Simplifying the EU macroprudential framework

The session examined how the EU macroprudential framework could be simplified without undermining the resilience achieved since the global financial crisis. The discussion focused on the relationship between prudential requirements and European competitiveness, different options for streamlining macroprudential buffers, and the governance and supervisory arrangements needed to ensure a more coherent, transparent and effective framework.

1. Preserving banking resilience while addressing Europe's competitiveness challenges

1.1 Simplifying the macroprudential framework while preserving resilience

The Chair began by situating the simplification of the EU macroprudential framework within the broader debate on reducing regulatory and supervisory complexity. Although the framework has significantly strengthened European banking resilience over the past decade, it has become increasingly complex due to the proliferation of instruments, heterogeneous national implementation and differences in calibration across Member States. While some diversity reflects legitimate differences in financial structures and systemic risks, it raises questions about transparency, proportionality, comparability and overall coherence. The debate has therefore shifted from whether simplification is desirable to how it should be implemented.

The objective is to make the framework simpler, more coherent and more usable without compromising the resilience achieved. The panel was invited to consider how the buffer architecture can be redesigned to that end.

1.2 Europe's main financing challenge is equity, not bank capital requirements

A regulator questioned whether the macroprudential framework needs to be redesigned, arguing that the idea that capital requirements constrain growth is largely a myth. Europe does not face a shortage of bank lending but rather a shortage of equity financing. Credit, which requires repayment of principal and interest, cannot provide the patient capital needed for long-term investment, business expansion and innovation. The European defence consortium KNDS, producer of the Leopard and Caesar systems, reportedly failed twice to launch a joint IPO in Frankfurt and Paris seeking €20 billion in 2026, highlighting Europe's difficulty mobilising equity to develop and scale up businesses in strategic and technologically advanced sectors.

European banks are already strong, and post-crisis reforms have largely achieved their objectives. While reducing regulatory complexity could address administrative burdens, it would not resolve Europe's fundamental economic challenges. Macroprudential capital buffers have not caused significant economic problems, making their simplification a relatively minor priority compared with the need to develop alternative sources of financing.

1.3 Strengthening banking resilience and competitiveness through risk governance and regulatory consistency

1.3.1 Risk governance as a foundation for resilience and sustainable profitability

An industry representative stressed that banks experience the regulatory rulebook not as separate buffers, floors or supervisory measures, but as a cumulative framework affecting their ability to serve the economy and compete. While this framework is essential to long-term financial stability, regulation should give as much attention to risk governance as to capital strength.

A bank's first means of absorbing losses is its earnings, followed by capital. Supervisors should therefore pay particular attention to risk governance, which underpins long-term stability and sustainable profitability. Without it, banks risk adopting a short-term perspective. Capital requirements should provide incentives for sound risk management and recognise banks' efforts to mitigate risks.

1.3.2 Consistent risk assessment and buffer calibration to support cross-border banking

An industry representative stated that banks need sustainable profitability and a level playing field to compete and expand across jurisdictions, particularly as global financial markets evolve. Supporting European competitiveness requires banks to provide effective financing solutions and authorities to assess and interpret risks consistently.

While underlying risks may differ between countries, the principles and methodologies used to define and measure them should be aligned. Greater consistency would facilitate cross-border banking activities and help banks scale up across Europe. Upper limits on macroprudential buffers should be considered alongside the existing lower bounds to ensure that comparable risks result in broadly consistent capital requirements across jurisdictions.

The Chair noted that banks have clearly conveyed their concerns about the cumulative impact of requirements to the ECB. The holistic view is addressed in the ECB's high-level taskforce report, including the interaction

between macroprudential, microprudential and resolution perspectives.

1.4 Preserving resilience and aligning instruments with prudential objectives

An official highlighted the progress made in banking regulation and resilience since the global financial crisis. The perceived trade-off between competitiveness, growth and resilience is largely a false dichotomy. Banks must be able to support economic growth, particularly during difficult periods. Without stronger post-crisis regulation, the financial system would probably not have weathered recent shocks, including the rapid rise in interest rates following the inflation surge around the Covid crisis.

A major achievement was the integration of macroprudential policy into regulation, recognising that what is prudent for an individual institution may not be appropriate for the system as a whole. This policy has both a cyclical dimension and a cross-sectional dimension, reflecting differences in institutions' systemic importance.

The capital stack serves three distinct objectives: microprudential soundness, macroprudential stability and orderly resolution. Instruments should correspond to these objectives rather than pursuing simplicity for its own sake. Macroprudential risks also differ between those affecting the economy as a whole and those concentrated in particular sectors, explaining the coexistence of the countercyclical capital buffer (CCyB) and systemic risk buffers (SyRBs) in the EU.

Against this background, the discussion turned to the design of macroprudential buffers and the different approaches proposed to reduce complexity, improve consistency and ensure that capital can be released when needed.

2. Redesigning macroprudential buffers to improve simplicity, consistency and usability

2.1 Consolidating buffers around a substantial, fully releasable cycle-neutral component

An official argued that risks could be addressed through a single macroprudential buffer, with flexibility to adjust requirements for different categories of risk-weighted assets at different times. Macroprudential buffers should be consolidated around a substantial cycle-neutral component. He referred to BIS analytical work published approximately a year earlier in support of this approach.

The Covid crisis demonstrated the need for capital that can be released in response to systemic shocks. The buffer should be large enough for its release to provide meaningful relief, while ensuring that banks' remaining capital does not fall too far below the levels expected by markets.

Such an approach would also clarify the distinction between prudential objectives. The macroprudential buffer should be fully releasable during a systemic crisis; the microprudential buffer should remain in place and not be releasable; and resolution resources, including bail-in debt, should absorb losses only in resolution, not support banks as going concerns.

2.2 Simplifying macroprudential buffers by removing overlaps and harmonising requirements

2.2.1 Reducing uncertainty, overlapping requirements and regulatory fragmentation

An industry representative argued that the main weakness of the current framework is uncertainty. Banks may suddenly face an additional 100 or 200 basis points of capital requirements without knowing when they must be met. Complexity and uncertainty increase with the number of jurisdictions in which a bank operates, creating regulatory and supervisory risk. Broad discretion in setting SyRBs also creates overlaps within the capital stack, while no authority has overarching responsibility for aggregate capital requirements. A Nordic banking group illustrates these challenges: it operates through branches in four Nordic countries, yet its macroprudential buffer requirements are roughly twice the SSM average, without necessarily reflecting a correspondingly higher risk profile.

In her view, the EU has significantly gold-plated Basel standards on the macroprudential side, affecting international competitiveness. Greater clarity on buffer releasability and a more level playing field across the EU are needed.

2.2.2 Removing the SyRB before harmonising and potentially merging other buffers

An industry representative argued that insufficient transparency and overlapping requirements cannot be resolved simply by combining existing buffers under a new name. Such an approach, without genuine harmonisation, could aggravate the problem.

The SyRB should first be removed, as it is not a Basel instrument and is a major source of overlaps and inconsistent application across the EU and European Economic Area (EEA). In particular, it is unclear what residual systemic risks the SyRB addresses beyond the credit, market and operational risks already covered under Pillar 1.

Only after removing the SyRB should authorities consider harmonising and potentially merging the remaining buffers, based on common metrics and methodologies and, ideally, a single calibration exercise across the EU and EEA. The objective should be reasonable macroprudential buffer levels applied consistently across jurisdictions.

2.3 Merging the CCyB and SyRB to improve clarity and releasability

A central bank official suggested that, although the CCyB and SyRB have distinct purposes, the SyRB has increasingly been used to address various risks, while the CCyB has been activated in many jurisdictions and has partly evolved towards a positive neutral buffer. This approach is more precautionary than strictly countercyclical, reflecting the need for releasable

capital in response to unexpected shocks unrelated to credit booms, such as the Covid-19 pandemic and the Russia–Ukraine crisis. In her view, the resulting overlap in objectives and ambiguity around activation indicators justify merging the two buffers. This would improve clarity and simplicity, allow authorities to build macroprudential space by maintaining buffers in normal times, and facilitate reciprocity. She favoured targeted changes rather than a major overhaul and set aside G-SII and O-SII buffers for separate consideration.

Beyond the design of individual buffers, participants also examined how a more holistic assessment of capital requirements, clearer institutional responsibilities and more consistent supervisory practices could improve the framework's effectiveness.

3. Strengthening macroprudential governance, supervisory consistency and accountability

3.1 Assessing aggregate capital requirements at a sufficiently high level

A central bank official advocated a holistic, evidence-based assessment of aggregate capital requirements across banks and jurisdictions, considering financial stability, broader economic effects and the extent to which differences in requirements reflect national economic and financial cycles.

Such an approach requires oversight at a sufficiently high level, with an important role for the ECB's Governing Council. While supervisory agencies are well-established and effective, they tend to focus on microprudential issues. Bodies such as the European Systemic Risk Board (ESRB) offer a broader macrofinancial perspective, encompassing the effects of capital requirements on growth, credit and financial system resilience.

3.2 Turning holistic assessment into clear accountability for eliminating overlaps

The Chair noted that the ECB's high-level taskforce report addresses the respective roles of the Governing Council and the Supervisory Board in macroprudential governance. There is a need to balance convergence and consistency with national specificities and flexibility.

An industry representative supported a holistic assessment of capital requirements and considered the ECB and SSM natural candidates to provide it. Microprudential supervisors have detailed knowledge of individual banks' risk profiles, while the ECB also has macroprudential powers to impose additional capital requirements. However, creating another discussion forum would not be sufficient: clear accountability is needed not only to identify overlaps in the capital stack but also to ensure their elimination.

If macroprudential decisions remain at national level, quantitatively identified overlaps must be addressed. This could involve including national macroprudential authorities in supervisory colleges to facilitate comprehensive assessments and corrective action. Although establishing such accountability may be challenging, it is essential to build confidence that the framework can effectively identify and eliminate overlaps.

An industry representative agreed with the holistic approach to capital requirements, while recognising the legitimate domestic perspectives of national authorities. Capital regulation is one of several obstacles to cross-border competition and banking activities. Nevertheless, consistent application of the common rulebook at national and European levels would remove a key barrier to market integration. There should be a mechanism to prevent excessive divergence in national interpretations while preserving the ability to reflect domestic specificities. Greater regulatory consistency would facilitate cross-border banking and contribute to a more integrated European capital market.

3.3 Audience questions on buffer usability, climate risks and supervisory expectations

The Chair invited questions from the audience. One participant referred to a recent ECB working paper examining market stigma and its implications for the effective releasability of capital buffers and asked how to ensure that banks are willing and able to use their buffers when needed.

Another participant questioned how removing or merging the CCyB and SyRB would affect climate-related risks, given that the latest revision of the Capital Requirements Directive allows the SyRB to address systemic risks associated with climate change that may be difficult to capture through other instruments.

A third participant referred to the SSM's revised Internal Capital Adequacy Assessment Process (ICAAP) guide, published in July, and its discussion of the management buffer. The participant asked how the management buffer might influence the Supervisory Review and Evaluation Process (SREP) and the approach taken by Joint Supervisory Teams (JSTs) when assessing banks' capital adequacy.

3.4 Improving buffer usability, avoiding overlaps and ensuring transparent calibration

An industry representative stressed the need to determine whether risks are double counted in microprudential and macroprudential capital requirements. Regulators should explain which risks they assess and how requirements are calculated, including for climate-related risks covered by the SyRB and the management buffer considered under ICAAP. Banks should also understand how to mitigate risks and demonstrate that mitigation has been effective, so that capital requirements reflect their actual risk profiles. Greater regulatory transparency would strengthen incentives for sound risk management and help avoid unnecessary overlaps.

An industry representative called on regulators to communicate their expectations concerning buffer releasability in advance, particularly the circumstances and extent of possible dividend restrictions. Greater predictability would give banks more confidence to use

their buffers when needed.

Regarding climate-related risks, she argued that climate change is primarily a driver of existing credit, market and operational risks rather than a separate risk category. Banks have already substantially integrated climate factors into their risk models and credit risk management, particularly for credit risk. These risks are therefore largely addressed under Pillar 1, while the Capital Requirements Directive (CRD) VI also enables supervisors to address them under Pillar 2. In her view, there is insufficient evidence of residual climate-related systemic risk beyond these two pillars to justify an additional macroprudential buffer.

An official warned that insufficient capital may be available for release when most needed. The CCyB was designed to address the unwinding of credit booms and is built up when excessive credit growth is detected. However, unexpected shocks unrelated to credit cycles may occur before sufficient releasable capital has accumulated. A higher cycle-neutral starting point would provide a substantial amount of capital that could be released during systemic shocks. The buffer must be large enough to offer meaningful relief, taking into account market pressures and the capital levels investors would expect banks to maintain.

A central bank official considered it premature to incorporate climate-related risks into the SyRB. The priority should be to help banks identify, measure and mitigate climate-related risks, including through actions supporting transition and adaptation rather than relying solely on capital buffers. She noted that the NGFS had not discussed this approach.

Authorities should explain differences in requirements across jurisdictions, justify calibrations through robust methodologies and indicators, and clearly communicate the circumstances triggering buffer activation or increases. Bodies such as the ESRB could contribute to greater consistency and transparency. Capital requirements should not increase without corresponding justification based on identified risks.

A regulator recalled how the macroprudential debate has evolved over the past 15 years. The SyRB, sometimes referred to as the "Swedish buffer", had been strongly advocated by Stefan Ingves, then Governor of the Riksbank, and the Swedish government over concerns that other countries might not impose sufficiently stringent requirements. He noted the irony that Nordic authorities had previously opposed maximum harmonisation under the CRD and CRR, while Nordic banks are now concerned about differences in national requirements.

Macroprudential buffers have generally been too low rather than too high. In a major systemic shock, such as a war, releasing buffers of only 1%, 1.5% or 2% would provide limited relief. This limitation had not been adequately anticipated when the CRD and CRR were designed, as their primary objective was to smooth financial cyclicality within a framework then considered largely complete.

As a cause of European banking fragmentation, differences in buffer levels are relatively small compared with more fundamental legislative and political obstacles. Greater harmonisation may be useful, but harmonising macroprudential buffers alone will not complete the Banking Union.

3.5 Simplifying supervision and macroprudential requirements while preserving resilience

3.5.1 Clarifying supervisory expectations and improving supervisory practices

The Chair explained that feedback received during the ECB's simplification work has revealed that some supervisory guidance was perceived as more binding than intended. The ECB has therefore reviewed its guidance and expectations, removing outdated elements and clarifying their non-binding nature. In particular, the management buffer discussed in the revised ICAAP guide is a matter for banks' own management, not a binding supervisory requirement. She distinguished clarifying the wording of the ICAAP guidance from ensuring its appropriate application in supervisory practice. The ECB's broader next-level supervision reforms are aimed at changing supervisory practices and culture to make supervision more risk-based, effective and efficient.

3.5.2 Aligning prudential instruments with their objectives while supporting competitiveness

The Chair concluded the discussion by highlighting the considerable progress achieved since the global financial crisis, with European banks significantly more resilient. It is important to focus on Europe's broader challenges, particularly expanding equity financing, supporting innovation and addressing strategic priorities such as defence, climate change and digitalisation.

While preserving financial resilience and international regulatory standards, prudential instruments must remain aligned with their distinct objectives. The discussion has identified opportunities to simplify and improve the macroprudential framework by reducing overlaps, assessing capital requirements holistically, improving decision-making and buffer usability, and strengthening predictability, transparency and accountability. These improvements could make the framework more coherent and effective, allowing resilience and competitiveness to reinforce each other.