



Interview ECONOSTREAM by Marta Vilar

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**with Denis Beau, First Deputy Governor of the Banque de France,
and designated chair of the ACPR**

Q: You have argued that Europe can simplify banking rules without deregulating. Where is that line in practice, and how do we know when simplification becomes deregulation?

A: The European banking system is currently highly resilient to shocks, and that resilience has been significantly strengthened since the Global Financial Crisis. It reflects three developments: stronger regulation through the implementation of international standards, more than a decade of European banking supervision, and improvements in banks' own risk management. Simplification becomes deregulation if regulatory requirements and supervisory expectations related to risk assessment, monitoring and mitigation are weakened in a way that undermines the resilience of the banking system. For example, in the area of solvency risk, we should continue implementing the relevant international standards and avoid reducing the overall level of capital required in the European banking system.

Q: If you had to identify one area where European banking rules are unnecessarily complex, what would you simplify first?

A: I would start with the so-called capital stack, which results from the interaction of the microprudential, macroprudential and resolution frameworks. The European framework is more complex than those of the United States or the United Kingdom and includes significant departures from international standards. In my view, some of these complexities are unnecessary and could be reduced or eliminated without affecting the effectiveness of the framework.

For example, in the resolution framework, we could better align the international TLAC standard and the European MREL requirement. We could have a clear Pillar 1 floor based on TLAC, complemented by a Pillar 2 discretionary component determined by resolution authorities.

In the macroprudential framework, we could remove the systemic risk buffer and replace it with a single releasable buffer covering both cyclical and structural risks.

Q: You have also argued that real simplification will only happen when supervisors no longer have to think in terms of a bank's nationality. What is still preventing that?

A: The banking union was designed and the SSM established precisely to move beyond national boundaries in supervision. In practice, however, a number of regulatory and supervisory requirements continue to apply at the legal-entity level rather than the group level. As a result, banking groups cannot fully manage capital and liquidity on a consolidated basis. Resources remain largely trapped at national level, which limits supervisors' ability to adopt a genuine group-wide perspective. Removing these constraints would be helpful.

Q: Is the biggest obstacle to simplification ultimately a lack of trust between member states?

A: Progress in the resilience of the banking sector has been strongly incentivized by the implementation of international standards. This implementation has however resulted in EU specific gold plating and a complex framework of prudential requirements.

A number of factors may have contributed to this outcome, including insufficient trust in European regulatory and supervisory institutions. However, after more than ten years of implementation, the success of the framework is evident. The resilience of the European banking system has improved significantly.

In my view, concerns about the credibility of the European framework are no longer justified. Trust should not stand in the way of further simplification, whether regulatory or supervisory. Supervisors have already started moving in that direction through initiatives such as the SSM's Next Level Supervision program.

Q: What if Europe simplifies the rules but cross-border mergers still fail to materialize? Would that suggest the real barriers lie elsewhere?

A: Reducing regulatory and prudential frictions—particularly capital and liquidity constraints at subsidiary level and the processes governing waivers—would significantly facilitate cross-border activity and consolidation. However, these are not the only barriers. Company law, tax law, competition policy and consumer protection rules also affect banking integration.

Simplifying regulation and supervision would help, but a broader set of reforms is needed. The Draghi Report has already identified many of these obstacles. The challenge now is implementation to turn recommendations into actions.

Q: What would be the clearest signs over the medium term that simplification has actually worked?

A: There are several indicators. First, we should see a slowdown in the production of new rules, both at Level 1 and Level 2. Second, supervision should become more selective, proportionate and less burdensome, with faster and more streamlined decision-making processes. Third, and perhaps most importantly, we should observe greater integration of the European banking market. That would be reflected in more group-level balance-sheet management, increased cross-border lending and services, and renewed interest in cross-border mergers.

Q: Does completing the banking union require technical fixes or a broader political agreement among member states?

A: Both. The resilience of the banking sector has improved considerably, but integration has progressed more slowly than one might expect in a banking union. The reasons are varied and include prudential complexity, but also competition law, tax law and consumer protection frameworks. Progress will require action across all of these areas. No single reform will be sufficient on its own, but prudential simplification is necessary for sure.

Q: Could simplification move forward even if the banking union remains incomplete?

A: Yes. Simplification should not have to wait. There are already a number of low-hanging fruits within the existing framework that could have a meaningful impact. I mentioned examples in both the resolution and macroprudential frameworks. Those changes could be implemented independently of broader banking union reforms.

Q: To what extent is the main hurdle to simplification political? Do you see a realistic path to overcoming it?

A: There are obstacles of many different kinds, including political ones. As a central banker and supervisor, I have clear views on the issues within my area of responsibility. Political obstacles are for political authorities to address. Beyond that, I would not want to speculate.

Q: Does the current geopolitical environment make simplification more urgent, or does it make it more difficult?

A: Modernizing the regulatory and supervisory framework is a regular process. It is necessary to ensure that the framework remains fit for purpose as risks evolve. The current environment creates an additional incentive to accelerate that process. An overly complex and gold plated framework can become a competitive disadvantage for Europe.

Many of the obstacles we face are self-imposed, whether through excessive complexity, overlapping frameworks or implementation choices. Europe already has the tools required to simplify the framework. What is needed is the determination to act. If anything, the geopolitical environment strengthens the case for simplification.

Q: [If regulation in the United States becomes lighter, can Europe afford to maintain stricter rules, or does it need to simplify further to protect competitiveness?](#)

A: Simplification—not deregulation—is the best way to strengthen the competitiveness of European banks. Reducing unnecessary regulatory and supervisory costs would support cross-border integration, economies of scale and profitability, while preserving resilience, which is itself a key component of sustainable competitiveness. Europe should resist any race to the bottom in regulation. At the same time, we should remain mindful of maintaining a level playing field in activities exposed to global competition.

Q: [Has Europe become too much of a model pupil in banking regulation, to the point of putting its banks at a disadvantage?](#)

A: In some respects, yes. Europe has occasionally gone beyond what was strictly required when implementing international standards. One example is the output floor, where national authorities can choose to apply it at consolidated, sub-consolidated and solo levels rather than only at the highest level. In addition, this can create the unintended effect of automatic increases in capital requirements even when a bank's underlying risk profile has not changed, raising questions about whether the framework remains fully risk-based.

Other jurisdictions, such as the UK, have adopted more pragmatic approaches. Europe should avoid becoming overly rigid in its implementation of rules where doing so creates barriers to integration without improving stability.

Q: [Does Europe need a crisis in order to complete the banking union?](#)

A: Fortunately, we are not in a banking crisis. The banking system is resilient. However, we are facing a broader crisis environment characterized by geopolitical tensions, climate change and the need for large-scale investment in the green, digital and defense transitions. The challenge is therefore not one of reacting to a banking crisis, but of responding proactively to these broader challenges.

There is currently both a window of opportunity and a strong political momentum, reinforced by the Draghi Report. The question is no longer what should be done, but whether Europe is prepared to deliver. Simplification should be an important part of that agenda, even if it is not sufficient on its own.

Q: Is the simplification agenda now embedded deeply enough within the ECB and the SSM to survive a future change in leadership when Christine Lagarde's mandate ends?

A: Yes. There is broad recognition that improving supervisory effectiveness and efficiency is essential. As a result, the simplification agenda is now firmly embedded in the SSM's priorities, particularly through initiatives such as Next Level Supervision. These programs are already well underway, with clear milestones, regular monitoring and public reporting on progress.

Importantly, they are part of broader institutional priorities rather than being tied to any particular individual. For that reason, I expect them to continue regardless of future leadership changes. The key challenge now is to ensure that these initiatives translate into tangible improvements, including lower compliance costs for banks and more efficient supervisory processes. There are already encouraging signs of progress, and I am optimistic that further results will follow.