of EU directives add complexity. Directly applicable EU regulations are preferable where appropriate, as they can reduce national divergences and delays. Supervisors and other authorities should continuously reassess their own practices alongside the banking sector and wider regulatory system.

1.3 Simplifying supervision and regulation while advancing banking integration

A Central Bank official argued that success should be measured through reduced undue complexity, greater cross-border banking integration and banks' improved ability to serve households, small and medium-sized enterprises (SMEs) and larger corporates.

1.3.1 Delivering more efficient and risk-based supervision

A Central Bank official added that the ECB, through its Next Level Supervision initiative, is improving supervisory efficiency, effectiveness and risk sensitivity without awaiting legislative reform. In the second quarter of 2026, capital-related decisions were processed in less than six days on average, while short-term supervisory reporting data points were reduced by around 20%. The ECB also reported a review of its supervisory guidance to clarify its non-binding status, address concerns, consolidate existing guides and withdraw outdated material, including work continuing in 2027.

1.3.2 Simplifying prudential requirements and completing the Banking Union

The ECB's high-level task force proposed consolidating five macroprudential buffers into two, including one releasable during stress, and improving the interaction between prudential and resolution requirements. Greater proportionality is also possible for smaller and less complex banks by adapting reporting and supervision to their business models and risks.

A central bank official saw no evidence that capital requirements currently constrain lending and cautioned that lowering them would not automatically stimulate productive investment. Strong balance sheets support lending, particularly during downturns. More efficient supervision alone cannot eliminate fragmentation. Without progress on integration, competitiveness gains will remain limited. Completing the Banking Union therefore requires removing barriers to cross-border capital and liquidity movements within banking groups, with appropriate safeguards, and advancing a European deposit insurance scheme (EDIS).

Beyond reducing regulatory and supervisory complexity, the discussion turned to how banking competitiveness should be defined and measured, and what would enable European banks to operate profitably and at scale.

2. Strengthening banking competitiveness through profitability, proportionality and integration

2.1 Sustainable profitability

An industry representative questioned how banking competitiveness should be defined, measured and translated into concrete objectives. Clear benchmarks are needed to assess progress over the next three to five years. A reasonable definition is for the banking sector to remain sustainable throughout the economic cycle and be globally competitive.

Sustainability requires banks to generate returns at least equal to their cost of equity over the long-term. Key indicators are return on equity (ROE) relative to the cost of equity and market valuations. In 14 of the past 16 years, European banks' ROE was substantially below their cost of equity, while valuations stood at around 50% of book equity. Although profitability had recently improved, sustainable returns over a 30-year horizon would require roughly doubling sector profits or ROE. Euro-area banks generated approximately €190–200 billion in profits the previous year, implying around €200 billion in additional annual profits. The speaker did not consider halving equity requirements a viable alternative.

2.2 Competitiveness, profitability and financial responsibility

2.2.1 The consequences of insufficient profitability

The Chair highlighted the argument that higher capital requirements could strengthen competitiveness by signalling stability. An industry representative rejected that argument, citing his experience with investors, who did not assess competitiveness in that way.

An industry unable to cover its cost of equity sustainably faces three possible outcomes: acquisition by more competitive external players, nationalisation or disintegration into smaller, potentially viable activities.

2.2.2 Burden-sharing and financing bank resolution

An industry representative argued that complexity itself is not the main problem; the issues are regulatory implementation and efficiency, alongside the political division of responsibilities between member states and the European level. The central question was who ultimately bears the cost of bank failures.

Resolution funds have finite resources. He cited past sovereign-guaranteed bond issuance, repaid by banks over 10–20 years, and questioned whether a depleted European resolution fund could issue further bonds and which sovereign, if any, would guarantee them. The Chair clarified that the European resolution fund can issue bonds within certain limits and benefits from a backstop, but not a sovereign guarantee. Bail-in allocates losses to creditors rather than taxpayers, an innovation the speaker supported.

2.3 Proportionate, harmonised and effective regulation

2.3.1 Recognising international banking models and reducing fragmentation

An industry representative stressed the growing contribution of non-EU-headquartered banks to the European economy, particularly by providing access to overseas investors and liquidity amid substantial investment needs. The Commission's ambitious proposals to facilitate group-wide capital and liquidity allocation, reduce national gold-plating, address prudential-resolution overlaps and improve the treatment of intragroup exposures are welcome. Their success, however, depends on political commitment to overcoming national approaches and local agendas.

Proportionality should better reflect different business models and risk profiles, particularly those of international banks operating predominantly wholesale, cross-border businesses managed regionally or globally. While the proposals include useful proportionality measures for less significant institutions (LSIs), they should better accommodate diverse business models. Greater recognition of equivalent regulatory regimes and stronger home-host cooperation would also reduce unnecessary duplication. Simplification and financial stability are complementary: eliminating duplication and fragmentation allows banks and supervisors to focus on material risks.

Greater harmonisation is also essential. A recent example is that despite its objectives, the Capital Requirements Directive 6 (CRD6) risks producing 27 different national implementations.

2.3.2 Improving implementation and accountability

An industry representative suggested that regulatory changes require better coordination and sequencing. As an example, under the Digital Operational Resilience Act (DORA), Level 2 and 3 guidance arrived only weeks before implementation, complicating the implementation and internal projects of banks. A holistic review of forthcoming requirements would enable more realistic deadlines, prioritise urgent risks and defer less pressing changes. Regulators should also systematically balance prudential objectives against economic costs and unintended consequences, supported by clear mandates and appropriate checks and balances.

Although the objective and benefits of a single market are widely recognised, the path to achieving it remains unclear. Given Europe's economic challenges and substantial financing needs, a genuinely integrated market is essential to a competitive financial sector.

2.4 Combining banking resilience, competitiveness and European integration

A regulator stressed that competitiveness and resilience are compatible objectives. She set out three guiding principles: maintaining current capital requirements to preserve resilience, implementing international Basel standards through the European single rulebook while allowing proportionate supervision, and eliminating unnecessary regulatory and supervisory gold-plating.

Competitiveness also requires banks to finance the real economy more effectively, particularly the green and digital transitions and defence. The regulator suggested considering an extension of preferential treatment from short-term to medium-term trade finance exposures.

Banks are also essential to developing European capital markets and delivering the Savings and Investments Union (SIU). With non-EU banks accounting for around 60% of capital markets and investment banking activity in Europe, measures are needed to reverse European banks' declining market share.

Greater integration is needed to finance EU-wide climate, defence and digital priorities. Banks must be able to operate at European scale, manage liquidity across groups and benefit from capital and minimum requirement for own funds and eligible liabilities (MREL) waivers to allocate resources efficiently, subject to safeguards that reassure home and host authorities.

2.5 Reconciling cross-border banking integration with financial responsibility

2.5.1 Addressing home-host tensions

A regulator argued that cross-border capital and liquidity allocation are about European market integration and financial responsibility rather than regulatory complexity. Poland is a host country outside the Banking Union; capital held by local subsidiaries is not trapped but supports local activities and risks. Centralised capital and liquidity management requires adequate safeguards and a corresponding centralisation of financial responsibility, including progress towards EDIS. As long as responsibility for bank failures remains national, host authorities must retain control over sufficient resources.

In a crisis, parent-company directors and home supervisors cannot be assumed to support a distressed foreign subsidiary. Directors have obligations to their own institutions, investors and creditors, while host supervisors may be unable to enforce intragroup transfers. Clear allocation of ultimate financial responsibility is essential to resolving home-host tensions.

2.5.2 Integration and supervisory judgement

A regulator recognised the need for European banks to achieve global scale and questioned whether Europe is prepared to accommodate larger groups. There could be a dedicated framework for the largest cross-border banks that combines integrated operations with centralised accountability and financial responsibility.

He favoured principle-based rather than excessively prescriptive regulation, provided it is underpinned by mutual trust and responsible judgement by banks and supervisors. In his view, capital requirements are not the principal constraint on lending or global competitiveness. European banks' participation in investment banking consortia alongside US institutions reflects differences in expertise, capabilities and tools more than capital constraints alone. Strengthening these capabilities is therefore essential.

EDIS would permit greater flexibility in home-host arrangements but would not necessarily eliminate all concerns. There is a distinction between subsidiaries and branches. Branch deposits are covered by the home-country deposit guarantee scheme, whereas subsidiary deposits fall under the host-country scheme. Centralised group capital and liquidity management could make this distinction less meaningful in practice. EDIS would facilitate integration, but the implications for different forms of cross-border presence would still require attention.

The exchanges highlighted that deeper banking integration depends not only on simpler rules but also on credible arrangements for sharing financial responsibility and managing bank failures. The discussion then turned to the role of resolution mechanisms, institutional trust and political commitment.

3. Building institutional trust and political commitment

3.1 Credible resolution and regulatory simplification

A resolution authority representative argued that the adoption of the Commission's proposals as one package would substantially address regulatory complexity, fragmentation, integration and competitiveness. The priority is to ensure political commitment to deliver a complete package rather than selective amendments.

The official questioned why European authorities should have less confidence in one another than in non-EU counterparts. Under the single point of entry (SPE) resolution strategy, European authorities already host US, Japanese and Swiss banking groups and rely on their home resolution authorities. European subsidiaries of US banking groups alone represent more than €230 billion, which underscores the importance of credible cross-border arrangements.

Mutual trust depends on resilience and a credible regulatory and resolution framework. Full and fair implementation of international standards, alongside a holistic review of additional EU-specific requirements, should identify scope for simplification and removal of internal barriers without weakening resilience.

Europe has multiple prudential and macroprudential requirements, MREL, the international total loss-absorbing capacity (TLAC) standard, and there is the 8% TLOF threshold for access to the Single Resolution Fund. These many features merit reassessment to ensure equivalent resilience, stability and trust with a simpler framework; the speaker also noted constructive cooperation with Poland's Bank Guarantee Fund.

Branch deposits are protected by the home-country deposit guarantee scheme, whereas subsidiary deposits fall under the host-country scheme. Existing supervisory and resolution tools, including resolution arrangements, limit the differences between these two types of protections. These differences should be assessed against available safeguards rather than regarded as insurmountable barriers to integration.

3.2 Advancing a comprehensive simplification agenda

3.2.1 Building political support for reform

A policy-maker acknowledged substantial differences among member states, including in the Economic and Financial Committee (EFC), but reaffirmed the Commission's determination to pursue urgent simplification. The process remained at the consultation stage, drawing on contributions from the ECB, EBA, SRB and other stakeholders, with the Have Your Say consultation open until 17 September 2026.

Detailed proposals and continued dialogue could help overcome resistance. Some member states' red lines have remained largely unchanged for 15 years, despite major economic and geopolitical shifts. The Commission will continue explaining its proposals and seeking political support.

3.2.2 Combining simplification, resilience and market integration

A policy-maker stressed that simplification is not deregulation. Reducing undue complexity and improving proportionality can strengthen competitiveness without compromising resilience or financial stability, which remain prerequisites for sustainable competitiveness.

He outlined three pillars: removing single-market barriers, so European banks can achieve global scale; faithfully implementing Basel standards while reflecting European specificities; and simplifying rules through greater proportionality. These reforms must be accompanied by a more risk-based supervisory culture that recognises different business models and risks.

Progress must also extend to completing the Banking Union and the SIU. Cross-border integration requires credible common safeguards and a clear allocation of crisis-related financial responsibility: banks should not be 'European in life but national in death', benefiting from integration at EU level while failure costs remain national.

The Commission's proposals are an interconnected package grounded in economic, legal and political considerations. Their benefits depend on advancing simplification, safeguards and institutional reforms together, rather than selectively implementing individual measures.

Beyond the proposed reforms themselves, the closing discussion considered whether EU banking authorities should have an explicit secondary competitiveness mandate, revealing differing views on institutional responsibilities and accountability.

3.3 Should EU banking authorities have a secondary competitiveness mandate?

The Chair referred to the UK Prudential Regulation Authority's (PRA) secondary competitiveness mandate as a framework for discussing prudential trade-offs, including capital requirements, and asked whether EU banking authorities should have a similar mandate.

3.3.1 Arguments against

A policy-maker opposed the proposal, considering it incompatible with the EU's institutional architecture and not worth the political effort required. A regulator also opposed a formal mandate, although the EBA could undertake tasks supporting the Commission's wider competitiveness objectives. A resolution authority representative appointed out that a competitiveness mandate for resolution authorities, whose primary responsibility is financial stability and effective resolution, makes little sense.

A regulator argued that a separate mandate is unnecessary, as competitiveness is already reflected in the need for resilient, sustainable banking business models. A Central Bank official opposed the proposal, emphasising that the PRA operates within a different UK legal and institutional framework.

3.3.2 Arguments in favour

A regulator supported the proposal, noting that Polish legislation has included a financial market development objective for approximately 20 years. An industry representative supported a mandate, depending on its design, as a way to strengthen incentives for meaningful simplification.

An industry representative called for clear accountability to achieve an independent, globally competitive European banking sector within 15 years. With unchanged capital requirements, European banks would need approximately €200 billion in additional annual profits over the next 14 years to achieve sustainable competitiveness. Without explicit responsibility for this objective, sufficient progress was unlikely. An industry representative supported a mandate subject to appropriate checks, balances and accountability. While European banks have considerable strengths, they need stronger capabilities, particularly in investment banking. Greater simplicity, a genuine single market and improved skills would help strengthen their competitiveness and market share.

Overall, the discussion highlighted broad support for reducing unnecessary complexity while preserving resilience but also showed that deeper banking integration will require credible financial safeguards, greater institutional trust and sustained political commitment.