



Streamlining financial regulation while safeguarding stability and tackling new risks

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Introduction (I)

- The Great Financial Crisis (GFC) prompted profound financial sector reforms
- These reforms have strengthened the resilience of the banking sector
- Evaluating the impact and effectiveness of reforms is an integral part of the policymaking process, strengthening the accountability of policymakers:
 - Open-minded and agnostic about the outcome
 - Holistic, covering the whole financial system, including NBFIs
 - Mindful that financial stability is a global public good, hence requiring international cooperation

Introduction (II)

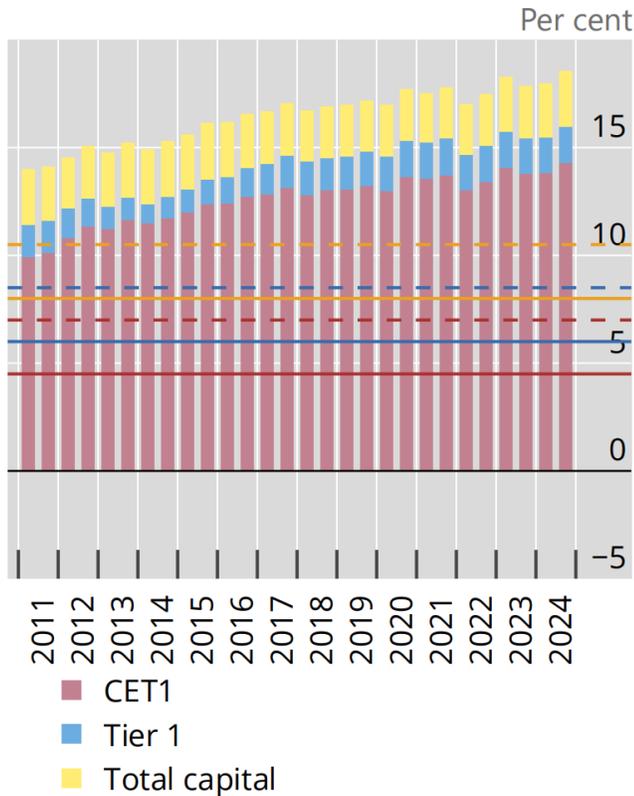
- Three key questions:
 1. Have the post-GFC reforms enhanced the resilience of the financial system, and have they resulted in any side effects?
 2. Can we improve efficiency and reduce complexity while preserving resilience?
 3. Can the current regulatory framework ensure the resilience of a rapidly evolving financial system?
- Goal is to present key considerations rather than provide definitive answers

Outline

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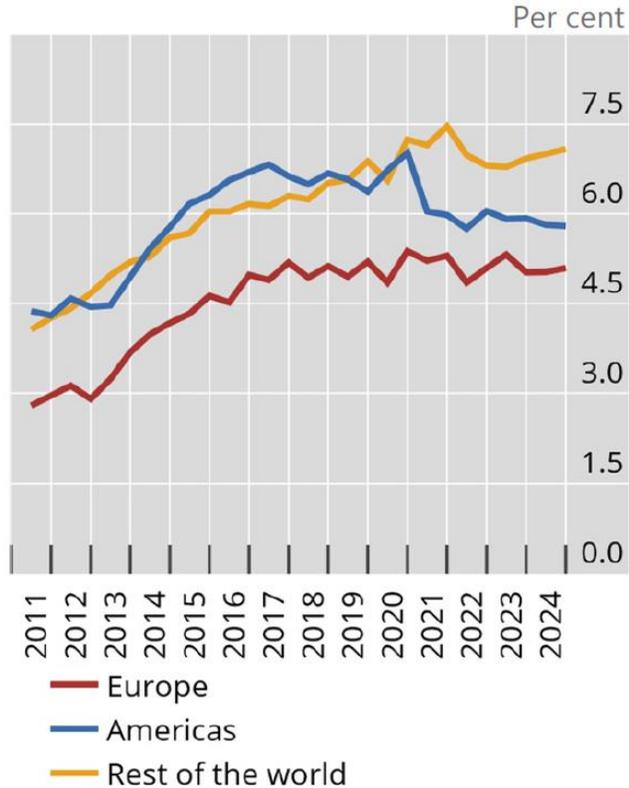
Banks' capital and liquidity positions have strengthened considerably

CET1, Tier 1 and total capital ratios

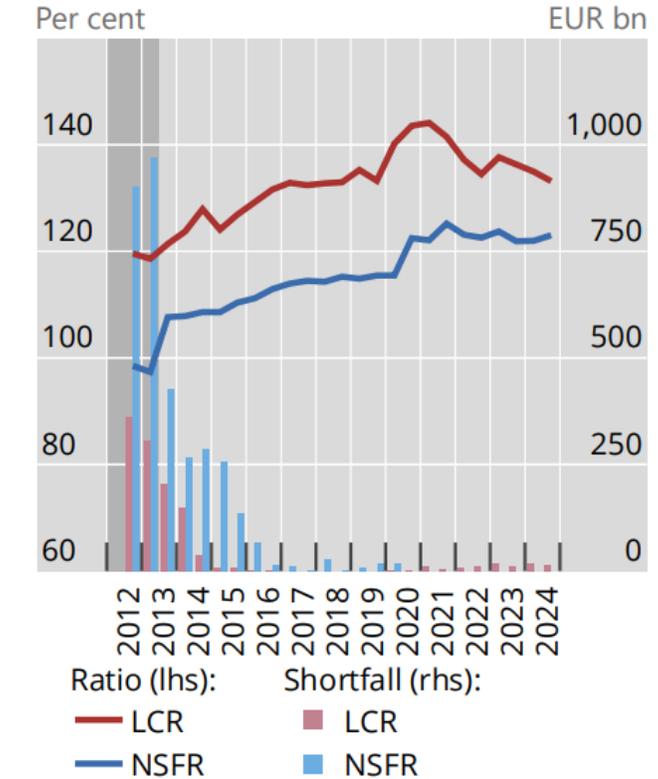


Solid lines depict the relevant minimum requirements. Dotted lines show the minimum plus the capital conservation buffer requirement.

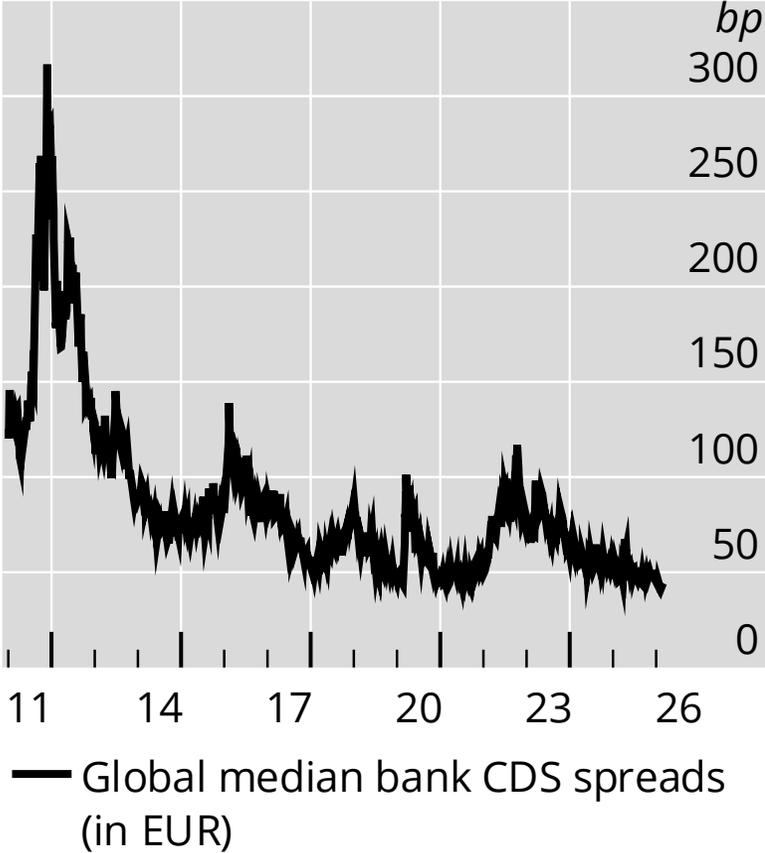
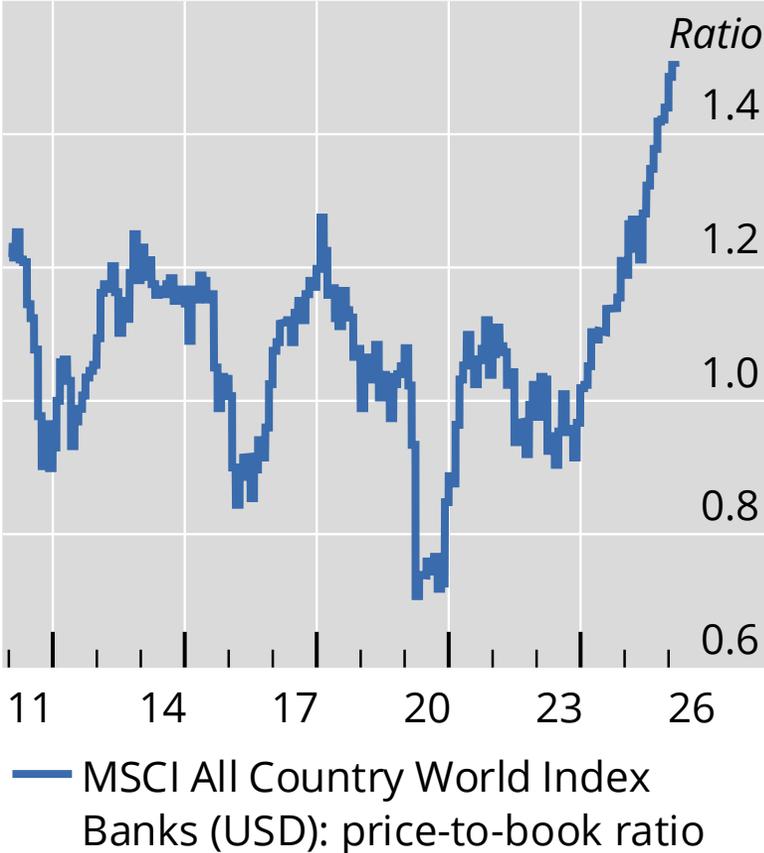
Tier 1 leverage ratios



LCR and NSFR



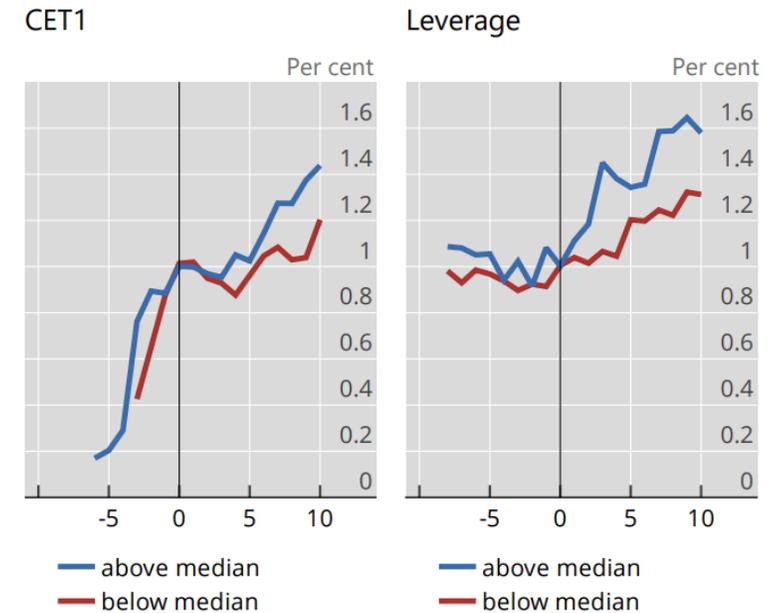
Banks' market-based indicators have improved after the GFC reforms



Did the reforms have side effects?

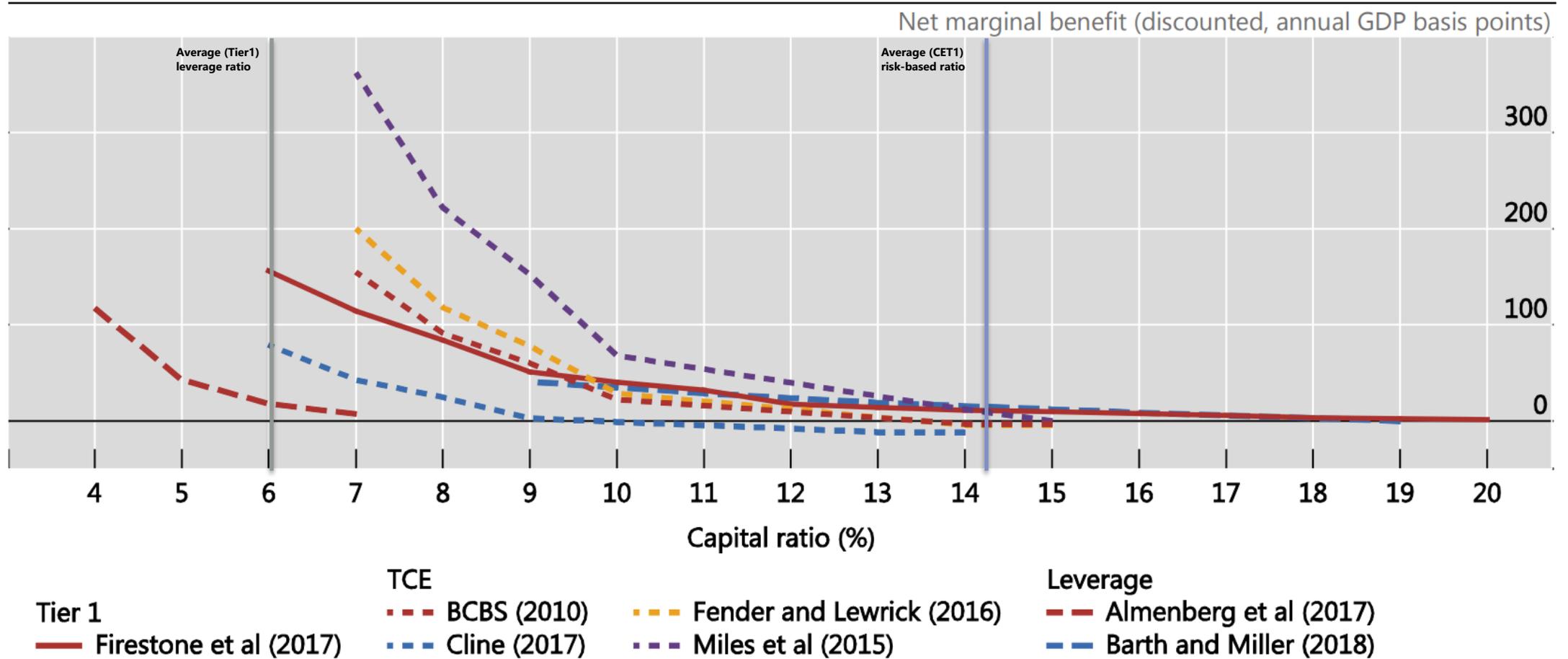
- A tightening of capital requirements can have adverse effects on bank lending initially
- However, these effects tend to be short lived and offset via expanding lending by better capitalised banks and NBFIs
- Furthermore, better capitalised banks tend to:
 - provide more stable credit during economic downturns
 - be less likely to engage in evergreening
- No evidence the reforms increased banks' cost of capital

Better capitalised banks lent more



The chart shows the evolution of total lending in the group of banks above (blue) and below (red) the global median CET1 and leverage ratio. Horizontal axis shows the number of years before/after the jurisdictional announcement date of Basel III reforms. Lending volume is normalised to the jurisdiction-specific draft rule publication date, and the lines display lending for a balanced data set of banks.

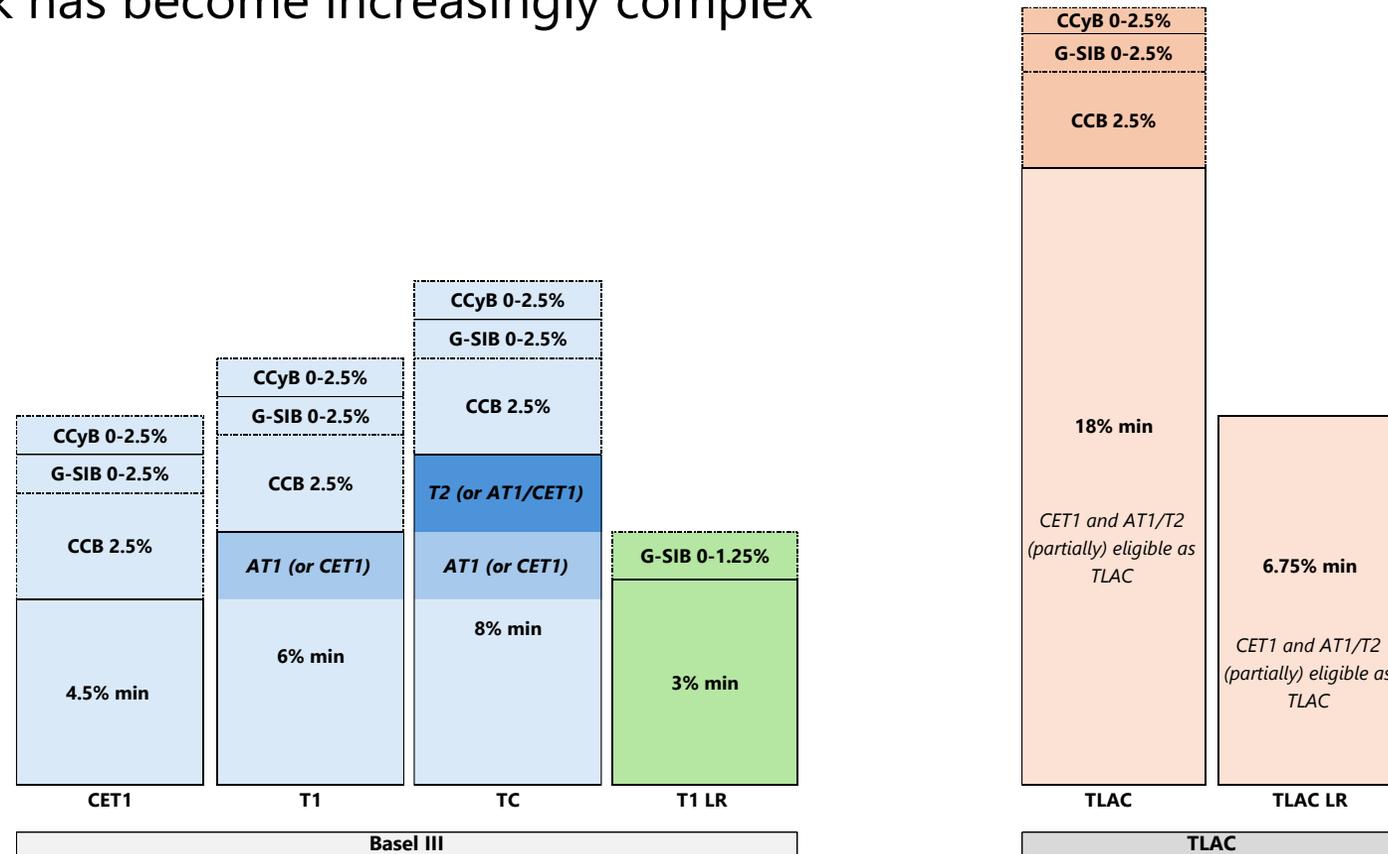
Overall, studies suggest that reforms have yielded substantial net benefits



Net marginal benefits = (reduced crisis probability x crisis cost) – output drag

Yet not everything has worked as intended – capital

- Capital buffers are not always used as intended during periods of stress
- The capital stack has become increasingly complex

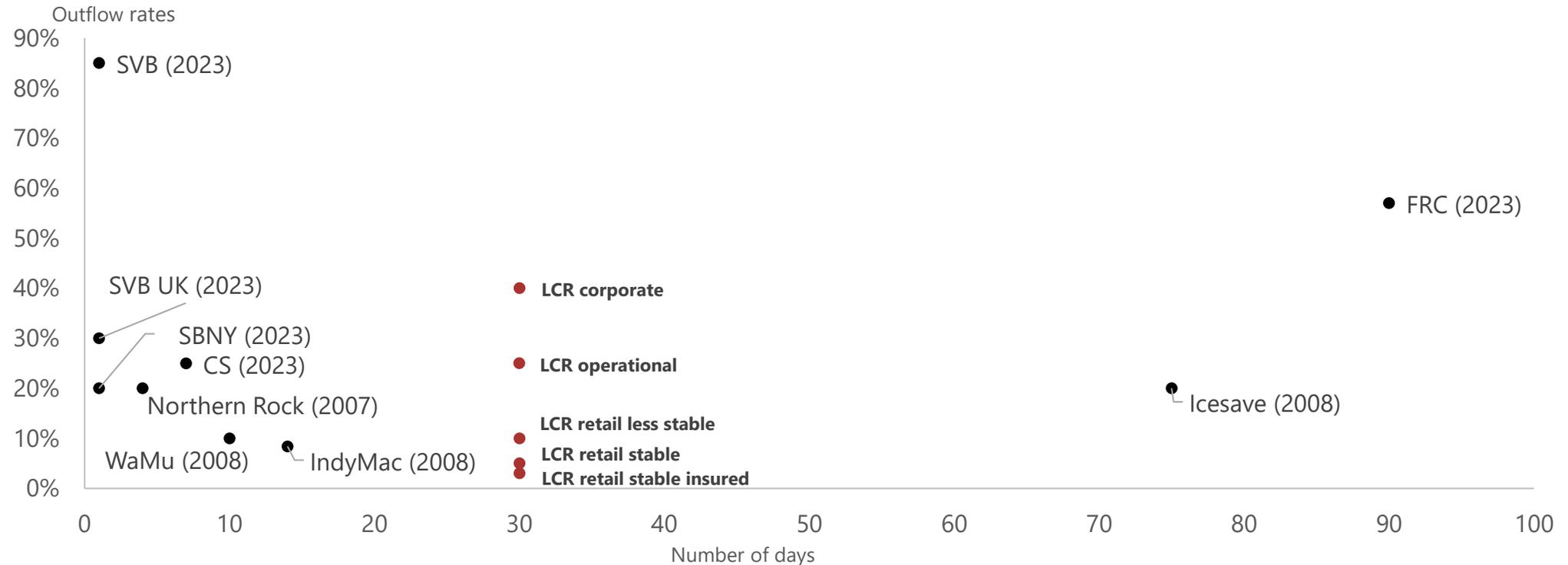


Source: BCBS Secretariat. (a) Based on Pillar 1 requirements only. Total loss-absorbing capacity (TLAC) standards developed by the FSB are included for illustrative purposes. (b) CET1 = Common Equity Tier 1; AT1 = Additional Tier 1; T1 = Tier 1; T2 = Tier 2; TC = total capital; LR = leverage ratio; CCB = capital conservation buffer; G-SIB = global systemically important bank buffer; CCyB = countercyclical capital buffer.

Yet not everything has worked as intended – bank runs

- 24/7 payments, mobile banking and social media have increased bank run risks

Distressed banks and **LCR outflows**^(a)



Sources: FRB (2023), NAO (2009), Rose (2015), Zeissler et al (2019) published accounts and Secretariat calculations.

(a) FRC deposit outflows excludes \$30bn of deposits placed by banks during Q1 2023. SVB outflows include expected outflows by management for 10 March.

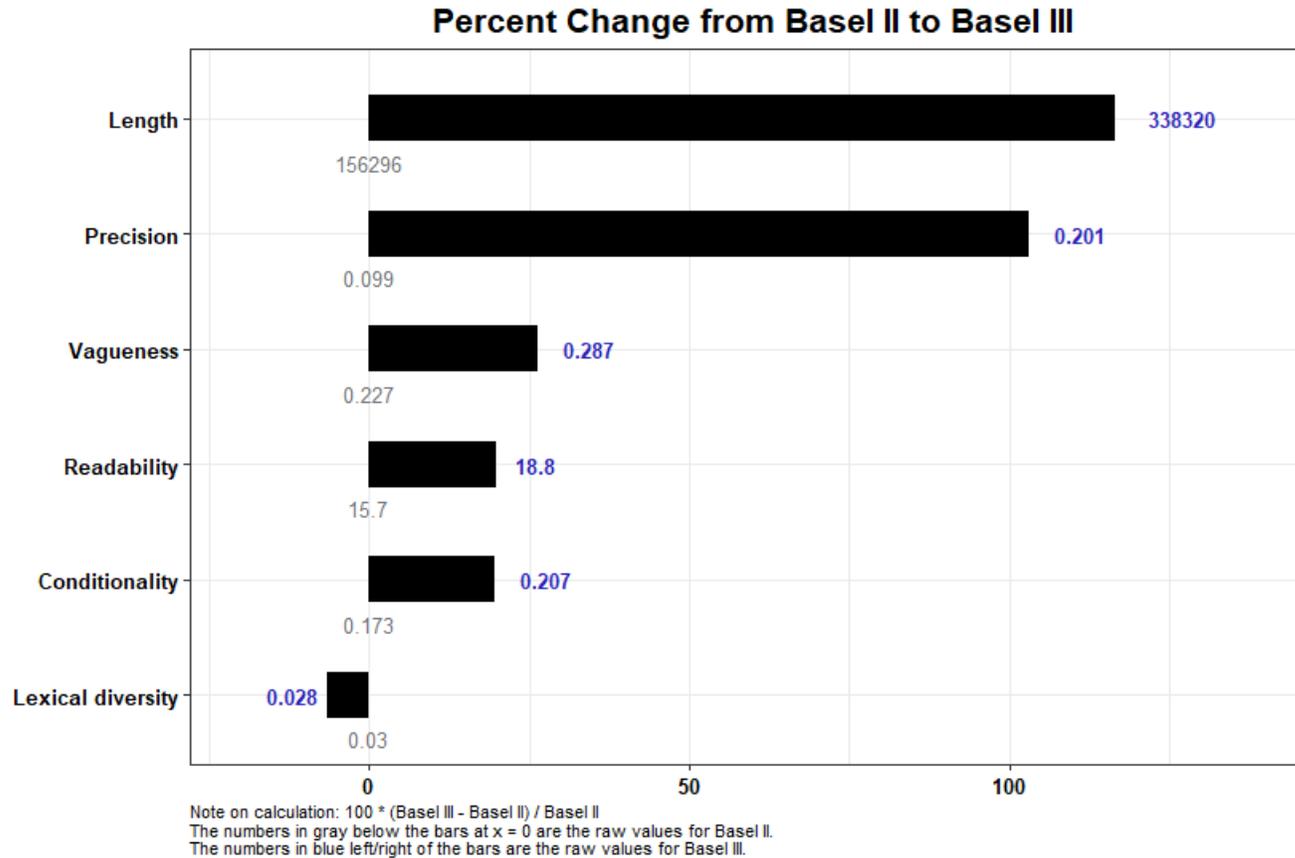
Yet not everything has worked as intended – other issues

- Gaps in resolution frameworks for G-SIBs
 - Need for effective public sector liquidity backstop for banks in resolution
 - Better resolution preparedness
 - Improved execution of bail-ins in cross-border context
- Banks not identified as G-SIBs may still pose systemic risks
- Weaknesses in supervisory frameworks (eg interest rate and liquidity risk and governance)

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Bank regulation has become significantly more complex



Source: J Brookes, M Everitt and Q Vo, "The Basel regulatory framework: evolution of its textual complexity", *Bank Underground*, 24 August 2022.

Length: The total number of words. **Precision** assesses the number of precise numerals in a given piece of regulation – specifically, amounts following indicators of currency (GBP, USD, etc) and per cents (%). **Vagueness** measured as the number of words expressing vagueness (eg appropriate, adequate, effective, fair, good, etc) in a given piece of regulation. **Readability:** Based on the familiar [Flesch-Kincaid grade level readability metric](#). **Lexical diversity** measured by dividing the count of unique words in a document by the total number of words in the document. **Conditionality:** Measured by counting the number of conditional clauses or conditional expressions per sentence.

Regulatory complexity imposes considerable costs

- Operational burden for banks and supervisors
- Competitiveness disadvantage for smaller banks
- Fragmented and delayed implementation
- Limits to loss-absorption capacity

Possible options to simplify regulation or compliance while preserving resilience

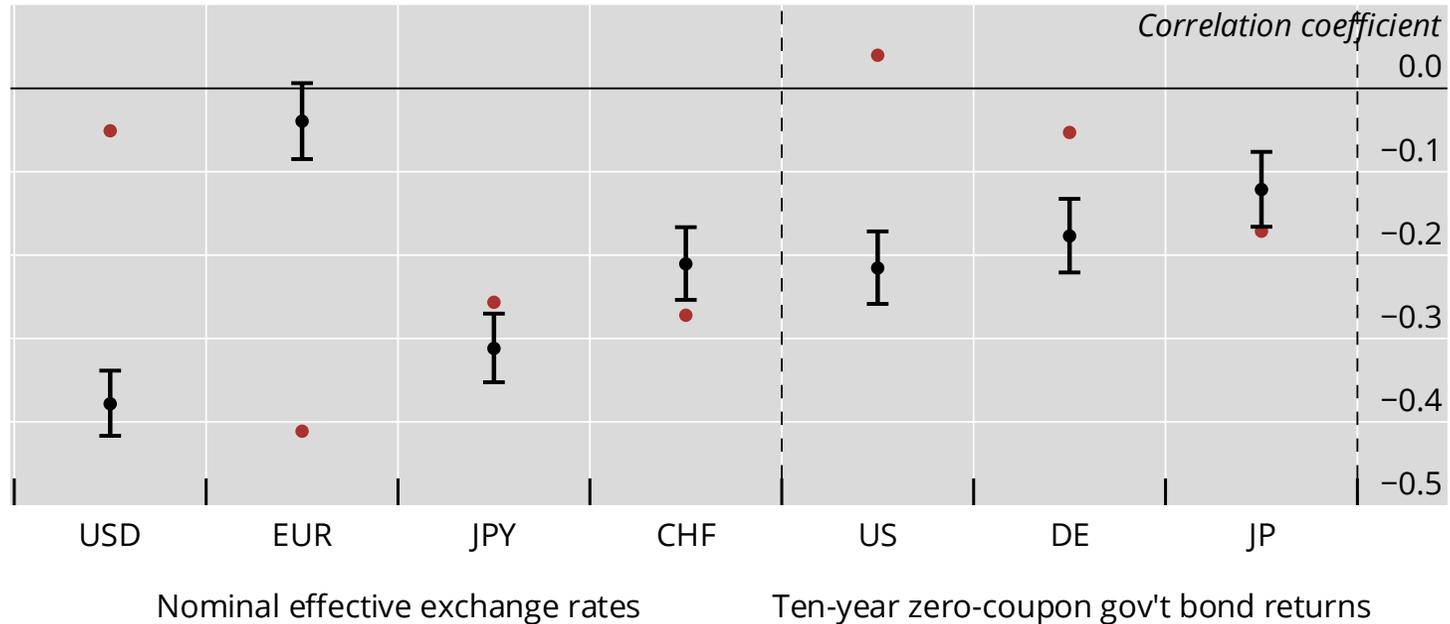
- Simpler design of the capital stack
- Leverage new technologies to reduce compliance costs
 - Regtech/suptech initiatives (eg BIS Innovation Hub's Mandala)
- Use regulatory proportionality to reflect differences in risk and complexity across banks
- Effective bank-specific supervision can reduce the need for complex regulation
 - However, supervisors require appropriate powers, tools, resources, risk-sensitive procedures...
 - ...as well as international guidance to avoid unwarranted supervisory heterogeneity

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Financial vulnerabilities are evolving – macroeconomic developments

- Historical macroeconomic correlations could weaken, complicating risk assessments¹



2000-2024:

- Return correlations with equities (MSCI World index)
- 90% confidence interval

2025-18 Feb 2026:

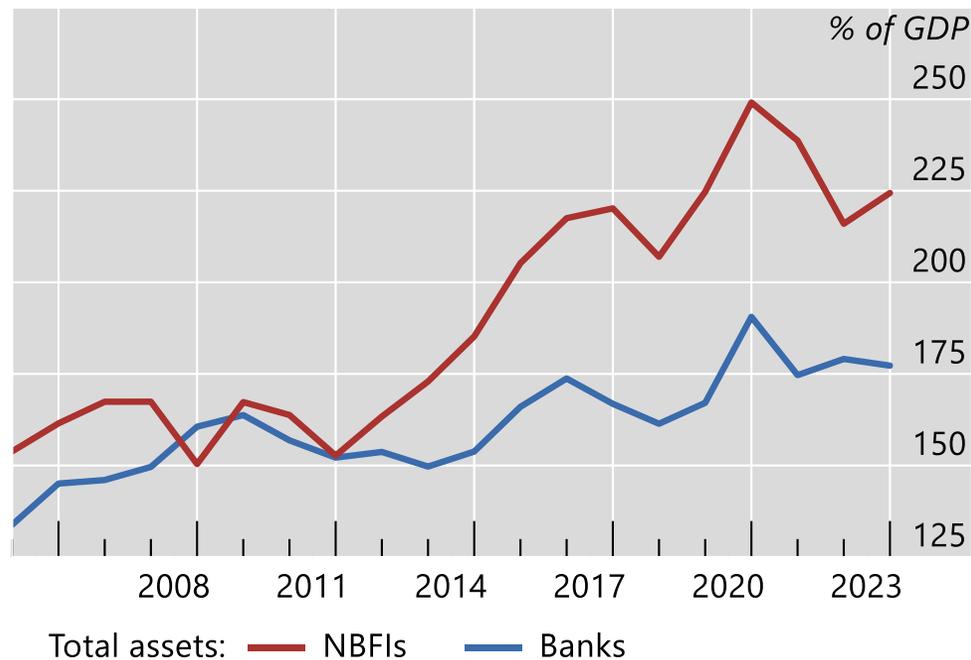


¹ For exchange rates, a negative correlation implies that a falling equity index goes hand in hand with an appreciating currency. For bonds, a negative correlation implies that a falling equity index goes hand in hand with an increase in bond prices (ie lower yields).

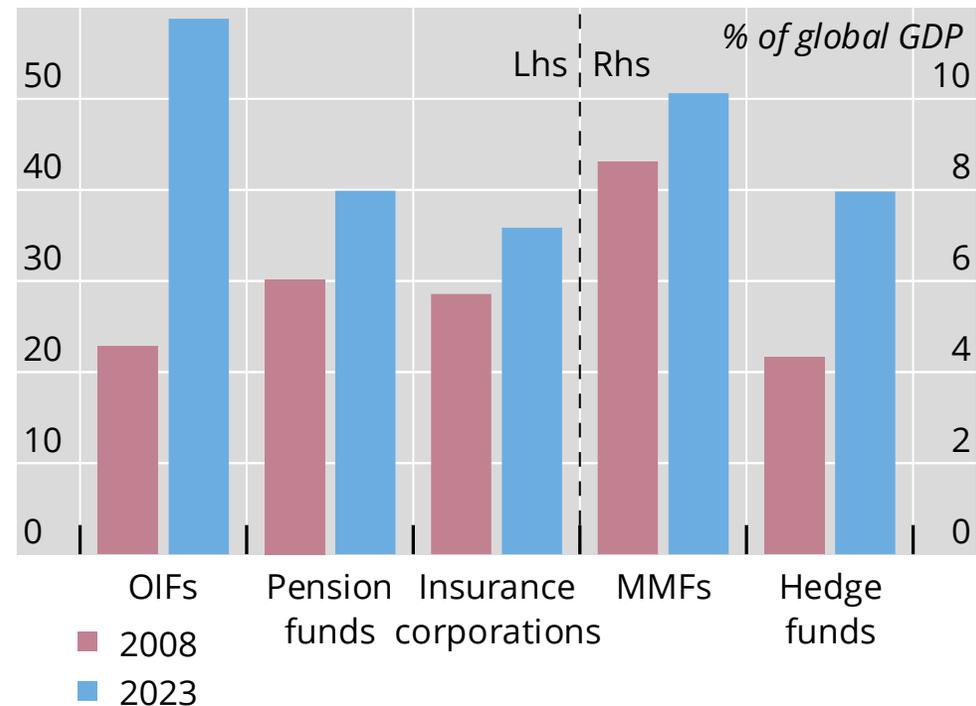
Financial vulnerabilities are evolving – NBFIs growth

- NBFIs have expanded rapidly, bringing benefits but also new challenges
 - Multifaceted links between banks and NBFIs require appropriate prudential controls

Total global financial assets



NBFIs' financial assets, by institution type



Financial vulnerabilities are evolving – technological developments

- Digitalisation is reshaping how financial functions are performed and by whom
- AI can enhance efficiency but also lead to more correlated decisions and accelerate herding
- Reliance on a few third-party service providers poses financial stability concerns (eg cyber)

The regulatory and supervisory framework requires improvements

- Oversight of NBFIs activity and the digital ecosystem remains fragmented and patchy
- Risks are migrating to insufficiently regulated corners of the financial system, with the potential to cause large spillovers to banks and core markets during crises
- Greater data availability is essential for understanding and monitoring of these risks

How to move forward?

- Full and consistent implementation of Basel III and other post-GFC reforms is a priority
- The assessment of the reforms should be based on robust economic analysis
- The BIS can help in building a more effective and efficient regulatory system
 - Analytical rigour to guide assessments
 - Practical solutions to ease compliance burden and enhance supervisory efficiency
 - Convening power to foster dialogue, cooperation and capacity-building
- Remember why we regulate: to maintain trust in the financial system and protect citizens

