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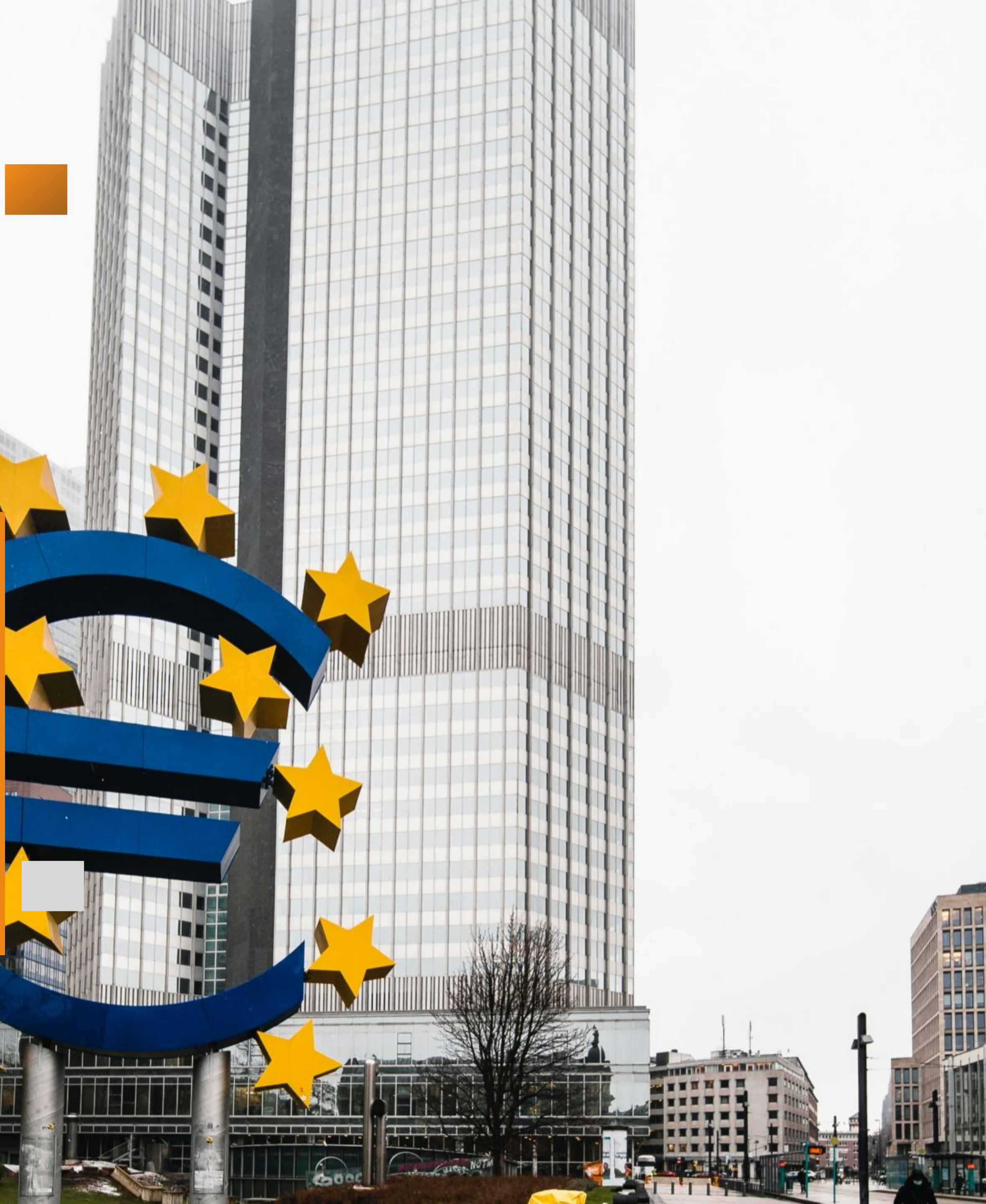
EBA Report on Simplifying the Stacking Orders of the EU Prudential and Resolution Framework

July 2026



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Executive Summary

- The EBA published this report* in response to increasing concerns regarding the **complexity** of the **European Union's prudential and resolution framework**. While the post-2008 regulatory reforms have successfully strengthened the resilience, solvency, liquidity, and resolvability of EU banks, they have also produced a highly layered and complex system of capital and resolution requirements.
- The report does not advocate a radical redesign of the framework. Instead, it **proposes targeted simplifications** that preserve resilience, maintain capital neutrality, comply with international standards and improve efficiency and transparency. The EBA's central premise is that **simplification should not weaken supervisory effectiveness**, **financial stability**, or **resolution capabilities**.
- The analysis is divided into **three main areas**:
    - Microprudential framework simplification;
    - Macroprudential framework simplification;
    - Resolution framework simplification.

* EBA Report on Simplifying the Stacking Orders of the EU Prudential and Resolution Framework, EBA/REP/2026/12, June 2026

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01

EU/EEA Institutions a Decade Later: Stronger, Safer and More Resilient

EU/EEA Institutions a Decade Later: Stronger, Safer and More Resilient

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Historical Context

Extensive regulatory reforms implemented after the Global Financial Crisis (GFC). **Prior to 2008**, many banks operated with:

- Insufficient capital buffers.
- Excessive leverage.
- Weak liquidity positions.
- Inadequate crisis management frameworks.

The **crisis** demonstrated the **inability** of **existing supervisory arrangements to prevent systemic failures** and exposed the widespread problem of institutions being considered "too big to fail."

In response:

- The Basel Committee introduced the **Basel III framework**.
- The EU implemented **Basel standards** through **CRR** and **CRD**.
- The **BRRD** established a harmonized resolution framework.
- **MREL requirements** were introduced.
- **TLAC standards** were incorporated for global systemically important institutions.

Capital Strengthening

The EBA documents a **substantial improvement in the banking sector's capital position**.

Between 2014 and 2025:

- **Total capital ratio increased** from approximately 15.9% to 20.4%.
- **CET1 ratio increased** from approximately 12.7% to 15.8%.

This improvement was driven primarily by:

- Retained earnings.
- Strong profitability.
- Improved capital quality.
- Enhanced supervisory requirements.

⚠ Importantly, **growth was concentrated in CET1 capital**, which represents the highest-quality form of loss-absorbing capital.

EU/EEA Institutions a Decade Later: Stronger, Safer and More Resilient

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Evolution of Regulatory Requirements

Overall **capital requirements increased progressively** due to:

- Introduction and phase-in of macroprudential buffers.
- Inhanced supervisory expectations.
- Development of systemic risk buffers.

The report highlights that regulatory reforms encouraged banks to **operate with substantial capital headroom above minimum requirements**.

During the COVID-19 crisis, authorities demonstrated the usability of the framework by:

- Releasing countercyclical buffers.
- Allowing use of capital conservation buffers.
- Providing flexibility around P2G expectations.

This experience validated the framework's ability to support lending during stress periods.

Deleveraging and De-Risking

EU institutions also transformed their balance sheets.

Key developments included:

- Reduction of non-core activities.
- Lower exposure to high-risk assets.
- Growth in sovereign exposures and mortgage portfolios.
- Significant reduction in non-performing loans.

The NPL ratio declined dramatically from approximately 6.5% to 1.8%.

Risk-weight density also declined over time, reflecting safer asset composition and improved risk management.

CRR3 and Basel III Finalization

The report evaluates the initial impact of CRR3.

The implementation has so far produced only **modest increases in aggregate risk-weighted assets** due to transitional arrangements and output floor phase-ins.

However, **effects vary significantly among institutions**.

Some banks experience:

- **Material increases in TREA**.
- **Changes in capital requirements**.
- **Altered business incentives.**

The EBA expects greater impacts once CRR3 becomes fully phased in by 2033.

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MREL Progress

The report notes substantial progress in resolution preparedness.

Between 2022 and 2025:

- **MREL-eligible resources increased steadily.**
- **Institutions met final phase-in requirements.**
- **Issuance of senior non-preferred debt expanded significantly**.

This development has greatly **enhanced banks' ability to absorb losses** and **recapitalize in resolution without taxpayer support**.

Liquidity and Funding

Liquidity resilience has improved considerably.

The report highlights:

- **LCR increasing** to approximately 163%.
- **NSFR remaining above 125%.**

Banks now maintain substantial liquidity buffers capable of supporting operations during severe market stress.

Overall Assessment

The EBA concludes that the **post-crisis reforms have achieved their primary objectives**:

- Stronger capitalization.
- Better liquidity.
- Lower leverage.
- Improved resolvability.
- Greater resilience during crises.

The successful management of events such as:

- COVID-19,
- the energy crisis,
- geopolitical shocks,

demonstrates the effectiveness of the framework.

However, **this success has come at the cost of increasing complexity**.

02

EU Regulatory Framework: Robust but Complex

EU Regulatory Framework: Robust but Complex 1/4

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Complexity of the Current Framework

The EBA identifies **complexity** as the **central policy issue**.

Institutions must simultaneously comply with **multiple stacks of requirements**, including:

- Risk-based capital requirements
- TLAC
- Leverage ratio requirements
- MREL
- Subordination requirements

Depending on their characteristics, some banks face up to ten distinct regulatory stacks. Each stack contains multiple layers, resulting in a **highly granular framework**.

Going-Concern Complexity

Three major sources of complexity are identified.

Number of Capital Layers

The **CET1 requirement** consists of:

- Pillar 1
- P2R
- CCoB
- O-SII/G-SII buffers
- SyRB
- CCyB
- P2G

Each layer:

- Has **different objectives**
- Is **set by different authorities**
- Has **different consequences** when breached

EU Regulatory Framework: Robust but Complex 2/4

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Going-Concern Complexity

Heterogeneity and Overlaps

The report highlights **concerns** regarding:

- Different calibration methodologies
- National discretion
- Potential overlap among measures

Certain risks may be covered multiple times by:

- **Microprudential tools**
- **Macroprudential buffers**
- **Supervisory judgments**

This may reduce transparency and comparability.

Different Breach Consequences

Each layer triggers **different supervisory responses**.
The resulting framework creates **challenges** for:

- **Capital planning**
- **Investor communication**
- **Market valuation**

EU Regulatory Framework: Robust but Complex 3/4

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Gone-Concern Complexity

The resolution framework introduces additional layers of complexity.
The EBA identifies **five major issues**:

1

Multiple Metrics

MREL relies simultaneously on:

- TREA
- TEM
- TLOF

TLAC introduces additional requirements.

This multiplicity complicates management and compliance.

2

Interaction Between Going and Gone Concern

Resolution requirements derive largely from prudential requirements. This linkage creates complexity because changes in prudential requirements automatically affect resolution requirements.

3

Non-Standardized Calibration

Resolution authorities exercise considerable discretion when calibrating:

- Loss absorption amounts
- Recapitalization amounts
- Market confidence charges

This reduces predictability.

4

Shared Resources

CET1 can satisfy both:

- Prudential requirements
- Resolution requirements

This creates complex interactions between solvency and resolution assessments.

5

Timing Issues

Differences in:

- supervisory decisions
- resolution decisions
- consolidation perimeters

create additional operational complexity.

EU Regulatory Framework: Robust but Complex 4/4

Simplification Principles

The EBA establishes **four evaluation criteria**:

- **Resilience**
- **Proportionality**
- **International compliance**
- **Efficiency and level playing field**

Every proposed reform is assessed against these principles.

03

Simplification of the Microprudential Toolkit

Simplification of the Microprudential Toolkit 1/3

General Approach

The EBA strongly **rejects eliminating supervisory tools merely to simplify the framework**. Instead, it recommends **preserving the current toolkit** while **improving focus** and **clarity**.

Pillar 1 Risk Exposure Calculations

The report questions **whether macroprudential measures should continue influencing TREA calculations**.

Examples include:

- Article 458 measures
- LGD floors
- Real-estate risk-weight adjustments

The EBA argues these measures:

- Are applied inconsistently across countries
- Reduce comparability
- Increase complexity

The proposed solution is to **remove** these **adjustments from Pillar 1 calculations** and address systemic concerns through **dedicated macroprudential buffers**.

Benefits include:

- Greater harmonization
- Better transparency
- Improved level playing field

Preserving P2R

The EBA strongly defends the **role of P2R**. The analysis shows that P2R currently addresses:

- Risks insufficiently captured by Pillar 1
- Governance weaknesses
- Business model risks
- Concentration risks
- Interest-rate risk in the banking book

The report recommends:

- **Maintaining supervisory discretion**
- **Strengthening consistency**
- **Refocusing P2R on genuinely uncovered risks**

The EBA also proposes:

- **Greater convergence among supervisors**
- **Clearer avoidance of double counting with the output floor**
- **More transparent methodologies**

Simplification of the Microprudential Toolkit 2/3

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Reaffirming P2G

P2G remains one of the most debated elements.
The report stresses that P2G is:

- Not a binding requirement
- Designed as a stress-absorption cushion
- Not intended to trigger automatic sanctions

However, **many banks effectively treat P2G as mandatory**.
This behavior reduces buffer usability.

The EBA recommends:

- **Clarifying P2G's non-binding nature**
- **Maintaining current objectives**
- **Reinforcing institutions' responsibility for capital planning**

The goal is to **increase confidence in using capital buffers during stress periods**.

Merging Capital Layers

The EBA evaluates whether:

P2R | **P2G** | **CCoB**

could be merged into a single layer.

Although simplification benefits exist, the analysis concludes that such mergers would:

- Reduce transparency
- Weaken policy differentiation
- Blur supervisory objectives

Consequently, the **EBA does not recommend consolidation.**

Simplification of the Microprudential Toolkit 3/3

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Leverage Ratio

The leverage ratio framework is considered unnecessarily complex.

The EBA recommends:

Converting leverage ratio P2R into a buffer

Eliminating leverage ratio P2G

This would **simplify the stack** while **preserving prudential effectiveness**.

Capital Composition

The report examines whether the distinction among:

CET1 | **AT1** | **Tier 2**

should be simplified.

After extensive analysis, the **EBA concludes that current capital composition rules should remain unchanged**.

The benefits of diversification and loss-absorption capacity outweigh potential simplification gains.

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Simplification of Macroprudential Elements

Simplification of Macroprudential Elements

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Single Releasable Buffer

This is arguably the report's **most significant macroprudential recommendation**.

The EBA proposes **merging**:

- Countercyclical Capital Buffer (**CCyB**)
- Systemic Risk Buffer (**SyRB**)

into a **single releasable macroprudential buffer**.

Rationale

Current arrangements create:

- Overlapping objectives
- National inconsistencies
- Operational complexity

A unified buffer would:

- Simplify implementation
- Enhance transparency
- Improve usability during crises

Design Principles

The new buffer would:

- Remain releasable during stress
- Preserve macroprudential flexibility
- Support consistent application across the EU

Authorities would still retain discretion to address country-specific risks.

O-SII Framework

The EBA identifies significant variation in:

- O-SII identification
- Buffer calibration

The report recommends:

- **Updating scoring methodologies**
- **Providing additional calibration guidance**
- **Promoting convergence**

The objective is a more consistent treatment of systemic institutions across Member States.

05

Streamlining the Resolution Framework

Streamlining the Resolution Framework

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MREL Complexity

The EBA acknowledges that **MREL complexity largely reflects the complexity of the prudential framework** on which it is built.
Nevertheless, **several improvements are proposed**.

Alignment of TLAC and MREL

The report recommends closer alignment of:

- Eligible resources
- Definitions
- Calibration methodologies

This would reduce compliance burdens for global institutions.

Subordination Requirements

The EBA proposes **streamlining subordination requirements**.

Current arrangements involve multiple metrics and institution-specific calibrations.

Greater **standardization** would improve **transparency** and **predictability**.

MREL Calibration

The report advocates:

- **Formula-based calibration**
- **Reduced discretionary adjustments**
- **Greater consistency among authorities**

Potential future approaches include:

- **TLAC plus Resolution Pillar 2**
- **More standardized recapitalization methodologies**

Shared Resources and One-Stack Approach

The report discusses—but does not recommend—the concept of a **single combined stack integrating prudential and resolution requirements**.

Potential advantages include:

- Simplicity
- Transparency

However, concerns remain regarding:

- Loss of policy flexibility
- Reduced clarity of objectives
- Potential supervisory challenges

The EBA therefore limits itself to presenting the concept for **future consideration**.

06

Interaction Between Prudential and Resolution Objectives

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Simplification cannot be assessed in isolation.
Microprudential, ***macroprudential*** and ***resolution objectives*** are **deeply interconnected**.

The report argues that reforms must preserve:

Safety and soundness	**Resolvability**
Financial stability	**International consistency**

Any simplification that undermines these objectives would be unacceptable

Accordingly, the EBA advocates incremental improvements rather than structural redesign.

07

Conclusions & Take-aways

Conclusions & Take-aways

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Main Findings

- The EU prudential and resolution framework has successfully strengthened banking sector resilience.
- Capital, liquidity, leverage, and MREL positions have improved significantly over the past decade.
- The framework has demonstrated effectiveness during COVID-19 and other recent crises.
- Complexity has become a significant policy issue.
- Much of the complexity results from overlapping layers and multiple supervisory objectives.

EBA Recommendations

Microprudential Framework

- Preserve P1, P2R, and P2G architecture
- Clarify and refocus P2R
- Reaffirm the non-binding nature of P2G
- Simplify leverage ratio requirements
- Maintain current capital composition

Macroprudential Framework

- Create a single releasable buffer replacing CCyB and SyRB
- Improve O-SII methodology and calibration consistency

Resolution Framework

- Align TLAC and MREL definitions
- Simplify subordination requirements
- Standardize MREL calibration
- Consider future simplification of stack interactions

Strategic Regulatory Message

The report's overarching message is that **the EU framework should become simpler, more transparent, and more predictable without reducing resilience, supervisory effectiveness or resolution capacity**. The EBA therefore supports **targeted simplification rather than fundamental reform**, aiming to preserve the achievements of post-crisis regulation while improving efficiency, proportionality, and Single Market integration.

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