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**“Towards a realistic simplification: untying some of the knots in European
banking regulations”**

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Ladies and Gentlemen,

It gives me great pleasure to welcome you to another ACPR Conference, which this year focuses on the topic of innovation: “the financial sector innovates, supervision evolves”. As a supervisor, talking about innovation of course means trying to strike the right balance between two ostensibly contradictory goals, which we nonetheless want to reconcile: the 2S’s – Security for the financial sector and Support for economic development. But there is a third S, which can help to achieve this compatibility: Simplification.

Following the 2007-09 global crisis, we took significant and much-needed steps to strengthen financial sector regulation. We have now reached the end of a cycle, with the implementation of the final package of Basel III. This therefore now seems to be the right time to take a much-needed step back: it is not enough for the regulatory principles themselves to be sound – we also need to ensure that the complexity of our existing regulation does not constitute an obstacle to achieving our goals.

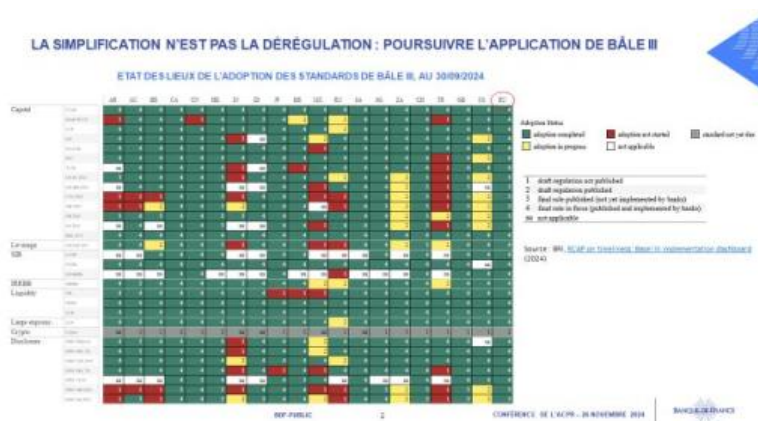
There now appears to be a new consensus in Europe in favour of simplification. The Draghi report,ⁱ and before that the Letta report,ⁱⁱ singled out regulatory simplification as one of the keys to European competitiveness: more speed for more innovation and more growth. The European Commission has made easing the regulatory burden – and especially reducing reporting obligations by at least 25%ⁱⁱⁱ – one of the focuses of its forthcoming mandate. The Single Supervisory Mechanism (SSM) has decided to modify its Supervisory Review and Evaluation Process (SREP) and make it more simple and flexible. I am convinced that, for financial stability, we also now need regulatory stability. However, simplifying does not mean deregulating, and let us acknowledge that simplifying is actually not quite that simple (I). I will then set out some practical priorities for achieving simplification (II).

I. Going beyond two preconceptions about simplification

1. Simplification is not deregulation

More than 15 years have passed since the Great Financial Crisis – I do not need to remind you of the social, economic and financial damage it caused. Lessons were learned, thanks to intense international cooperation, but as time passes, the “temptation to forget” returns, along with calls to go back to the way things were. This temptation is dangerous: Basel III rules allowed financial institutions to weather the Covid-19 crisis, and stopped the health and economic crisis from turning into a financial crisis. They subsequently prevented the interest rate hikes from jeopardising financial stability, and stopped the fallout from the collapse of SVB in March 2023 from spreading to Europe.

Today, of course, a wind of deregulation appears to be blowing on the other side of the Atlantic. So let us be clear and factual: the final Basel III rules have already been published by two thirds of the 27 Basel Committee member jurisdictions, and have already entered into force in more than a third, including Japan, Canada and China. In Europe, they will enter into force on 1 January 2025.^{iv}



This framework must continue to form the international basis for banking regulation. It will of course apply to European subsidiaries of US banks. We remain hopeful that US authorities will transpose Basel III into national law: indeed, it may be in the interests of big American banks to align with international standards. However, if the United States does decide to opt out, European supervisors and legislators will take great care to maintain a competitive level playing field across the main jurisdictions. The European banking package contains certain tools allowing us to adjust our regulations to competitive

challenges when this is justified, especially when it comes to market risks. The Commission has already postponed the entry into force of the new rules concerning the Fundamental Review of the Trading Book (FRTB) by a year. Moreover, failing to regulate non-banks and crypto-assets today would just sow the seeds for tomorrow's financial crisis. Both these sectors are growing rapidly, and the G20 and FSB have adopted clear guiding principles for them. It is in everyone's interest to support them, rather than multiplying the future risks – including in the United States – stemming from different supervisors taking their own individual decisions, from legal disputes, and from the collapse of players whose value has been artificially inflated – let's not forget what happened to LTCM in 1998, and FTX in 2022.

In short, simplifying does not mean deregulating. On the contrary, it means regulating more effectively: having fewer regulations but implementing them better and thereby making them more efficient.

2. Simplifying isn't that simple

The unsatisfactory situation in Europe in this regard can give rise to pessimism: not only do we have more legislative proposals than 20 years ago – 431 in the 2019-24 period, compared with 374 between 1999 and 2004 – but they have also doubled in length – an average of 8,600 words in 2019-24, compared with 4,500 previously.^v This is not simply the result of bureaucratic blindness that is all too easily vilified: the different European authorities are doing their job both competently and conscientiously. But in Europe at least, there are clear structural causes that are also potential levers for improvement. First, there is an accumulation of international, European and national standards, with the constant temptation to add more. There is also the fact that each country always wants to keep the previous rules, making it nearly impossible to lighten the burden when a new regulation is introduced. There are also numerous bodies in charge – the SSM with its microprudential role, the ECB and the European Systemic Risk Board (ESRB) with their macroprudential role, the SRM for resolution, European agencies including the European Banking Authority (EBA)

for banks, and the various national authorities... The ACPR does not claim to be perfect, although it does have a reputation for being an expert in its sector and for focusing on substance rather than procedure.

There are also too many directives that need to be transposed into national law, and not enough regulations that apply directly. Added to this is the ongoing too high level of mistrust between states, meaning that rules have to be set out clearly specified in great detail, at times at the request of the industry itself. By way of example, in the last banking package, the EBA – whose work is essential – was entrusted with approximately 140 mandates to draft technical standards and guidelines^{vi}. This mistrust also leads to an obsession with an *internal* level playing field, between Member States, whereas we should be just as concerned with ensuring an *external* level playing field, with the rest of the world.

Yes, technological innovation and artificial intelligence will help us to manage big data. But we should not simply use innovation as a crutch to carry us in the same wrong direction. First, because technology cannot do everything: it cannot manage the ambiguities caused by complexity. To have efficient technology, we need clean, standardised and consistent data. Second, because adding technological complexity to offset regulatory complexity is merely lowering the chances that humans will retain control and this would result in us losing sight of our goal of achieving real security.

II. Simplifying for greater efficiency: a few priorities for moving forward

So there is no magic wand, no simplification revolution, but resolute action based around a small number of practical priorities. I would like to put forward three of these, without claiming to be exhaustive. I know that several of my European colleagues – like certain national treasuries – are thinking along these lines in terms of a realistic simplification.

1. Getting the ‘SREP of tomorrow’ over the line

Let’s start with a concrete example of what the SSM has begun to do to ensure that its Supervisory Review And Evaluation Process - the SREP - more

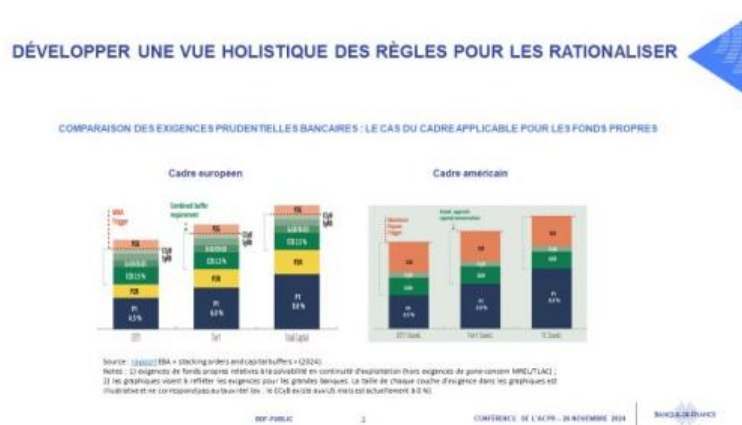
effectively reflects a risk-based approach involving greater prioritisation of supervisory activities. The SSM Supervisory Board has adopted two broad principles. First, developing a multi-year approach to the SREP, with the possibility of updating decisions every two years rather than every year if there has been no significant change in a bank's risk profile. Second, greater focus on key expectations and outcomes, with more effective use of the escalation ladder if deficiencies have not been remediated after a long period. The SREP process will therefore be shorter, with decisions sent to the majority of banks in September. I will also support any initiative to standardise supervision tools at the SSM level, as this will make the best use of resources and enhance efficiency. As regards our internal functioning, there is still room to fine-tune the organisation between vertical and horizontal supervisory activities, in order to reduce the 'prudential burden' for both banks and supervisors. These simplification measures can represent real progress, which obviously still need to be effectively implemented in practice - we will make sure that they are - but whose aim is to make prudential oversight more responsive and focused on priority risks.

2. Developing an overview of the rules to streamline them

We are simplifying supervision, now we need to streamline regulations, while complying with the Basel standards, which remains our benchmark. First, we need to recognise that it is not easy to compare capital requirements across the major jurisdictions. Differences in business models, specific legal aspects, possible divergences and other overlapping requirements outside the Basel III framework mean that comparisons quickly become tricky. We should simply note that the major European banks generally have a higher CET1 capital ratio than the major US banks – 14.3% compared with 13.9% on average.

However, it is easier to compare the complexity of regulations. As the EBA report^{vii} published last summer clearly shows, in Europe, there are many more overlapping layers of *microprudential and macroprudential* capital requirement

regulations and triggers of automatic restrictions on distributions than in the United States or the United Kingdom.



In Europe, we have multiplied institutions and requirements, whereas Basel and our counterpart institutions have opted for a simpler approach. Are we to assume that we are systematically the only ones in the right?

As we have reached the end of a regulation cycle in the wake of the Great Financial Crisis, our priority could now be to develop a “holistic” view of the rules that apply to European banks, which will enable us to compare ourselves at the international level. This work obviously needs to be carried out under the aegis of the European Commission and involve all of the European supervisory authorities. We need a comprehensive analysis of the impact of all the new standards produced in Europe – including at levels 2 and 3 – to ensure that they do not add another layer of capital requirements in addition to what is provided for in the political agreement in respect of the level 1 text.

Next, we will need to have the courage and lucidity to simplify regulations in areas where Europe is considerably out of line. In terms of resolution, I am thinking in particular of the fit between TLAC loss absorbing capacity requirements under Basel and MREL, which is a European invention. I am also thinking of the different parallel frameworks for automatic restriction on distributions, which can create uncertainty in the forward-looking management of a firms' capital. Neither should we exclude the need to consider the need for

a more radical approach to simplifying capital requirements, factoring in the experience of other major jurisdictions, such as the United States, where the stress capital buffer set up by the Federal Reserve combines a number of micro and macroprudential objectives. Comparisons can be misleading, but they are not a bad place to start! At the end of its comprehensive review, the Commission could put forward a legislative proposal to simplify the European prudential framework – one that is still Basel-compliant, but more effective.

Lastly, I would like to reiterate the need to finally start making progress on cross-border banking integration within the European Union, focusing on two areas: removing “host” country obstacles to cross-border liquidity (and capital) flows, with sufficient guarantees in terms of intra-group support mechanisms in the event of a crisis; and setting up a hybrid deposit guarantee system to ensure European support for national systems as a last resort.^{viii}

3. Ensuring the consistency of the different climate regulations

There is one crucial area in Europe where we are thankfully at the forefront, but which is representative of a certain build-up overlapping regulations, namely that of climate change. I'll say it again loud and clear: this is essential if the financial sector is to be able to contend with the very real risks to which it is exposed. No one can doubt the pioneering commitment of the Banque de France and the ACPR in this area, however, if these regulations become too complex and difficult to understand, there is a risk they will be applied poorly or not implemented at all.

That's why it is vital that we continue to work towards two objectives. First, it is essential to achieve the most unified regulations possible in Europe, instead of a plethora of regulations including – to name but a few – the SFDR regulation,^{ix} the CSRD^x and CSDDD^{xi} directives, and France's Energy and Climate Act^{xii}, which preceded the European regulations. Each of these regulations, often issued by different bodies, represented legitimate progress at the time, however, their accumulation now clearly lacks overall consistency. Let's stick to the

objective but, at the very least, bring the definitions closer together and avoid duplicating requests for data. Secondly, we need to come up with a single transition plan per institution, summarising prudential requirements under the CRD directive^{xiii} and net-zero alignment requirements under the CSRD and the CSDDD. This is vital if we are to set credible targets for financial institutions. And one day, we will perhaps be able to go further in aligning European EFRAG^{xiv} and international ISSB^{xv} standards.

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In conclusion, I am convinced that a safer banking sector can go hand in hand with simpler rules. Not fewer capital and liquidity safeguards, but less procedural burden. Certainly not less Basel III – but sometimes less European sophisticated regulations. Our rules can only gain in legitimacy and effectiveness. René Char, in his collection *Les Matinaux*, spoke of ‘man’s curious illness of tying knots’.^{xvi} Now is the time to start untying them.

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- ⁱ Draghi (M.), [The future of European competitiveness](#), September 2024
- ⁱⁱ Letta (E.), [Much more than a market](#), April 2024.
- ⁱⁱⁱ See [Mission Letter](#) to Valdis Dombrovskis, Commissioner-designate for simplification, and the “[Better Regulation](#)” programme.
- ^{iv} https://www.bis.org/bcbs/implementation/rcap_reports.htm
- ^v Marcus (J.S.), [How to achieve better EU laws](#), CEPS, October 2024.
- ^{vi} European Banking Authority, « [The EBA publishes roadmap on the implementation of the EU banking package](#) », December 2023.
- ^{vii} European Banking Authority, [Stacking orders and capital buffers. Reflections on management buffer practices in the EU](#), July 2024.
- ^{viii} Villeroy de Galhau (F.), “[Financial services: The European mysterious gap](#)”, Speech, 4 September 2024.
- ^{ix} [Sustainable Finance Disclosures Regulation](#) (2019), which came into force in 2021.
- ^x [Corporate Sustainability Reporting Directive](#) (2022), implemented as of 2024.
- ^{xi} [Corporate and Sustainability Due Diligence Directive](#) (2024), to be implemented as of 2027.
- ^{xii} [Loi Energie-Climat](#) (2019)
- ^{xiii} [Capital Requirements Directive](#) (2013)
- ^{xiv} European Financial Reporting Advisory Group
- ^{xv} International Sustainability Standards Board
- ^{xvi} Char (R.), *Les Matinaux*, Gallimard, 1950