

BCBS-BSCEE-FSI high-level meeting for
European Supervisors

Ljubljana (Slovenia), 02/06/2025

Efficiency and effectiveness of EU financial regulation

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Introduction

It is a great pleasure for me to speak today at this high-level meeting for European Supervisors organised jointly by the BCBS, the BSCEE, and the FSI. And I'm delighted to share with you some thoughts on the need for an efficient regulatory framework for financial services, designed to support green and digital transitions and adjust to fast-changing global realities.

Over the last months, there had been various calls for EU reforms to boost competitiveness and growth. For instance, the Letta and Draghi Reports and the European Commission's competitiveness compass aimed at unlocking the EU's full potential and drive faster and more sustainable growth.

To me a key message from these reports are the large possibilities that unlocking our single market to exploit its full potential can bring to our prosperity.

Following these discussions, we have been witnessing an unprecedented and heated debate on how to make the regulatory environment simpler and more effective, especially by removing provisions that would be too burdensome, inconsistent and unclear. This far-reaching objective has become one of the top priorities of the European Commission, who has been actively engaging with the relevant stakeholders to make Europe a more attractive and competitive place for investors and citizens through better regulation.

A strong regulatory framework to boost growth and competitiveness

Many different words have been floating around to refer to this ambitious objective. Some call it simplification, others burden reduction, some deregulation and a few refer to a need for more proportionality.

I prefer to talk about efficiency as I believe it is all about achieving the best result using our tools and resources in the best possible way and reducing any deterrent effects of complex regulations.

I also like to distinguish between efficiency and effectiveness of our regulatory framework. Efficiency has to do with the implementation of the regulatory framework in the best, leanest possible way within the existing regulatory framework. Effectiveness, on the other hand, focuses on whether we are achieving our goals with the regulation that we have.

It should be clear that we have been effective so far in our goals for financial regulation (both in the EU and globally). We all have a good memory to recall that right after the great financial crisis (GFC), regulators across all jurisdictions saw the need to increase the capital of banks to improve their resilience and limit the risk of bailouts. The comprehensive framework for global regulation and oversight aimed to fortify the global banking system after the worst financial crisis since the Great Depression, was indeed an essential contribution to the G20's primary objective of strong, sustainable and balanced growth. And there is no doubt that one of the key objectives of such reforms, i.e. to build resilient financial institutions, has been brilliantly achieved. Financial markets have proven resilient to recent shocks. Banks today boast higher and better capital requirements, improved efficiency and profitability, have strengthened their risk management practices and have better governance arrangements.

The sound rules we have now in place act as a bulwark against any future crisis or economic downturn. The new regulatory framework is not only an important safety net, but it is also an enabler of sustainable and long-term growth. It is, therefore, not surprising that there is no appetite for de-regulation in itself among financial supervisors nor for reducing capital requirements.

A related question is: have we, at the EU level, been effective in developing the single market for banking and financial services? A question I will return to later.

How can we simplify these rules to enhance efficiency?

It is clear now that nobody can question the crucial role the new regulatory framework plays in enabling long-term growth. The discussion revolves more around its complexity and proportionality. Complex and non-proportionate rules can indeed hamper efficiency and effectiveness. Hence, the several calls and initiatives towards simplification and burden reduction in the public debate since mid-2024. I think it is our duty that we all look into our working methods and policy products and ask ourselves: are we being efficient in what we produce?

Before I describe what we are doing now, I would also like to mention important initiatives spearheaded by the EBA already some years ago, and other policy initiatives that all go in the direction of a better, more proportionate and less complex regulatory framework. In 2020, we set up an Advisory Committee on Proportionality whose main task is to advise the EBA on how its actions and measures should take account of specificities in the banking sector related to the nature, scale and complexity of risks, to business models and practices as well as to the size of financial institutions. Since our host today is the chair of this Advisory Committee on Proportionality, I would like to take this opportunity to thank Primož not only for hosting such a great event, but also for his crucial contribution to the EBA action in this field.

On the policy front, it's worth mentioning the set-up of an investment firms' framework to cater for the diversity of this type of institutions as well as their specific risk profiles, which are not always properly captured by the banking prudential framework. We made progress in the Securitisation Regulation, which applies to all securitisation products and includes due diligence, risk retention and transparency rules, together with a clear set of criteria to identify simple, transparent and standardised (STS) securitisations. The EU Commission is proposing new areas to enhance this market and we should continue to support it.

In reporting, we publish two reports back in 2021. The first focused on the burden of reporting with a commitment and the necessary actions to reduce such burden on supervised entities by 15%. The second on the feasibility of having a single reporting framework within the EU.

I would also like to mention the ESAs' joint oversight framework for critical ICT third party service providers, and the incorporation in the EU-wide stress test methodology of some top-down elements, such as the projection of net fees and commissions income centrally.

These are just some examples of the valuable initiatives and regulatory and supervisory actions that the EBA has deployed over the last years to already contribute to making the current framework less complex and more proportionate, and they already give you a good sense of the effort already put into this simplification process.

EBA-led actions towards simplification

Is there more that could be done?

Over the last months, we have been looking, in particular, at four different aspects where we believe there is room to improve the efficiency and the effectiveness of the EU regulatory framework within the EBA mandate. Most of these aspects that fall within our remit relate to the stock and flow of Level 2 and Level 3 mandates, the regulatory reporting framework and the internal organisation of the EBA itself. However, there are also areas that are beyond our reach but to which we believe our input would benefit to the efficiency of EU financial services as a whole.

On the first aspect, I believe it's indeed a right time to look into the way the EBA produces its regulatory products, that we often refer to as Level 2 for Regulatory Technical Standards (RTS) and Implementing Technical standards (ITS) and Level 3 for Guidelines or Q&As. This list of legislative mandates has been growing since 2011 and the first "Banking Package" of the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which have been complemented since then by various pieces of regulation such as the Bank Recovery and Resolution Directive (BRRD), the Payment Services Directive (PSD) or the Anti-money Laundering Directive (AMLD). The EBA has delivered high-quality outputs on all these mandates, but after 15 years of EBA existence and 10 years of Banking Union, the EU supervisory landscape has evolved. There is, therefore, some merit in looking at whether the existing level 2 and level 3 regulation is still fit for purpose and can be implemented by institutions that are subject to these standards in a simple and efficient manner. For instance, there are areas (e.g. remuneration) where the number of distinct pieces of regulation could be streamlined and simplified, for the benefit of financial institutions, and supervisors.

Going forward, there is also probably a need to better assess the impact of each mandate for stakeholders and to better prioritise the effort to produce these new pieces of regulation with a view to improving their efficiency and their contribution to a well-functioning Single Market. At this very moment, the EBA has around 150 level 2 and level 3 mandates to be delivered according to level 1 legislation, not to mention mandates that have not yet materialised from the final adoption of the crisis management and deposit insurance (CMDI) framework or PSD3. There is a reason for the existence of each of these mandates, but they may not be all equal or urgently needed. I understand that the EU co-legislators themselves have engaged into a review of level 2 mandates to be delivered in the area of financial services. We are happy to contribute to this effort, with a view to prioritising our efforts on the level 2 and level 3 mandates that are mostly needed to improve the efficiency of the EU Single Rulebook for financial services.

Secondly, we are sometimes questioned on the usefulness of the reporting requested from supervised entities by the EBA and the burden it represents. I already mentioned our reports on the cost of compliance and on the feasibility study on integrated reporting, whose recommendations we have been working on already since 2021.

We know that the EU's Commission work programme, as part of the EU data strategy, has called for a 25% data reduction of the reporting burden through regular reviews. Having that in mind, we are currently analysing – with support from our board members – that the requested data is up to date, well-justified for the risks that need to be assessed and fit for purpose.

One aspect on reporting that is often raised is the need for proportionality. I take this opportunity to underline that proportionality is a strong part of the EBA culture and

organisation framework. However, you may not be aware of the extent to which there is already a high level of proportionality in the EBA reporting. Our latest assessment shows, for instance, that only a third of the templates collected by the EBA are collected from all institutions while the two remaining thirds exclude in general Small Non-Complex Institutions and are entity or activity-based requests. This does not mean that there is no need for further effort to improve the reporting framework and reduce its burden for institutions, but it surely shows that our journey towards efficiency did not start a couple of months ago. We particularly need to work with supervisory and other competent authorities to assess the actual use of the data being reported, avoid duplications, and ad-hoc requests.

Beyond this review of the policy and reporting requirements that are part of the Single Rulebook, we are also aware that the latter has reached a level of maturity that requires some rebalancing between our regulatory effort and ensuring its proper implementation through other actions focused on supervisory convergence. Over the last years, we have increased the scope and number of our peer reviews and developed specific thematic reviews. This is one possible way to foster supervisory convergence but probably not the only one. We are currently reviewing all supervisory convergence tools that are available with the objective to use all of them to their full potential and with the right objective, having in mind that supervisory convergence can be implemented with various intensities and impact on competent authorities.

Finally, even though this probably goes beyond the EBA's reach, there would be some merit for the EBA to share its views on how prudential regulation is interacting with other pieces of regulation within the EU regulatory financial services' framework.

There are increasing calls for a more holistic review of the EU framework and we know that the EU Commission is expected to produce a report on the effectiveness of the Banking Union. The EBA should be in a position to contribute to this reflection.

This line of work to me points not only to the efficiency of the regulatory framework (i.e. how we are implementing it) but also to its effectiveness (i.e. do we have the right rules for the goals that we are trying to achieve).

Let me give you three examples of how these two interact.

A first example is provided with the EBA report on stacking order published last year. This report just shows how the number of capital and leverage requirements in the prudential (micro and macro) and recovery and resolution frameworks interact in the existing framework. Furthermore, this complexity is not only regulatory, it is also institutional. The report shows the large number of authorities involved in setting these requirements and the lack of a holistic assessment on their overall level and composition at the EU level.

A second example, is the current co-legislators discussions in the Crisis Management and Deposit Insurance, where we risk finalising a regulation that will put so many requirements on resolution authorities in order to execute that will make the process not efficient but, may be worse, likely ineffective in achieving its objective.

A third example is the very low level of use of the waivers provided by the existing framework on liquidity and capital requirements. Again, here we see that we are not effective in achieving the goal of contributing to a single integrated market.

All these areas point to focusing not only on whether we have too many regulations but rather on whether we have the appropriate rules for the goals we want to achieve.

I would expect that we will be able, at the EBA, to leverage on our expertise to come with concrete proposals and that's our objective. We are currently looking into all these areas and more together with our Board members with the objective to come out with such concrete proposals in the coming months and contribute to the general effort towards simplification and efficiency by the end of the year.

Conclusion

In conclusion, as we reflect on the discussions held during this high-level meeting for European Supervisors, it is clear that efficiency should be embedded in our activities as regulators or supervisors.

The financial landscape is increasingly complex, and it is our responsibility to streamline processes and regulations to foster greater efficiency and clarity. By simplifying our approaches, we can reduce administrative burdens, enhance transparency, and make it easier for all stakeholders to navigate the system. Let us commit to this path of efficiency, ensuring that our financial systems remain robust, accessible, and capable of supporting sustainable growth.

Thank you for your attention

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