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Unlocking the Banking Union: the endgame of simplification

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Key takeaways:

- The robustness of the European banking system – shaped by more than a decade of SSM and SRM – should now be used to underpin an ambitious simplification of supervision and regulation.
- Simplification must rest on clear principles: uphold the EU's adherence to international standards; avoid US-style 'tailoring' deregulation; and focus on areas where the EU framework is overly complex.
- Today's political momentum should be converted into concrete changes that make supervision more agile, streamline EU-specific layers of requirements, and deepen the Banking Union.
- Genuine simplification will become a reality in the EU when supervisors no longer need to think about a bank's nationality, and when a European citizen can readily borrow from a bank based in another Member State.

Simplification is an opportunity to support the EA banking sector's competitiveness and contribution to economic growth.

During the last fifteen years, the European Union has taken major regulatory and supervisory steps to enhance the stability and resilience to shocks of its banking sector within the context of the development of an EU banking Union. To that end, international standards from the Basel Committee and the Financial Stability Board have been transposed into EU law and implemented through the Single Supervisory Mechanism and the Single Resolution Mechanism, which stand as a European integration and cooperation success story. Well-integrated cross-border teams – Joint Supervisory Teams and Internal Resolution Teams – have concretely put into practice the founding texts, most recently with the entry into force of the banking package (CRR3/CRD6) and the upcoming CMDI reforms.

The European banking system is more robust than ever.

Resilience shows in the hard metrics. The average CET1 ratio of European banks rose from 12.5% to 16.3% between 2014 and 2025, while the non-performing loan ratio fell from 6.5% in 2014 to around 1.8% in 2025, according to the EBA¹ (Charts 1 and 2). The system also withstood the Covid-19 shock, the

¹ EBA, [Risk Dashboard - Q4 2025](#), 2026.

subsequent high-inflation and interest-rate cycle, and the 2023 banking turmoil – testimony to the resilience benefits of combined efforts of supervisors, regulators and the banking industry.

Chart 1: CET1 ratio in the EU

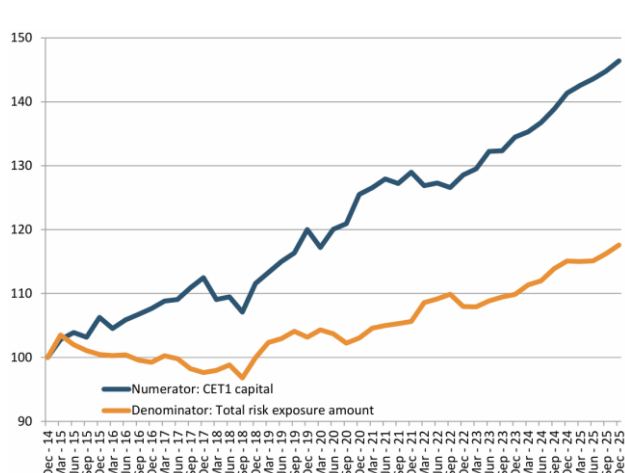
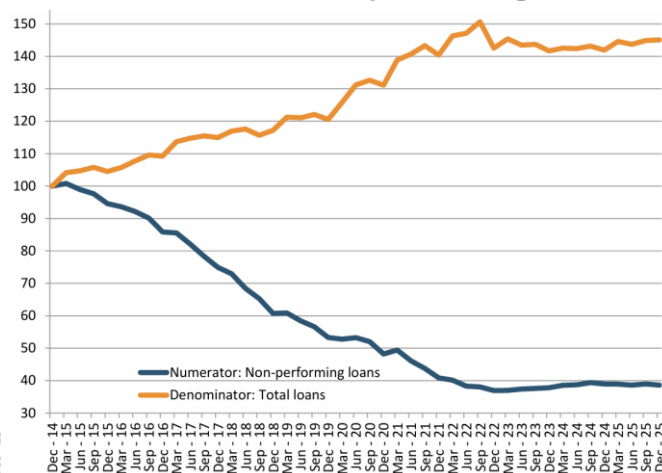


Chart 2: Ratio of non-performing loans



Source: EBA risk dashboard, Q4 2025

The costs of the robustness outcome.

However, the banking sector's integration has not evolved as positively as its robustness. Within the EA it falls short of what one could expect in a Banking Union, although the degree of fragmentation differs between retail banking and wholesale and investment banking. Cross-border business remains limited; only a small number of banks have developed a truly pan-European approach². Direct intra-euro area cross-border lending represented less than 15% of euro area bank lending to non-banks at end-2024³. Meanwhile, cross-border mergers have been relatively scarce in recent years, with most M&A activity remaining domestic⁴ and banking groups face important obstacles to operating seamlessly across borders. As a result, cross border groups continue to be managed and supervised in practice largely as collections of national entities rather than fully integrated European firms.

This situation can be explained by a combination of prudential, supervisory, legal and political frictions that prevent capital and liquidity flowing freely with banking groups and make cross-border activity within the EU more costly and less scalable than purely domestic activities.

Among those factors prudential and supervisory requirements severely constraining, for instance the local allocation of capital and liquidity or intragroup large exposure limits, play a significant role.

In addition, one can observe that the progress in the resilience of the banking sector has been strongly incentivized by the transposition of international standards, but this process has, in some areas, resulted in EU-specific gold-plating and a complex framework of prudential requirements. As an example, the number of elements in the EU risk-weighted capital stack is high – in particular in comparison with the

² Gotti G., McCaffrey C. and Veron N., "[Banking union and the long wait for cross-border integration](#)", Study requested by the ECON committee, October 2024.

³ Lenoci F. and Molitor P., "[Intra-euro area cross-border bank lending: a boost to banking market integration?](#)", Financial Integration and Structure in the Euro Area, ECB, June 2024.

⁴ Figueiras I. and al., "[Bank mergers and acquisitions in the euro area: drivers and implications for bank performance](#)", Financial Stability Review, ECB, Nov. 2021.

United Kingdom or the United States - and may contribute to decrease the readability and the comparability of capital requirements.

In some internationally open and contested activities, gold-plating and complexity may contribute to create an unlevel playing field with non-EU institutions. This could help explain why third country institutions have a moderate overall footprint in EU banking assets, but a very large presence and market share in wholesale and investment banking activities, where market penetration is highly sensitive to international regulatory and supervisory divergence and scale.

Reducing undue regulatory and supervisory costs through simplification.

Following the Draghi and Letta reports, a broad agreement has emerged in Europe about the importance of reducing the undue regulatory and supervisory costs that came with the strengthening the robustness of the banking system. At a time where the geopolitical and economic environments are highly uncertain, are a source of repetitive and significant shocks and where important transitions need to be financed, this effort is timely and can be a relevant lever to incentivize banks to expand further their support to economic growth and to remain forward looking and adaptative to current and emerging risks. Accordingly, the EBA published in October 2025⁵ proposals to simplify the regulatory framework in all its components, including capital requirements and the deepening of cross-border activities. In December 2025, the ECB published a report co-signed by central bank governors⁶ with recommendations to, among other things, simplify the regulatory framework and neutralize some EU-specific gold-plating. In addition, the SSM has already taken tangible steps under its Next Level Supervision initiative⁷: greater efficiency and risk focus through digitalization, standardized and faster processes, and fewer unnecessary burdens. And we are now waiting for the outcome of the targeted consultations launched by the European Commission on the competitiveness of the EU banking sector.

Ambitious simplification requires guardrails.

Agreement on the importance of reducing undue regulatory and supervisory costs should however imply that no trade-off is made between financial stability and other objectives. Financial stability is a precondition to sustainable economic growth and a functioning economy. Hence the importance of the guardrails that have been put forward in the reports mentioned above.

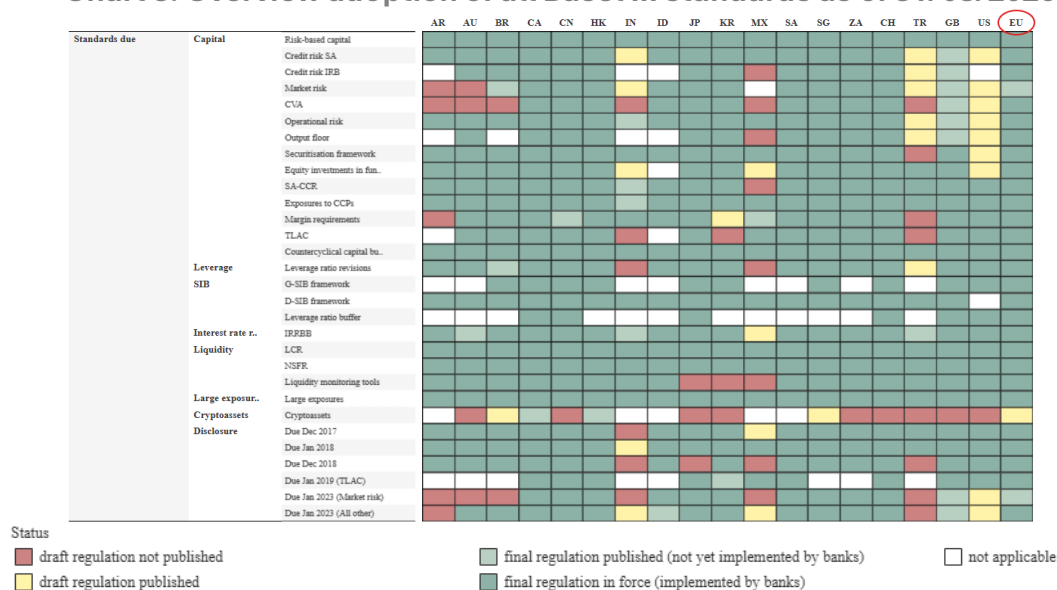
First, the EU should remain compliant with international standards – Basel and FSB – because they form a common foundation applicable to all bank and ensure risk-sensitive requirements. From this standpoint, the EU must continue to set a high bar, as shown by its implementation of the Basel III standards (Chart 3).

⁵ EBA, [Report on the efficiency of the regulatory and supervisory framework](#), 2025.

⁶ ECB, [Simplification of the European prudential regulatory, supervisory and reporting framework](#), 2025.

⁷ SSM, [Streamlining supervision, safeguarding resilience](#), 2025.

Chart 3: Overview adoption of all Basel III standards as of 31/03/2026



Source: [RCAP: Basel III implementation dashboard](#), BIS.

Second, it is essential to avoid a US-style deregulation playbook. Lighter ‘tailored’ regimes elsewhere have hindered corrective action on vulnerable institutions and could give rise to fragmentation of the Single Market. Equally, Europe should avoid a ‘model pupil syndrome’ by further gold-plating international standards – especially in the definition of eligible capital instruments – which would raise requirements without clear prudential benefit.

It is now urgent to deliver.

The Commission’s competitiveness report scheduled for 2026⁸ will hopefully lead to regulatory changes, but supervision already offers levers for action. In practice, supervision and regulation are not siloed; they are intertwined across the priority workstreams that need to be delivered.

Three priorities should now be pursued.

1. Supervision should become more fluid, more agile, and more risk-based.

The SSM’s “Next-Level Supervision” report sets out recommendations to that end that can be implemented immediately.

The SREP reform should now allow us to focus on risk-based supervision and substantially improve communication with the industry. Concretely, supervisors should codify pluriannual, risk-based SREP planning: review all risks over a multi-year horizon, focus each year on the most material ones, and state upfront what will not be reassessed annually to reduce unnecessary churn and increase predictability. In parallel, communication should be shorter, earlier and clearer: share preliminary SREP views earlier in the cycle and issue concise decision letters that set out a small number of key expectations with timelines and metrics, so that institutions know precisely what the priorities are.

⁸ European Commission, “[Targeted consultation on the competitiveness of the EU banking sector](#)”, 2026.

The ECB has also launched a much needed review of its supervisory guides, which should provide first outcomes in 2026. This should not be a mere editorial exercise but an opportunity to focus on removing gold-plating. For example, the Guide on ICAAP could be reviewed to delete the expectation for a management buffer, which has been interpreted as a permanent rule to maintain own funds by a significant margin above minimum requirements. The Guide on options and discretions could also be revisited to facilitate granting cross-border liquidity waivers, while avoiding setting additional criteria that would go beyond the Level-1 legislator's intent.

Finally, supervision can simplify the application of the rulebook by avoiding overlaps that amount to EU gold-plating. On the one hand, overlaps between Pillar 1 and Pillar 2 that arise from the recent Basel III implementation (CRR3/CRD6) should be eliminated in the SREP calibration. Quantification of certain risks has been materially reinforced in Pillar 1, whereas Pillar 2 had already captured them; operational risk is a prominent example. On the other hand, overlaps linked to the output floor should be addressed: the output floor mechanically raises Pillar 2 requirements and buffers because they are expressed as percentages of risk-weighted assets. When RWA rise due to the floor, Pillar 2 and buffers also rise mechanically even though the bank's underlying risk profile has not changed; this lacks a risk-based rationale. There is no reason for the EU to remain captive of its own rigid methodologies when other jurisdictions have managed simpler approaches.

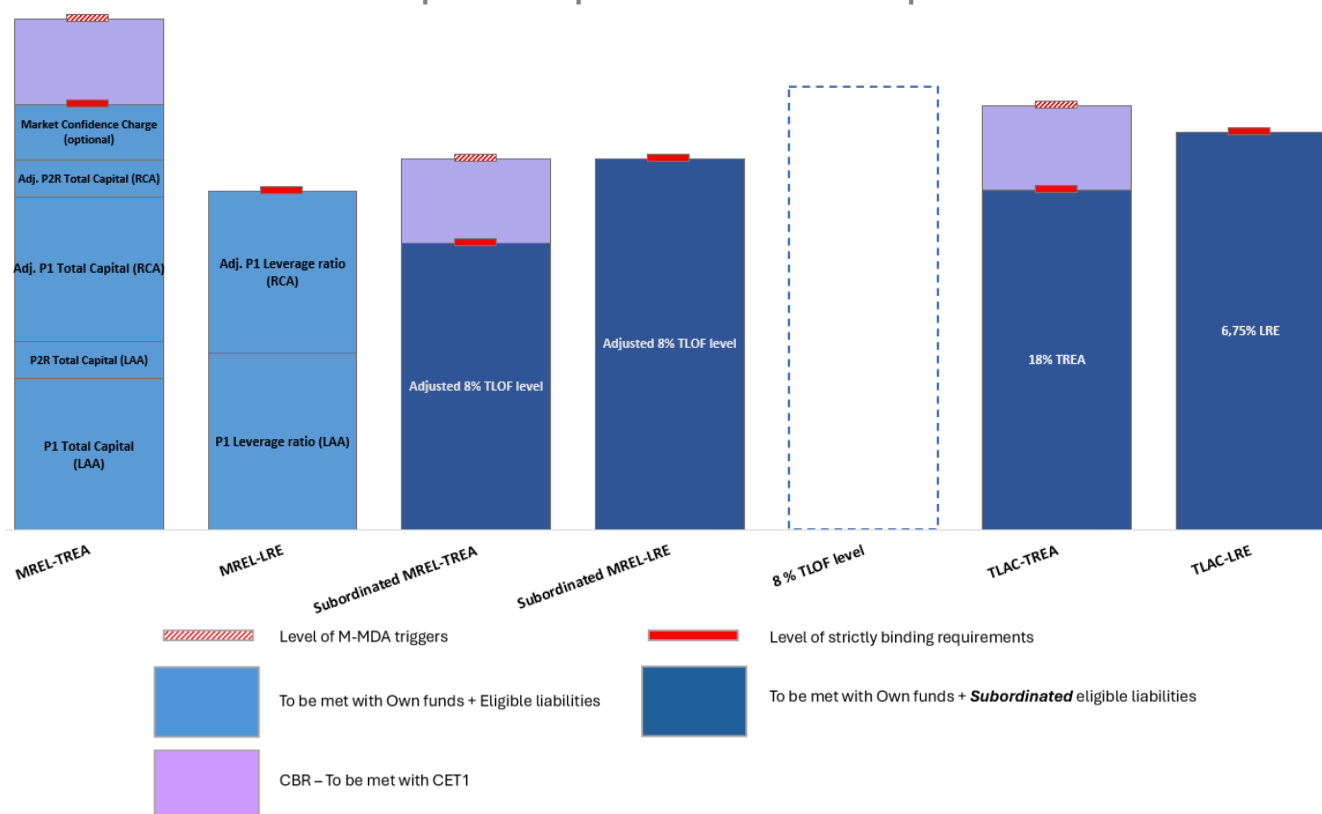
2. Neutralize EU gold-plating via targeted regulatory changes.

Regarding the solvency framework, several EU-specific features are low-hanging fruits for simplification. The Systemic Risk Buffer only exists in Europe; it could be eliminated within a merger of macroprudential buffers as suggested in the ECB HLTF report. The O-SII buffer methodology should be amended to truly reap the benefits of the Banking Union, particularly in the context of evolving US G-SIB surcharge proposals. Lastly, Europe-specific multiple parallel MDA triggers (in particular for MREL and leverage ratios) should be rationalized to allow for a smoother capital management by institutions. Thus, moving in that direction would contribute to enhance simplicity and transparency of solvency requirements.

In the resolution framework, two key strands of reforms are indispensable to simplify without deregulating.

The EU resolution framework is characterized by a particularly complex combination of preventive requirements: MREL, subordinated MREL and TLAC (Chart 4). Up to six resolution targets may apply in parallel at group-level, for the same bank. In addition, three of these targets can each be broken down into two distinct minimums requirements: a strict minimum, and another level triggering restrictions on distributions (MREL-MDA).

Chart 4: Up to seven parallel MREL/TLAC requirements



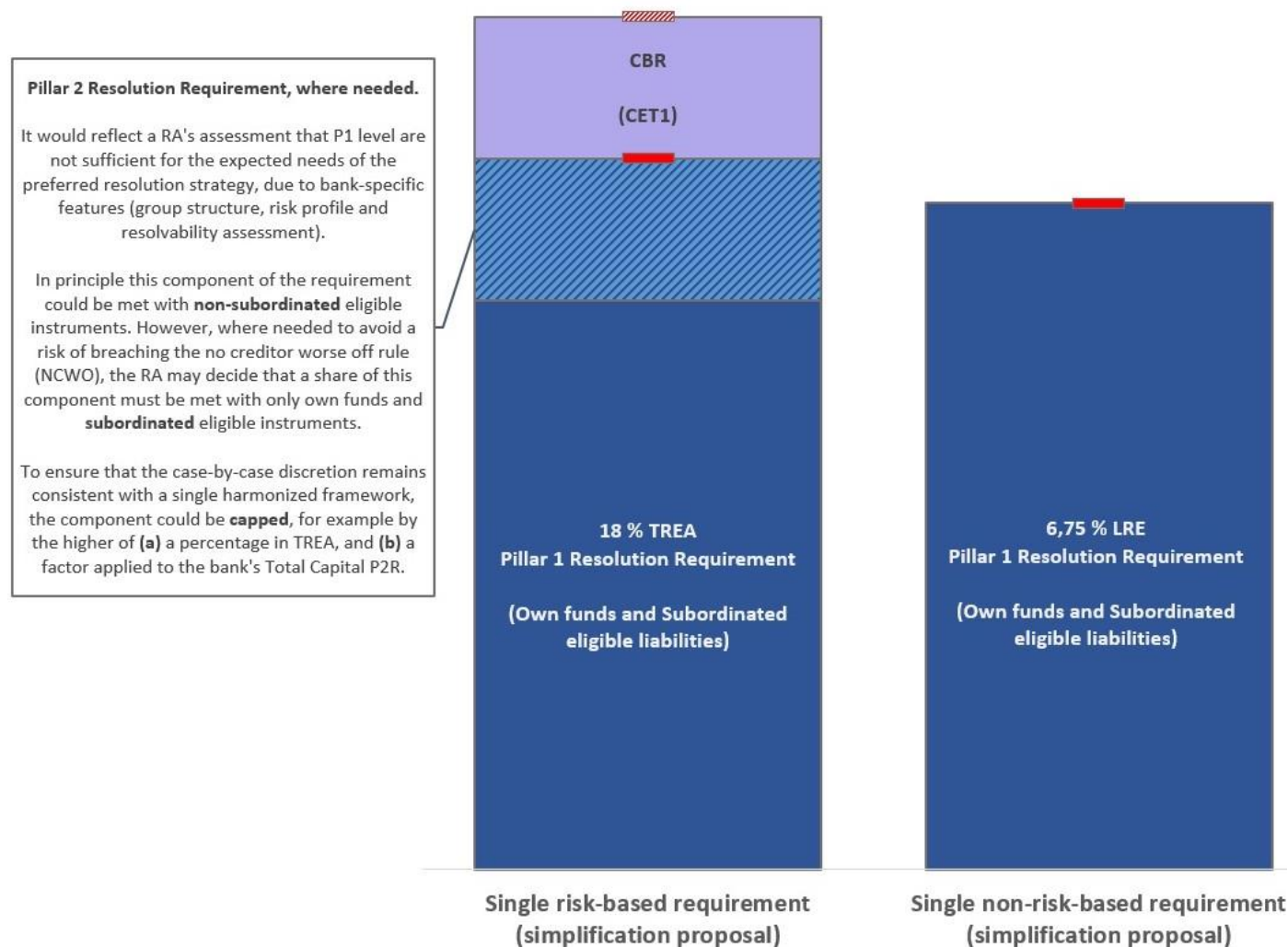
Source: ACPR.

These numerous thresholds make it harder to get a full picture of a group's loss-absorption capacity and of the level of its management buffers over applicable requirements. That is why a transition towards a simplified framework would be welcome, where a uniform level based on the TLAC international standard would simultaneously perform three functions, thus removing the need for the overlapping requirements of the current framework (Chart 5):

- this level would act as a standardized floor for the overall MREL requirement – supplemented by a “Pillar 2” add-on that would concentrate all bank-specific adjustments in a single component,
- it would define the level of the subordinated MREL requirement,
- for G-SIBs, it would also ensure the EU implementation of the international TLAC standard.

For large European banks (assets above €100 billion), the threshold would match the level set by the TLAC standard: 18% of risk-weighted assets and 6.75% of the leverage exposure, with the combined buffer requirement added on top of the risk-weighted requirement. For other institutions, a lower threshold could be set (e.g. 16% RWA).

Chart 5: A simplified resolution stack for European G-SIBs and *Top Tier* banks (total assets over EUR 100 bn)



Source: ACPR.

Additionally, the prior permission procedure, which currently restricts the early redemptions of MREL-eligible instruments, could be greatly simplified through technical fixes that can be implemented in the short term (e.g. removal of current restrictions on general prior permissions that were set in the Commission Delegated Regulation). In the medium term, a more proportionate scope of the procedure (defined by Level 1 legislation) should also be considered.

3. Deepening the Banking Union: the core pathway to simplification.

Genuine simplification will become a reality when supervisors in the EU no longer need to think about a bank's nationality, and when a European citizen can readily borrow from a bank based in another Member State.

Despite significant progress, the Banking Union remains incomplete. Today, one of the obstacles to cross-border activities is the absence of free circulation of capital and liquidity at group level, within the Banking Union. Granting waivers for cross-border capital and liquidity would facilitate the integration of banking groups and help reap the full benefits of the Banking Union. This is why cross-border liquidity and capital

waivers have long been called for by the ECB⁹, the SSM¹⁰ and academic circles¹¹. More recently, the Draghi report reminds to what extent Europe suffers from its lack of financial integration, and, as Claudia Buch states in her article for the Forum on Financial Supervision¹², “promoting the cross-border provision of financial services can strengthen integration and competition in Europe”.

Simplifying without deregulating and hence without trading-off financial stability should now become a priority of the financial regulatory agenda in Europe. But it will be useful only if implemented swiftly, mindful of the geopolitical context, and driven by a political ambition that transcends historic fault lines and commits to Europe’s future.

⁹ ECB Committee on Financial Integration, “[Financial Integration and Structure in the Euro Area](#)”, June 2024.

¹⁰ Enria A., “[Fostering the cross-border integration of banking groups in the banking union](#)”, The Supervision Blog, SSM, 9 October 2020; Enria A., “[The integration of the EU banking sector and the challenges of global competition](#)”, Eurofi Magazine, 13 September 2023; Montagner P., “[Cross-border banking in the EU: from national silos to an integrated market](#)”, Eurofi Magazine, 8 April 2025; C. Buch, “[European banking integration: harnessing the benefits, containing the risks](#)”, Warsaw School of Economics, 10 April 2025.

¹¹ Gotti G., Mccaffrey C. and Veron N., [Banking union and the long wait for cross-border integration](#), Study requested by the ECON committee, October 2024; Maragopoulos N., “[Removing the regulatory barriers to cross-border banking](#)”, Paper prepared for the SRB-FBF academic event: Bank resolution in times of COVID-19, August 2020.

¹² Buch C., “[Banks and Competitiveness: promoting competition, protecting resilience](#)”, Forum on Financial Supervision, Systemic Risk Centre, London School of Economics, 2026