



TOPICS:

Banking System

SOURCE:

European Banking Authority

The EBA Proposes Simplifications to the EU Bank Capital Framework in a Holistic Manner to Strengthen its Efficiency

- The EBA examines whether the **EU banking prudential and resolution framework can be simplified** without reducing financial resilience, supervisory effectiveness or compliance with international standards. The report notes that **post-financial-crisis reforms have significantly strengthened EU banks**. Capital ratios, liquidity buffers and loss-absorbing capacity have increased substantially, enabling banks to withstand recent shocks such as the COVID-19 pandemic and energy crisis without threatening financial stability.
- Despite these achievements, **the framework has become highly complex**. Banks must manage multiple overlapping capital and resolution "stacks," including Pillar 1, Pillar 2 Requirements (P2R), Pillar 2 Guidance (P2G), leverage requirements, macroprudential buffers, MREL, and TLAC. This complexity can increase compliance costs, reduce transparency and create inconsistencies across jurisdictions.
- The EBA proposes targeted simplifications rather than a fundamental redesign. For the **microprudential framework**, it recommends preserving the current toolkit while clarifying roles. **Pillar 1** should focus solely on microprudential risks, while **P2R** should remain the mechanism for addressing institution-specific risks not adequately covered by Pillar 1.

P2G should continue as a supervisory expectation linked to stress testing and capital planning. The EBA does not support merging P2R, P2G, and capital conservation buffers into a single layer. It also proposes simplifying the **leverage ratio** framework by converting the leverage ratio Pillar 2 requirement into a buffer and removing leverage ratio P2G.

- For the **macroprudential framework**, the report recommends replacing the current **Countercyclical Capital Buffer (CCyB)** and **Systemic Risk Buffer (SyRB)** with a single releasable macroprudential buffer supported by a common methodology. It also suggests improvements to the identification and calibration of O-SII buffers to enhance consistency across Member States.
- Regarding **resolution**, the EBA identifies **MREL** complexity as a key issue. It recommends aligning eligible resources and streamlining subordination requirements while exploring more standardised MREL calibration.