

Workshop 1

Simplifying regulation and supervision for a complex world

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The evolution of complexity in regulation and supervision

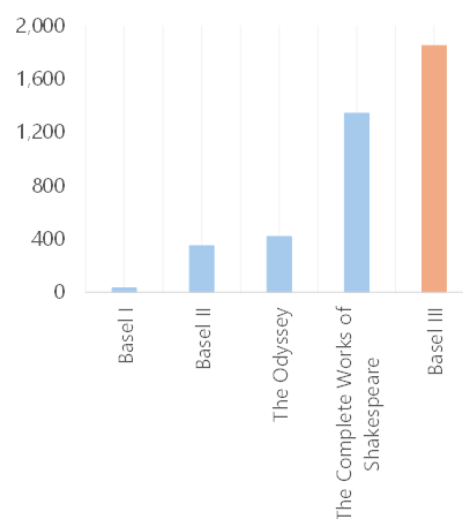
For almost two decades, the global community has rightly focused on strengthening the resilience of the global banking system. A parallel challenge is ensuring that we do not make it unnecessarily complex. Has complexity itself become the next prudential frontier? Could such complexity undermine the very resilience we seek to protect? This workshop will explore whether and how regulation and supervision might become simpler and more modern while remaining equally, or even more, effective.

The Basel III reforms have unquestionably strengthened the resilience of the global banking system.¹ Banks have generally withstood a series of financial shocks since the Great Financial Crisis (GFC), including the Covid-19 pandemic, the 2023 banking turmoil, and numerous market stressors. Banks did not amplify these shocks by deleveraging or through procyclical behaviour. Preserving these hard-won gains remains the Basel Committee's foremost objective.²

At the same time, it is also true that regulation has become more complex. The Basel III Framework now stands at around 1,850 pages, compared to Basel I's 30 pages (Figure 1). It is linguistically and computationally more complex than its predecessors.³ And, as highlighted during the 2023 banking turmoil, questions have been raised about the design of the capital framework, including both the number and layering of minimum and buffer requirements and the role of Additional Tier 1 (AT1) instruments.⁴

Supervision has also become more complex and resource-intensive. Many supervisors have taken more undifferentiated approaches that examine all risks banks face to the same depth, at high cost to both supervisors and banks. Since the GFC, many authorities have shifted from primarily rules-based oversight towards more judgement-led supervision with a broader perimeter. Core activities now routinely encompass bank-specific capital and liquidity assessments, supervisory stress testing,

Figure 1: Page count of the Basel Framework and selected classic works



Source: Secretariat calculations.

¹ Borio et al (2020).

² Thedéen (2025) and BCBS (2026).

³ For example, it has a Flesch-Kincaid grade level readability score of 18.8, compared to 15.7 for Basel II. It also has twice as many cross-references than Basel II. The revised standardised approach of the market risk framework requires approximately twice as many input parameters than the Basel II approach.

⁴ BCBS (2023).

evaluations of governance and risk culture, model risk management, interest rate risk in the banking book, and the quality and timeliness of risk data and reporting. Cross-border groups face expanded coordination through supervisory colleges and crisis management groups, alongside recovery and resolution planning. More recently, supervisory agendas have added issues such as operational resilience, cyber and third-party risk, and/or material climate-related financial risks where they pose prudential concerns, often supported by richer data and analytics. These developments have strengthened the ability to identify emerging vulnerabilities, but they have also increased the technical depth, frequency, and breadth of supervisory expectations and interactions, without always matching intensity and resources to the potential magnitude and relative importance of the risks.

Where does complexity come from?

The growth in regulatory and supervisory oversight reflects the complexity of banks and the financial system. Supervisors today must oversee cyber risk, operational resilience, artificial intelligence, third-party dependencies, digital innovation, and increasingly interconnected markets. A more complex world inevitably requires more sophisticated regulatory and supervisory capabilities.

More broadly, a risk-sensitive framework aims to reflect the multidimensional risk profile of banks – encompassing both financial and non-financial risks – from both a bottom-up (microprudential) and top-down (macroprudential) perspective. And no regulatory measure is perfect, with each having strengths and weaknesses. This is why Basel III was developed as a “multiple metrics” framework, which is more robust to arbitrage and erosion over time, as each measure offsets the shortcomings and adverse incentives of the others.⁵

Yet it is also the case that complexity of regulation and supervision has increased over time as a result of other factors, including:

- (i) lobbying by external stakeholders. Each plea for a carve-out, a special treatment or an additional layer of purported “risk sensitivity” may appear justified in isolation. Yet cumulatively the result is a framework that is harder to implement, harder to supervise, and ultimately less transparent;⁶
- (ii) divergences in domestic implementation represent a critical challenge. Some jurisdictions have added substantial complexity to the regulatory framework in the name of reflecting national specificities, sometimes creating unlevel playing fields that disadvantage internationally active banks and undermine the purpose of global standards.⁷ While jurisdictions ultimately have the prerogative to implement global standards as they wish, these deviations can result in heightened complexity, with internationally active banks having to comply with different regulatory requirements across their geographic operations. In addition, jurisdictions frequently overlay global standards on domestic requirements that are not easily adaptable, leading sometimes to redundant, inconsistent, or unintended incentives;⁸ and
- (iii) the inevitable compromises involved in reaching global standards. Standard-setting bodies such as the Basel Committee are member-led and agree to decisions by consensus. Such an approach

⁵ Hernández de Cos (2023 and 2026). For example, the leverage ratio provides a cap on leverage but, by itself, could incentivise banks to increase their holdings of higher-risk assets. The risk-weighted framework compensates for this, as it constrains banks that materially increase their risk profile without any commensurate regulatory capital to fund their balance sheets. And the liquidity standards require banks to maintain a prudent buffer of high-quality liquid assets and restrict the degree of maturity mismatch

⁶ BCBS (2013).

⁷ Hernández de Cos (2022).

⁸ For example, the national legislature in some jurisdictions have the power to set aspects of bank regulation, which supervisory authorities need to manage alongside the transposition of global standards.

is undoubtedly effective in fostering global cooperation and buy-in from all jurisdictions involved.⁹ But it also results in additional complexity during negotiations, as compromises are sought and all members give and take with a view to agreeing to global standards.

Implications of complexity for supervisors

Regulatory complexity is not just a theoretical concern but has real-world costs, including for supervisors. Regulation must instil trust in the financial system and be an anchor for market participants to gauge the resilience of institutions. Excessive complexity can impose operational burdens on banks and supervisors, reduce transparency for market participants and thereby weaken market discipline. Complexity ultimately undermines the ability of a bank – including its board and senior management – and its supervisor to effectively oversee and manage its risk profile.¹⁰

These dynamics have several practical implications for supervisors. First, agility can suffer: complex supervisory programmes may be less responsive to fast-moving risks. Second, consistency and accountability can become harder to evidence and explain, increasing the risk of perceived or actual unevenness across banks or jurisdictions and heightening legal and reputational exposure. Third, dependence on complex models, third-party tools and extensive data pipelines introduces its own operational and model risks for supervisors, including challenges around data quality, interoperability and cyber resilience. Finally, overlapping requests and uncoordinated review streams can erode supervisor-bank trust, divert management attention from risk management toward process, and dilute the effectiveness of market discipline by making supervisory expectations less transparent.

In addition, the operational complexity of implementing global standards could result in fragmented or delayed implementation, undermining the level playing field that global standards are meant to provide. And, to the extent that complex rules are also applied to smaller and simpler banks, complexity may limit competition, giving advantages to larger and more complex banks. This, in turn, could potentially provide incentives for banks to become even more complex and aggravate the “too big to fail” problem.

The path ahead: towards “safe modernisation and simplification”?

It is therefore important that we ask whether there are areas where we can consider reducing undue regulatory and supervisory complexity and improve efficiency through modernisation without diluting the resilience of the global financial system. The objective is not to roll back prudential safeguards but to make them more efficient, effective and implementable across diverse banks and jurisdictions.

A practical path forward for “safe modernisation and simplification” begins with clear principles and guardrails, for example:

- (i) preserving resilience and loss-absorbing capacity (ie not significantly increasing or decreasing bank capital and liquidity requirements);
- (ii) remaining focused on the most material risks a particular bank or set of banks face in an outcome-based manner, rather than attempting to assess the whole range of risks banks face regardless of whether some of those risks pose little potential for material financial loss or focusing on banks’ processes where satisfactory outcomes are being achieved;
- (iii) harnessing technological innovation responsibly (eg leveraging the role of RegTech, SupTech and artificial intelligence) without inadvertently limiting innovation or creating barriers to entry.

⁹ See, for example, Gould (2016).

¹⁰ BCBS (2013).

Regulatory approaches should be technology-neutral and enable competitive markets in supervisory technology solutions;

- (iv) applying proportionality where relevant (requirements commensurate with the risk profile and business model of a bank);
- (v) enhancing transparency and comparability (limiting unnecessary divergences that undermine the level playing field);
- (vi) recognising supervisory sovereignty and diverse approaches, as each jurisdiction's supervisory framework and approach ultimately reflect its banking system and broader political economy factors; and
- (vii) requiring rigorous cost-benefit analysis, with new regulations demonstrating material prudential benefits that outweigh costs.

With these anchors, opportunities for “safe modernisation and simplification” can be identified, namely changes that maintain or enhance loss-absorbing capacity, risk capture and resolvability while making design and execution more straightforward.

In the regulatory framework, there may be opportunities for clarifying the architecture and interactions of minimums and buffers. Reducing the number of options and national discretions that add complexity without clear prudential gain or clear need to accommodate different national banking structures can strengthen comparability. For risk measurement, a sharper delineation of where internal models add genuine value and where standardised approaches can deliver similar resilience would concentrate effort where it matters most. Pillar 2 practices can be made more predictable through transparent methodologies and explanations to supervised banks and clearer links to identified material risks, reducing bespoke overlays that are hard to explain and supervise.

Disclosure, reporting and data are ripe for “collect once, use many times” approaches. Streamlining Pillar 3 to emphasise the most decision-useful templates and narratives, adopting machine-readable standards, and rationalising overlapping data requests would reduce burden while enhancing market discipline.¹¹ Stress testing and scenario analysis can remain rigorous while reducing their operational costs to supervisors and banks and by developing simplified approaches for smaller and less complex banks.

On the supervisory side, simplification is less about fewer touchpoints than about better sequencing and coherence. Focusing reviews on material financial risks, being selective about horizontal reviews to limit them to the set of banks where the risk reviewed is high, and articulating outcome-focused expectations can reduce duplication and shorten the path from risk identification to remediation. Introducing ways to streamline remediation for an identified material deficiency can help ensure risks are addressed before they become a problem. Cross-border coordination, through shared workplans, joint information requests and clearer division of labour in colleges and crisis management groups, can lessen fragmentation for internationally active banks while improving consistency. Greater use of digitalisation and analytics to automate low-value tasks (eg data validation, outlier detection, early-warning dashboards) can free scarce supervisory time for judgement-intensive work, provided that model risk, data quality and cyber considerations are managed upfront. Finally, measuring success matters. Simplification efforts should be anchored in measurable outcomes rather than process prescriptions. Effective measurements including: tracking implementation timelines, variability in outcomes (eg risk-weighted assets), reduction in duplicative templates, and timeliness of remedial actions, can provide feedback on whether simplification is preserving resilience while reducing burden.

¹¹ BCBS (2025).

- Q1. Has regulatory and supervisory complexity itself become a prudential risk? If so, where is this most evident?
- Q2. Can stronger and modernised supervisory capability enable simpler regulation? What is the optimal balance between supervision and regulation?
- Q3. What could “safe modernisation and simplification” look like in practice? Which principles or guardrails could shape such work?
- Q4. How important is it to focus on proportionality and tailoring regulation and supervisory approaches for banks of different sizes and with different levels of complexity?

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