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Better EU banking regulation can fuel growth, but lower capital requirements do not

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Abstract

Many banks, supervisors, and investors consider the EU's banking regulation and supervision framework too complex. Calls for simplifying it go back to at least 2019 (e.g. SUERF Policy Note No. 75). The topic has now re-emerged in view of the EU's Savings and Investments Union (SIU) strategy, aimed to enhance EU banking sector competitiveness and reduce regulatory burdens. We explain why the present framework is so complex, exploring the trade-offs between complexity, risk sensitivity, contingency planning, and financial stability. We show that simplifying the framework by reducing capital requirements will boost neither economic growth nor competitiveness. Instead, simplification should focus on highly complex areas (e.g. IRB models) and areas where in-depth analyses and policy solutions are already available (e.g. regulatory overlaps between micro- and macroprudential supervision and bank resolution). Accordingly, we conclude that the EU should cease initiatives that add unnecessary complexity and undermine the SIU's goal of reducing regulatory burdens, e.g. the Crisis Management and Deposit Insurance (CMDI) review.

Disclaimer: The views expressed in this note are exclusively those of the authors and do not necessarily reflect those of the OeNB or the Eurosystem.

Introduction

The complexity of EU banking regulation and supervision has given cause for concern for many years. In 2020, the COVID-19 pandemic thwarted earlier attempts at simplification.[1] The issue has now re-emerged in connection with the debate about EU banking sector competitiveness.

This SUERF Policy Note is structured as follows: Section 2 outlines the context in which the current debate on simplifying banking regulation takes place, with a particular focus on EU banking sector competitiveness. Section 3 summarizes the reasons why the banking regulation and supervision framework is so complex. Section 4 argues that this complexity imposes costs on society. Section 5 shows ways of simplification that have the potential to improve EU banking sector competitiveness. Section 6 shows that lowering capital requirements will neither help simplify the framework nor enhance growth. Section 7 concludes and derives policy recommendations that might improve the chances for the EU strategy to simplify banking regulation.

Simplifying banking regulation in the context of EU banking sector competitiveness

On 19 March 2025, the European Commission presented its Savings and Investments Union (SIU) strategy, which aims to enhance the competitiveness of the EU banking sector and to reduce regulatory burdens. The related simplification agenda includes (i) further developing the asset management sector and amending the macroprudential framework accordingly, (ii) enhancing competitiveness and integration within the banking sector, (iii) reforming the securitization framework, and (iv) revising the prudential rules governing long-term equity investments.

Specifically, the SIU action plan targets key areas for banks. In particular, it challenges banks to adapt to a financial ecosystem where market-based financing plays a bigger role.[2] This means changing the macroprudential framework accordingly, i. a. by including non-bank financial intermediaries. It also emphasizes completing the Banking Union, including making adequate arrangements for resolving mid-sized bank failures and advancing discussions on the European Deposit Insurance Scheme (EDIS).[3]

In addition, the European Commission is conducting a comprehensive review of the EU regulatory framework to ensure a level playing field with other major jurisdictions. For this purpose, in April 2025 the ECB set up a high-level task force that will take an holistic view on how to simplify EU banking regulation.

While we have called for simplifying the EU banking regulation and supervision for many years, the current agenda must not be hijacked for deregulation. Compliance with the Basel standards must be maintained. Capital requirements for banks should not be diluted or lowered. Importantly, simplification requires a thorough understanding of the trade-offs between complexity, risk sensitivity, contingency planning, and financial stability, which we will explore in this policy note.

[1] Posch, M., S. W. Schmitz and P. Strobl (2018). Strengthening the euro area by addressing flawed incentives in the financial system. Monetary Policy and the Economy Q2/2018,34-50. Posch, M. and S. W. Schmitz (2019). OeNB Macroprudential Policy Conference – Financial stability in 2030: Maintaining effectiveness while reducing regulatory complexity. OeNB Financial Stability Report 38, 87-94. Ittner, A., M. Posch and S. W. Schmitz (2019). The future of financial stability: Maintaining effectiveness while reducing complexity. SUERF Policy Brief No. 75.

[2] Traditionally, euro area banks constituted the single largest debt funding sources for euro area non-financial corporations (NFCs). As of 4Q2024, this is no longer the case. Euro area NFCs now constitute the single largest source of debt funding for other euro area NFCs, at 36%. Euro area banks account for only 33% of funding; the remaining funding sources are, i. a., other financial institutions (including investment and pension funds, insurance corporations, at 18%), and the rest of the world (11%).

[3] Posch, M., S. W. Schmitz and P. Strobl. 2023. The European Commission's crisis management and deposit insurance (CMDI) proposal increases system-wide liquidity risk and makes more banks systemic. SUERF Policy Note, Issue No. 325.

The reasons why EU banking regulation is so complex

Regulatory complexity mainly arises from conflicting incentives faced by banks in relation to financial stability (Admati, 2015). Regulators aim at preventing bank failures, often a consequence of high risk taking and leverage. Other incentives – such as government guarantees or tax benefits for debt – encourage high risk taking and leverage. Regulation aims at counterbalancing these conflicting incentives, often by producing higher complexity. Also, there are trade-offs to be made within the regulatory framework (BCBS, 2013). Complexity is sometimes accepted deliberately in order to achieve greater risk sensitivity and less intrusive oversight.

Current EU banking regulation aims for high-risk sensitivity to prevent banks from taking on riskier portfolios, which makes it more complex than Basel I. It defined risk weights for a small set of asset classes. That allowed banks to shift their asset allocation within each of these asset class towards riskier exposures without having to hold more equity to account for the higher risk. In this sense, the framework was not risk sensitive enough and could encourage more risk taking. Basel II allowed banks to estimate the risk-weights of their assets. That should ensure that risk-weights would better reflect the underlying risk of bank assets. However, as the framework became more risk-sensitive, regulations became more comprehensive, the number of guidelines went up, and processes governing the approval and supervision of these models became lengthy and complex. The discretionary powers in place for supervisors to correct the impact of these models under Pillar 2 add opacity and complexity to the regulatory and supervisory process. Despite all efforts, national practices remain inconsistent within the EU (see e.g. Berg, Boivin and Geeroms, 2025).

The scope of regulatory and supervisory documentation for internal ratings-based (IRB) approaches and IRB model implementation is overly complex. All banks must run an internal capital adequacy assessment. Hence, some supervisory guidance on the underlying risk models can be useful. However, when considering all the major Basel documents, national regulations, and additional guidelines for banks' IRB implementation, all the reference material related to IRB models spans up to 1,000 pages, depending on the breadth and depth of the regulatory landscape being considered. More specifically, the European Banking Authority's (EBA) guidelines on banks' IRB models alone typically cover around 50 to 100 pages, the SSM supervisory review documents and guidelines (Pillar 2) take up 50 to 100 pages, national regulatory guidelines another 30 to 100 pages, risk model validation standards a further 30 to 100 pages and internal bank documentation another 50 to 200 pages. Despite all these regulations and guidelines, risk weights are too low in some countries, especially for exposures secured with residential and commercial real estate. To address this, the Capital Requirements Regulation (CRR) includes three articles (Articles 124, 164, and 458) enabling supervisors to impose higher risk weights or stricter IRB model criteria to ensure financial stability. The EBA has issued technical standards for these articles. Some EU Member States including Croatia, Netherlands, Norway and Sweden use these tools to counter excessively low risk weights. A starting point for reform should be the swift and effective streamlining of the Level 1-texts (i.e., CRR and CRD) as well as the Level 2-mandates (i.e., delegated acts and technical standards) and Level 3-mandates (i.e. non-binding guidance) regarding IRB models. Over time, instruments aimed at addressing unduly low risk weights – such as Articles 124 and 164 CRR, the related EBA Regulatory Technical Standards (RTS), and the so-called "hard test" – should become redundant.

Banks are subject to multiple capital requirements that may overlap, such as the Combined Buffer Requirement (CBR), the leverage ratio, and the minimum requirement for own funds and eligible liabilities (MREL). The current regulatory framework can be described as 'multi-restrictive,' meaning that banks face several overlapping requirements under parallel regulatory regimes. While this design of capital and MREL requirements aims to enhance financial stability, it also introduces complexity and potential inefficiencies in capital usage as it allows for different capital requirements to overlap.

Complex regulation is partly a result of the EU's institutional architecture and demands from the banking sector. Much of this complexity stems from the way the EU is set up, including varying mandates and tasks for national and European institutions. The involvement of multiple international and national regulatory bodies has led to overlapping responsibilities and, at times, conflicting approaches. While European banks often advocate the retention of national regulations ("specifities"), EU authorities call for further harmonization. Regulatory frameworks such as Basel III, which is applied at the international level, and the Bank Recovery and Resolution Directive (BRRD) and the

EU Banking Union, both applied at EU level, have added further layers to an already multifaceted system. Given that financial cycles can vary significantly across countries, macroprudential supervision is a mandate of national authorities, with additional top-up powers granted to the ECB (SSM Regulation). Moreover, the current institutional setup (Art. 127 para. 5 Treaty on the Functioning of the European Union, TFEU) acknowledges that macroprudential measures require political accountability. Consequently, the national authorities are accountable to their respective national parliaments. Hence, the EU setup is not comparable to that of countries like the USA or the UK. Moreover, calls from the banking sector to accommodate numerous national or sector-specific features in EU regulation often add to regulatory complexity.

Some complexity, however, is inevitable due to the nature of banks, financial products, and financial systems. Major banks have numerous subsidiaries, making oversight difficult, while financial instruments and the financial system as a whole have become more complex due to more numerous interconnections and global integration. Also, the complexity, size, and interconnectedness of banks themselves contributed to the need for public bailouts during the financial crisis of 2008. Hence, a major goal of regulation and supervision is to reduce the probability of public bailouts.

Regulatory complexity imposes costs on society

Regulatory complexity imposes costs on banks, investors, and supervisors alike. This concerns four main areas:
First, there are costs for reporting and compliance for banks and the respective monitoring and enforcement costs for supervisors (BCBS, 2013). The most pertinent example are banks' internal models and the resulting risk weights: Regulations, guidelines, and documentation cover hundreds of pages. Entire departments at banks and supervisors are exclusively devoted to handling this complexity.

Second, complexity in regulation leads to complexity in financial structures and systems, which feeds back into regulatory complexity. Market participants search for loopholes in financial regulation which may result in complex new products that add value mostly by circumventing regulation or by pushing many risks off the balance sheet (Goodhart, 2011). This requires regulators and supervisors to expand regulation to close these loopholes. For example, ten years after the introduction of Basel III, banks had "optimized" risk weights to an extent that required regulators to introduce a floor for risk weights. While risk weights should mitigate the negative effects of higher-risk portfolios, the complex framework encouraged banks to focus more on managing risk weights rather than risks. This, in turn, requires the leverage ratio as a backstop.

Third, complexity incentivizes lobbying to relax regulatory constraints, given that highly technical regulations largely escape public scrutiny, which might otherwise serve as a counterforce. This, in turn, increases the danger of regulatory capture, which occurs when regulatory bodies protect and advance the agenda of the industry. Complexity might even become a source of systemic risk itself (Haldane, 2011; Freixas, Peydro and Laeven, 2015).

Fourth, complexity increases the information costs for investors. This may lead to the misallocation of capital and undermines the effectiveness of market discipline, the third pillar of Basel III. Regulation and supervision have to step in to fill the gap with more regulation and supervision.

Potential ways how to reduce regulatory complexity

The implementation of the following proposals would simplify the regulatory and supervisory framework without resorting to deregulation or triggering a race to the bottom in regulatory standards and supervision:

Achieving substantial simplification requires fundamental reforms (Ittner et al., 2019; Posch et al., 2018; and the comprehensive literature cited therein). Key measures include ending the tax subsidization of bank leverage and introducing a significant, binding leverage ratio. The leverage ratio framework is considerably simpler than the risk-

weighted capital framework. If chosen high enough, it could replace intrusive supervisory practices especially for smaller institutions. Applying a higher leverage ratio to small non-complex institutions (SNCI) could be a starting point: The revised rules on capital requirements (CRR II/CRD V) introduced the concept of SNCI. The respective criteria include size (total assets of up to EUR 5 bn), EEA focus (at least 75% of assets and liabilities in the EEA), and complexity (total value of derivatives of no more than 2% of total assets). The framework allows such institutions to be subject to simpler and more conservative prudential standards, i.e., for market risk. The size threshold for SNCI should be raised substantially. In exchange, they should be subject to a higher leverage ratio which should be the binding requirement rather than the risk-weighted capital ratio. A share of the leverage ratio should be designed as a useable buffer requirement.

The implicit government guarantee for larger EU banks must be eliminated. Repeated calls for fiscal and liquidity backstops in the euro area suggest that some banks are still considered to be too big to be resolved without public support. To become resolvable at acceptable social cost, several large and complex EU banks would need to undergo substantial restructuring.

Regulators must avoid creating further undue complexity in regulation. The current review of the Crisis Management and Deposit Insurance (CMDI) serves as a case point in this respect. Banks, supervisors, and market participants are still adjusting to the BRRD 2, yet the rules are set to change again, thereby further increasing compliance costs. Despite the stated goals of simplification and increasing efficiency, the reform introduces new complexities: (i) it extends the criteria of the public interest assessment (PIA) that makes the assessment more demanding and less predictable, (ii) it imposes resolution planning and reporting on more banks, which increases administrative burden and (iii) it uses deposit guarantee funds to finance resolutions which comes with new review mechanisms and safeguards. Regulators should prioritize avoiding additional complexity, especially through frequent and expensive reviews of existing regulations. A key step forward improving bank incentives is the consistent and effective application of the current resolution framework.

However, in this context, overlaps between capital buffers and minimum requirements (leverage ratio and MREL) need to be removed. This would not only reduce complexity, it would also improve the usability of buffers and enhance the effectiveness of the current legislation. Current legal proposals aimed at addressing these overlaps, such as restricting the double-counting of capital or a leverage ratio (LR) buffer for other systemically important institutions (O-SIIs), should be duly considered when revising the EU regulatory framework, and in particular the CMDI rules. Eliminating these overlaps would simultaneously increase macroprudential space, i.e., it would result in more releasable capital buffers in the EU financial system, and improve resilience, thereby providing a quick win for financial stability. The European Systemic Risk Board (ESRB) (2021) has already published a comprehensive analysis concluding that supervisory capital "… *releases are ineffective if the released capital is simultaneously tied up by a parallel minimum requirement*." (cf. ESRB, 2021, p. 3) The ESRB also put forward sound policy proposals, including higher risk weight densities which align well with the goal proposed above of simplifying IRB models. In addition, the double-counting of capital should be eliminated: Capital used to meet the combined buffer requirements should not simultaneously count toward: (i) risk-weighted requirements, (ii) the minimum leverage ratio, or (iii) MREL requirements. Discontinuing Additional Tier 1 (AT 1) and Tier 2 (T2) capital surrogates would further reduce regulatory overlaps. Hence, maintaining the minimum distributable amount (MDA) trigger for the leverage ratio is essential to avoid new overlaps. Implementing the legislative proposals put forward in the ESRB report would be a quick win.

Similarly, financial regulation should not be used to achieve non-financial stability-related economic policy objectives. Examples are the promotion of green investments and the supporting factor for small and medium-sized enterprises (SMEs). These measures not only increase the complexity of risk weights but also increase bank leverage by allowing banks to fund such loans with less equity – regardless of the inherent underlying risk of the loan. In many cases, they have also proven ineffective (Bruegel, 2018; Finance Watch, 2018). In turn, such exemptions should be cancelled, unless it can be shown that they have been effective without compromising risk sensitivity or financial stability objectives.

The Basel IV "output floor" is a welcome attempt to address the opacity and complexity of internal models. It caps risk weights at 72.5% of the standard approach at the bank level as of 2027. The USA has already introduced a similar backstop via the Collins amendment in 2010. Despite efforts at simplification, each new Basel standard has added complexity to banking regulation. The introduction of output floors has the potential to stop a race to the bottom in optimizing internal models, but its impact on regulatory complexity remains uncertain as the rules for banks' IRB models and risk weights themselves remain unchanged.

Simplification is more likely to succeed when it addresses flawed incentives. As long as bank shareholders can benefit from regulatory arbitrage and complex products, while the costs of failure are partially externalized (i.a. costs borne by taxpayers), the competition between bankers and regulators increases regulatory complexity.

First, a key measure to improve bank incentives in a simple way is the reliable and forceful application of the current resolution framework. This would reduce the social costs of bank failures for the economy as a whole. It would allow supervisors to focus on minimizing the systemic costs of bank failures rather than on ensuring that all banks survive. This could truly reduce regulatory complexity. Hence, also banks that are too large for a market exit through insolvency procedures should be resolvable at manageable social costs. Therefore, they must – without exception – issue sufficient MRELs to avoid the socialization of risk to the public or to the deposit guarantee scheme (DGS). Some business models must adapt to MREL requirements, rather than regulation adapting to some business models. In Austria, the current resolution framework works well. In some countries, though, the BRRD is still not applied to medium-sized banks. In some cases, MREL requirements are not adequately enforced. Resolution authorities shrink back from bailing in investors that hold bail-in-able bank debt. This undermines market discipline by the implicit assumption that bank investors (including uninsured depositors) would be bailed out. As shown above, the proposals under the CMDI review compound the problem and further increase the complexity of the framework.

Second, establishing a true capital markets union would reduce the size and complexity of banks by promoting alternatives to bank funding for the real economy (e.g. (tokenized) promissory notes, trade credit, market funding). This would lessen the negative externalities of bank failure to the real economy by further increasing the substitutability of bank loans. Consequently, the negative impact of bank market exits on the real economy would be reduced.

The debt overhang problem of banks, where low capital levels distort bank shareholders' incentives to recapitalize, requires to be solved, either by replacing capital surrogates (AT1 and T2) with Core Equity Tier 1 (CET1) or by improving AT1 regulation. When a bank is near the point of failure, debtors benefit more from recapitalization than shareholders, which reduces shareholders' motivation to act. AT1 aims at addressing this issue by offering incentives for shareholders to recapitalize before the problem arises. However, AT1 in the EU exhibits design weaknesses such as low conversion triggers and a tendency to involve write-downs rather than equity conversion, indicating suboptimal structural features. There are two options to solve this problem: first, amending the CRR to improve AT1 design; second, replacing AT1 and T2 capital surrogates by CET1 capital if sound AT1 design is deemed too complex. This would constitute a significant step towards simplification. Banks often prefer AT1 and T2 to CET1, at the moment, i.a. because both AT1 and T2 are tax subsidized.

To simplify regulatory complexity, the number of macroprudential buffers could be reduced while ensuring that systemic risk is covered. The capital conservation buffer (CCoB), the global and other systemically important institutions buffers (G-SII/O-SII buffer), the systemic risk buffer (SyRB), the sectoral systemic risk buffer (sSyRB) and the countercyclical capital buffer (CCyB) each address specific types of systemic risk. A single buffer that gives macroprudential supervisors the flexibility to address both structural and cyclical systemic risks – applicable to all and/or a subset of exposures – could potentially replace the current multiple-buffer framework. This streamlined approach would make the buffer framework leaner and less prescriptive, thereby increasing flexibility for supervisors. To address this issue, regulation should stipulate the clear and detailed disclosure of all buffer components, including the methodologies used for identifying risks and mapping them to buffer rates. The significant simplification of the IRB model framework, as called for above, would imply simplifying the overall macroprudential toolkit. As a result, Articles 124 and 164 as well as relevant parts of Article 458 CRR would become obsolete.

A most recent in-depth analysis of European banks' competitiveness[4] prepared for the European Parliament recommends to "...implement smart banking regulation and supervision that strengthen market discipline by focusing on banks' liabilities rather than micromanaging their assets. This approach should prioritize robust equity buffers, credible bail-in mechanisms, and transparent leverage ratios to ensure banks have the capacity to absorb losses." (European Parliament, 2025, p. 8). This is in line with our reform proposal. At the same time, the European Commission must avoid that vested interests capture the simplification agenda with the aim to reduce capital requirements.

Reducing capital requirements will not enhance growth

A recent Bruegel Working Paper (Berg, Boivin and Geeroms, 2025) highlights that both policy makers and banks are beginning to put less emphasis on the critical role of bank capital in ensuring financial stability. It highlights how, over time, the foundational reasons for maintaining adequate capital buffers – such as to absorb losses, to maintain solvency, and to prevent systemic crises – are being overshadowed by short-term policy considerations and regulatory adjustments. Berg, Boivin and Geeroms (2025) show that this shift poses risks to banking sector resilience, especially in the face of economic shocks. Historically, robust bank capital has been essential for absorbing losses and maintaining trust in the financial system. However, the authors suggest that recent trends indicate a weakening of this principle, with the regulatory focus moving towards other aspects of banking operations, such as liquidity regulation, profitability and market efficiency or IT, cybersecurity, and operational continuity. This evolving perspective could undermine the long-term stability of financial institutions and the broader economy.

"Undesirable side effects" of capital buffers are often cited as an argument against the current regime of minimum capital requirements. The side effects would increase banks' costs, reduce credit growth, and thus restrict economic growth. These high macroeconomic costs were to be ignored when implementing capital measures or regulation that increase capital requirements. This section demonstrates that we explicitly take into account the social costs of bank capital buffers and how we estimate these costs.

Higher capital requirements increase banks' weighted average cost of capital (WACC), but only by a small amount. However, the WACC increase is not an "undesirable side effect", but basically intended: Banks should not pass on the potential costs of risk to society but should be able to bear these risks themselves, by holding higher equity. Like other companies, banks try to cover such increased refinancing costs by generating higher income, e.g. by imposing higher interest rates on loans. This, in turn, causes macroeconomic costs: The financing costs for companies and households increase, which may reduce consumption and investment and could therefore slow economic growth.

In four steps, we show why the overall economic costs of a 1-percentage point higher capital requirement are low. The analytical background established in 2010 is well tested (Kopp et al., 2010; BCBS, 2019). We use the Austrian systemic risk buffer implemented in 2016 as an example:

As a first step, we determine how much additional capital banks need to hold as a result of a particular capital measure. The systemic risk buffer (SyRB) implemented in Austria in 2016 amounted to 1 to 3% for a set of 12 Austrian banks. When it was introduced, an additional capital requirement of around EUR 3 billion was expected by the end of 2019. Banks have various adjustment options to cover the rise in capital requirements. These include using excess capital that the bank holds above the regulatory requirement, lowering dividends, carrying out capital increases, selling assets or reducing lending and thus lost profits (BCBS, 2019).

In the second step, we estimate the additional costs for the bank (excluding pure redistribution effects). Banks choose their adjustment options in such a way that their additional costs remain as low as possible. However, as capital increases are relatively expensive, we assume – conservatively – a corresponding target value of 12% for banks' return on equity as the cost of adjustment across all adjustment options.

[4] The European Parliament defines competitiveness for the EU banking sector as its capacity to support economic growth and withstand external competition (European Parliament, 2025).

These costs are also offset by savings. Banks replace debt funding with additional equity. This saves them the corresponding interest expenses. In the example of the introduction of the SyRB in Austria in 2016, the corresponding savings in banks' borrowing costs amounted to around 3%[5]. The additional costs of the systemic risk buffer therefore amounted to 9% for the additional EUR 3 billion and to around EUR 270 million per year. However, equity capital is more expensive than debt capital. That increases banks' WACC. In principle, we take the Modigliani-Miller effect into account in our analyses. Banks' debt funding costs decrease somewhat in response to higher capitalization, depending on the scenario. That effect lowers the overall impact of higher capital requirements on banks' WACC somewhat. Here, for simplicity, we focus on a scenario without Modigliani-Miller effect.

In the third step, we assume that banks pass on their additional costs entirely to their customers – another conservative assumption. Moreover, we assume that only the domestic part of banks' loan portfolio is affected, and only new business with households and companies in the real economy – yet another conservative assumption. When the systemic risk buffer was introduced in Austria in 2016, the OeNB estimated the corresponding interest rate premium for these loans at around 9 basis points per annum. This was well below the level of a typical ECB interest rate hike.

The estimated interest rate premium was also relatively low because not all banks were equally affected by the introduction of the SyRB. Better capitalized banks already had sufficient equity at the time. In principle, better capitalized banks can absorb the measure more easily and do not have to increase their lending rates so much, or not at all. They can therefore gain market share over less well-capitalized banks. In addition, the measure was phased-in to give banks sufficient time to adjust and thus keep the social costs of capital-based measures as low as possible.

In the fourth step, we estimate the impact of the estimated interest rate premium on economic growth, gross fixed capital formation and private consumption. The OeNB applies interest rate elasticities of its forecasting model (Austrian Quarterly Model, AQM) to calculate the impact of interest rate hikes on macroeconomic indicators. The AQM applies the higher interest rates for domestic bank loans to all forms of refinancing in the real economy, although domestic bank loans generally only account for around 40% of total debt financing. This is also a conservative assumption.

Overall, when the systemic risk buffer was introduced in Austria in 2016, our calculation showed that the related macroeconomic costs were estimated to be very low. The effect of the 2016 systemic risk buffer on Austrian GDP growth over three years was practically zero. There was also no significant negative impact on other economic indicators. In retrospect, credit growth was not hampered after the introduction of the SyRB, as had been feared by opponents of this capital measure, but instead increased substantially.

Capital measures have positive effects on risk distribution. Alternatives to bank loans reduce the overall economic costs of capital requirements: In Austria, foreign banks and other financing instruments, such as promissory note loans or bonds and loans along the value chain as well as trade credit, contribute the lion's share to refinancing the real economy. A wider range of financing possibilities and tighter competition means that banks cannot easily pass on higher costs to the real economy. For the latter, a broader financing base offers greater choice and could also compensate for any reduction of lending growth by domestic banks.

Capital measures also have positive steering effects within the banking system: Credit risk shifts to those banks that, for example, have more equity and therefore better risk-bearing capacity. These banks can offer loans at better conditions. In addition, bank credit risk is spread across additional financial institutions outside the banking sector, such as investment funds, which implies that it is spread across more risk-bearing capacity/equity.

As increasing capital requirements only has a marginal impact on the real economy, decreasing capital requirements will not boost economic growth, either. It would in fact rather undermine the resilience of the financial system as a whole.

[5] We focus on societal costs, which exclude the redistribution of costs within society such as the loss of the tax subsidy of debt.

Conclusions for the current debate on simplifying banking regulation

While we agree that reducing the complexity of the EU regulatory and supervisory framework is important, the resilience of the EU banking sector and compliance with the Basel framework must not be compromised. What we must avoid is a race to the bottom in banking regulation and supervision, both in the EU and globally.

We have shown that there are various ways to reduce regulatory and supervisory complexity, and that meaningful simplification would require more fundamental reforms. However, given the prolonged debate on this topic, we have tempered expectations regarding the feasibility of such reforms in the nearer term. To improve its chances of success, the EU Savings and Investments Union (SIU) strategy should focus on the following four areas of simplifications that would constitute quick wins:

First, the European Commission must avoid creating further unnecessary complexity in banking regulation, i.e., cease the overly complex CMDI review. The existing framework has proven effective in Austria, and we are confident that it works in other EU member states, too. We support the Expert Group (2025, p. 13) call for stabilizing the regulatory framework and limiting review clauses.

Second, the EU strategy should focus on the particularly complex parts of banking regulation, i.e., governance of IRB models and financial markets regulation. Specifically, the level 1 (i.e., CRR and Capital Requirements Directive, CRD), level 2 (i.e. delegated acts and technical standards), and level 3 (i.e. non-binding guidance) mandates regarding IRB models should be prioritized and streamlined quickly and effectively. In particular, Articles 124 and 164 CRR, the related EBA Regulatory Technical Standards (RTS) as well as a "hard test" should become dispensable. For a holistic review, the Markets in Financial Instruments Directive (MiFID II), the Markets in Financial Instruments Regulation (MiFIR), and anti-money laundering regulations should also be examined thoroughly.

Third, regulatory overlaps between micro- and macroprudential supervision and bank resolution need to be addressed. Undue complexity arises from the often contradictory interactions between these frameworks. The parallel structure and independent development of these three frameworks require a holistic approach in favor of the most efficient and simplistic approach to addressing risks in banking. The ESRB (2021) has already published a comprehensive analysis and sound policy proposals. Considering these proposals in the EU Savings and Investments Union (SIU) strategy would constitute a quick win.

Fourth, there is scope for streamlining processes and procedures (such as European Commission or ESRB authorization procedures) and reciprocity rules in macroprudential supervision. Simplified procedures and reciprocity rules would strengthen the effectiveness of the national mandate for macroprudential supervision, necessary to account for the diverse financial cycles, structures, and economic conditions of EU member states. This is even more important in the euro area with its common monetary policy. Macroprudential measures that cover all the banks (or a broad set of banks) in a member state are, by nature, less complex than bank-specific measures for each individual bank.

In addition, we fully agree with the main proposals put forward in König (2025): A more streamlined regulatory architecture with clearer hierarchies and fewer cross-references as well as a systematic review of regulatory reporting requirements across regulators would reduce the regulatory burden and support the competitiveness of EU banks.

Overall, we must avoid that simplification leads to deregulation or a downward spiral of regulatory standards. That would not only make the financial system less resilient, but it would also fail to enhance competitiveness or growth.

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