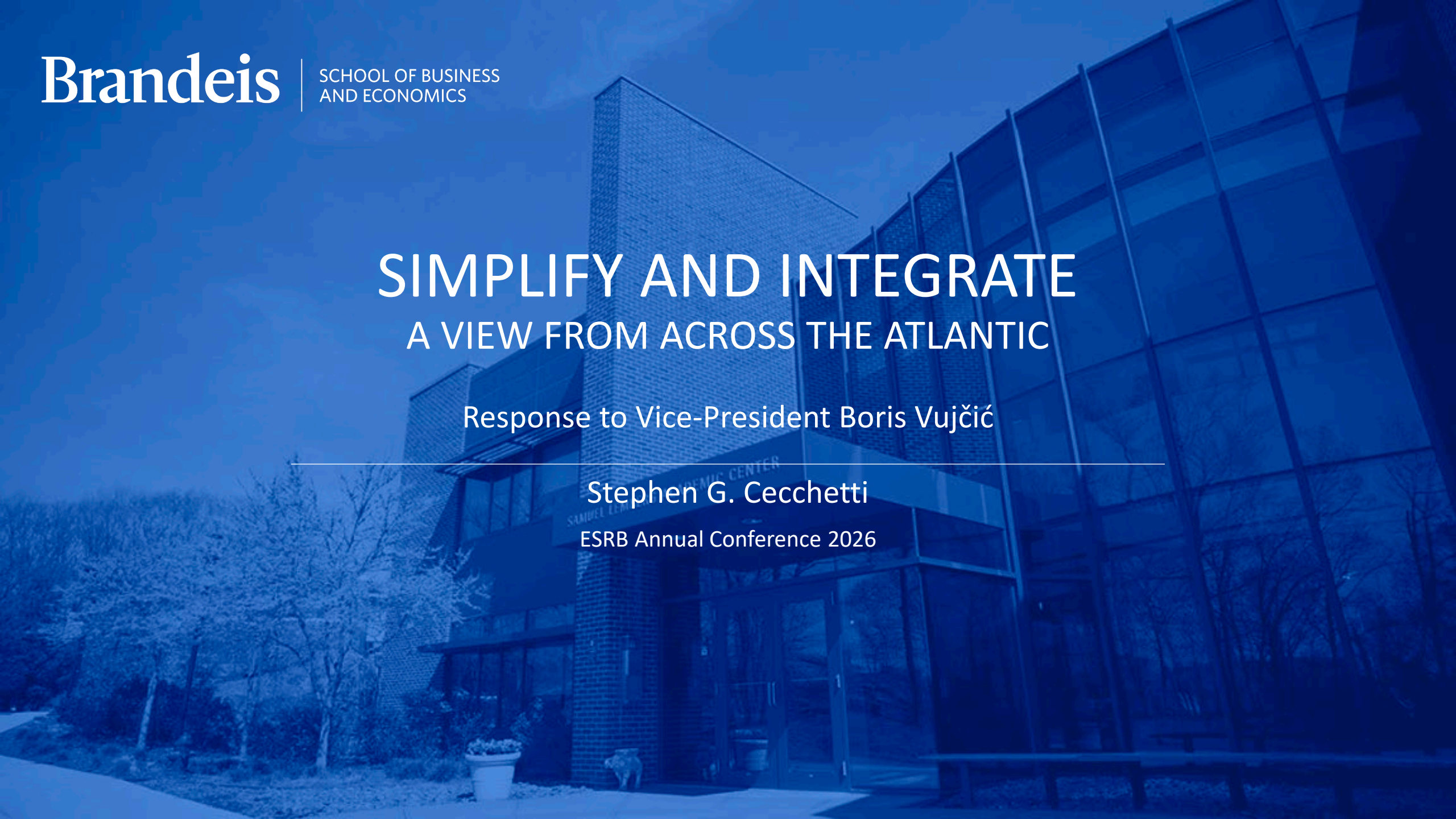




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SCHOOL OF BUSINESS
AND ECONOMICS

SIMPLIFY AND INTEGRATE

A VIEW FROM ACROSS THE ATLANTIC

Response to Vice-President Boris Vujčić

Stephen G. Cecchetti

ESRB Annual Conference 2026

Two questions

Can we simplify regulation?

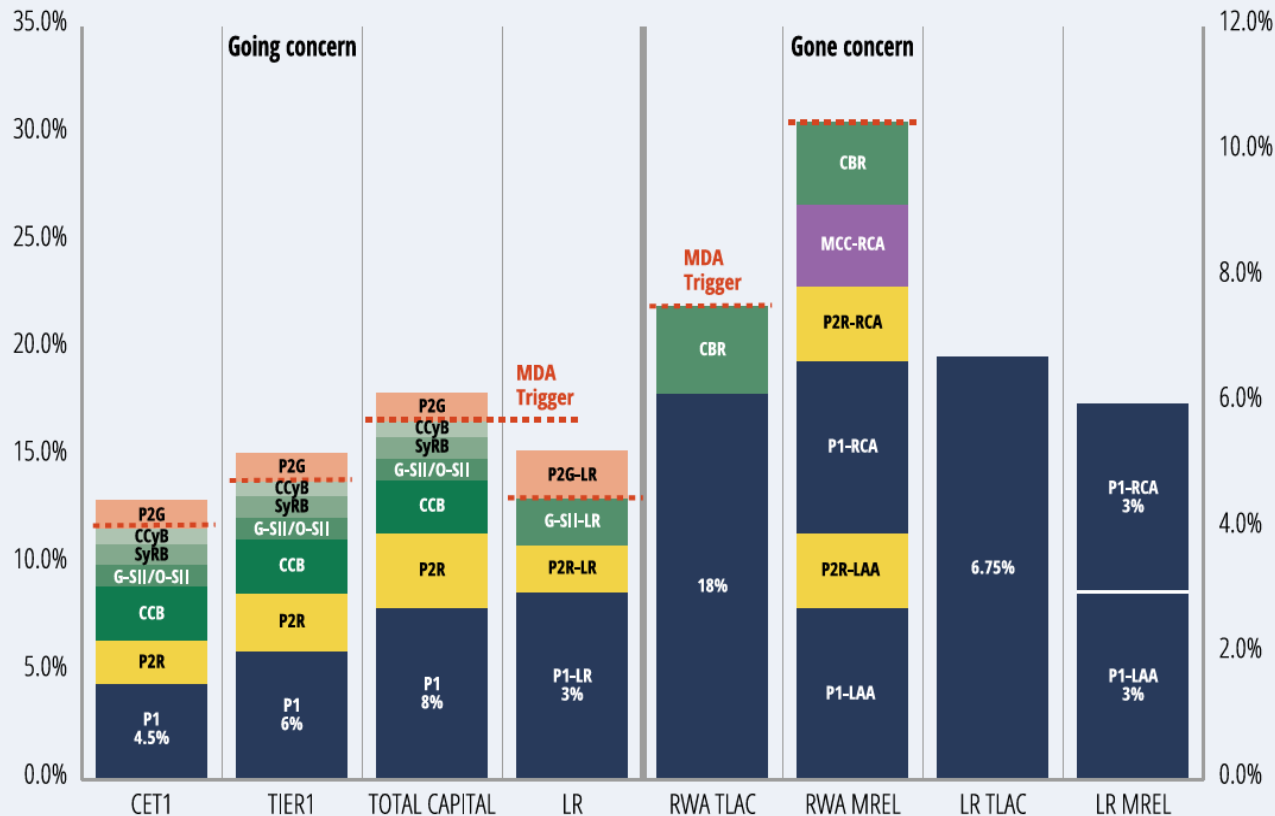
Yes, without sacrificing resilience

Do capital and liquidity requirements hinder competitiveness?

No, but where they apply matters

What complexity looks like

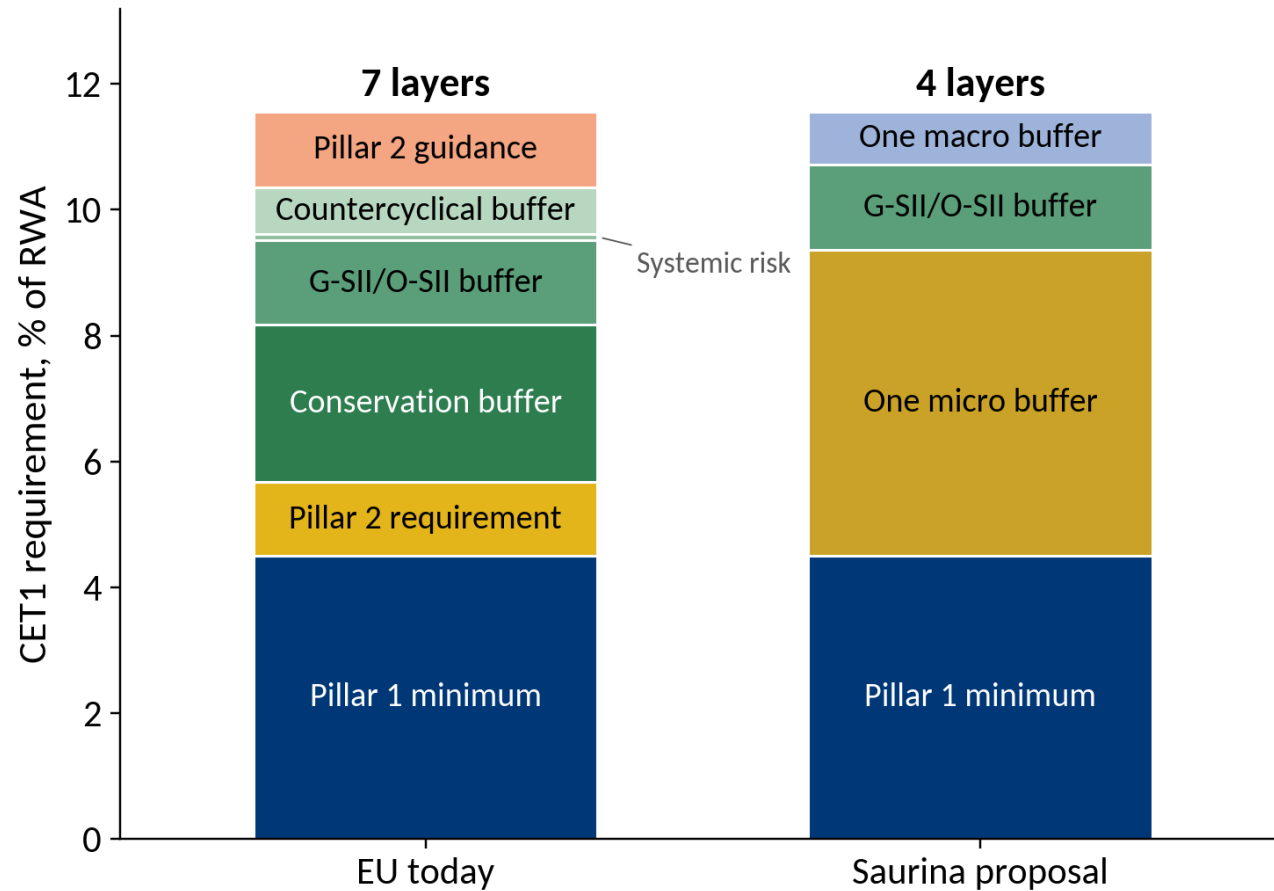
Figure 1: EU capital requirements framework



- 22 requirements and buffers
- Gov Council: 5 buffers → 2
- EBA: merge layers, same total
- Simpler, or just more orderly?

Source: EBA (2024), "Stacking orders and capital buffers"; reproduced as Chart 1 in Saurina (2026).

Same capital requirements, fewer layers



- Micro buffers: three → one
- Macro buffers: two → one
- Resolution: one 8% requirement
- Same total, less room to game

Illustration based on Saurina (2026). Today: EU G-SIBs, end-2025, from BIS FSI Insights No 76, Table 1.

Why fewer rules lose nothing

- Every requirement limits just two things: leverage and asset riskiness
- So only one capital rule and one liquidity rule bind at a time
- For most large EU banks: the risk-weighted ratio and the LCR bind
- A tighter LCR would make the NSFR redundant for all banks

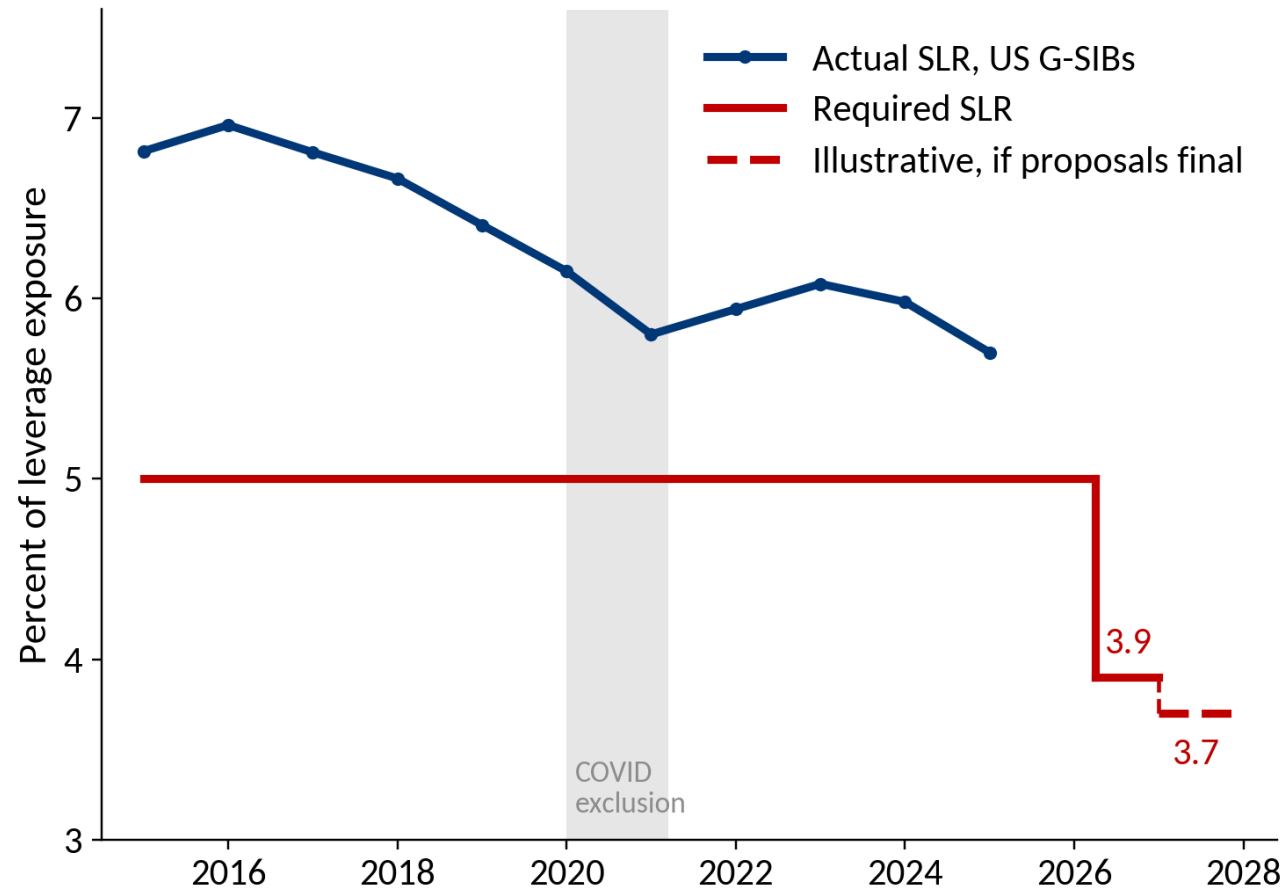
Source: Casellina, Castrén, Cecchetti and Kashyap (2026), "Simplifying Basel III"

Tiering reduced resilience: SVB's failure

- US tiering, 2019: lighter rules for \$100–250 billion banks
- SVB: unrealized losses above its capital; 94% uninsured deposits
- Its tier let both pass: losses filtered out, no full LCR
- Run spread to similar banks and forced public guarantees
- Lesson for EU tiering: low thresholds; loss and liquidity rules for all

Sources: US tailoring final rules, Nov 2019; Federal Reserve SVB review, Apr 2023; Bowman, speech on the independent SVB review, 18 Sep 2026

What weakening looks like



- Actual SLR: 7% → 5.7%
- Required SLR: 5% → 3.9%
- Further cuts proposed
- Regulators followed banks down

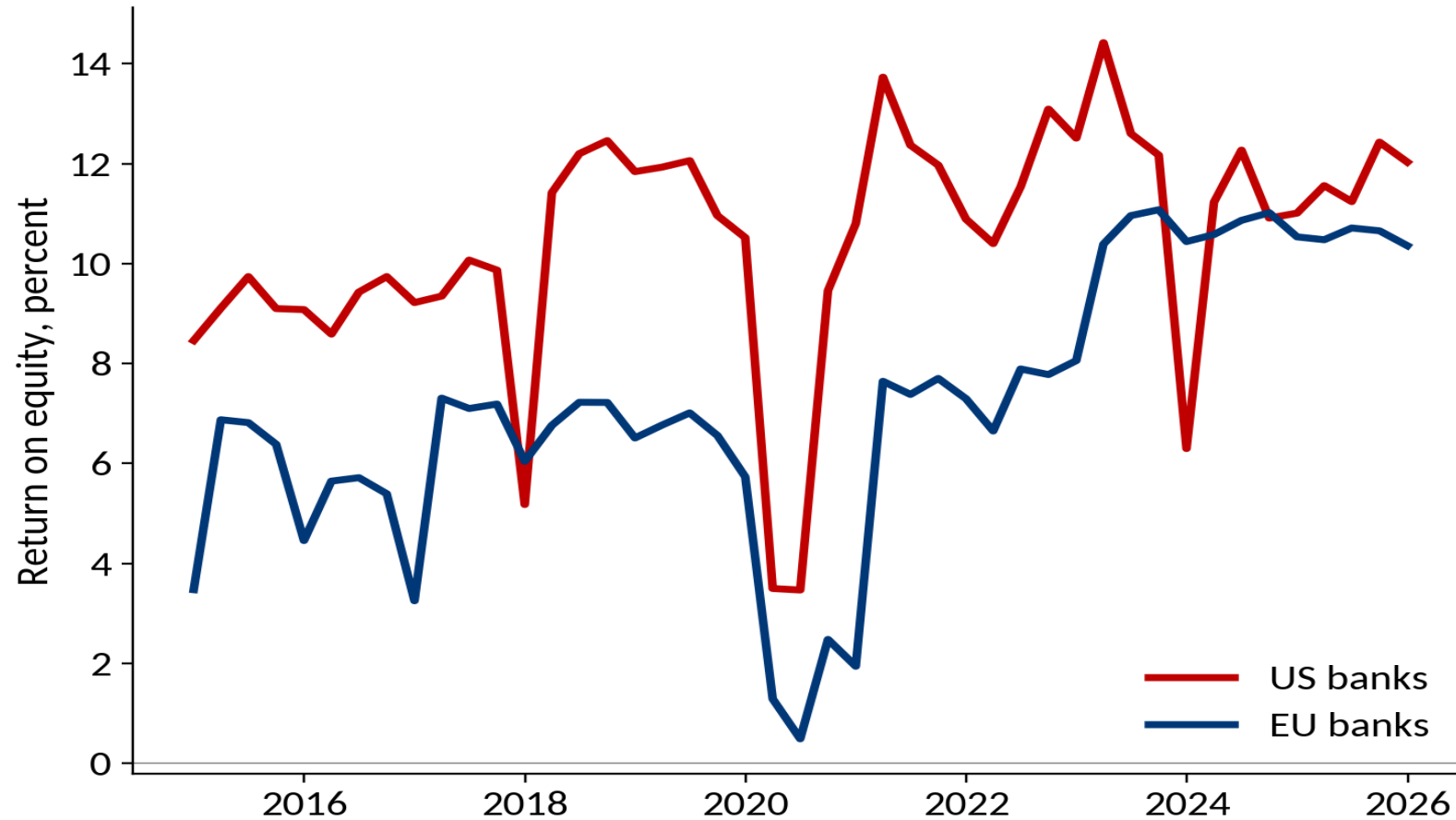
Sources: Federal Reserve Bank of Kansas City, Bank Capital Analysis, 4Q 2025; Federal Register, 1 December 2025.

US weakening marketed as simplification

- Cuts since 2025 (final and proposed)
 - Weaker stress tests
 - Lower leverage ratio
 - Smaller G-SIB surcharge
 - Basel III: 20+ material downward deviations
- Combined: required capital at 8 G-SIBs cut by \$60 billion (6%)
- Lower requirements → record payouts: \$140 billion+ in 2025

Sources: Barr, speech, 6 June 2026; Bloomberg, 15 January 2026.

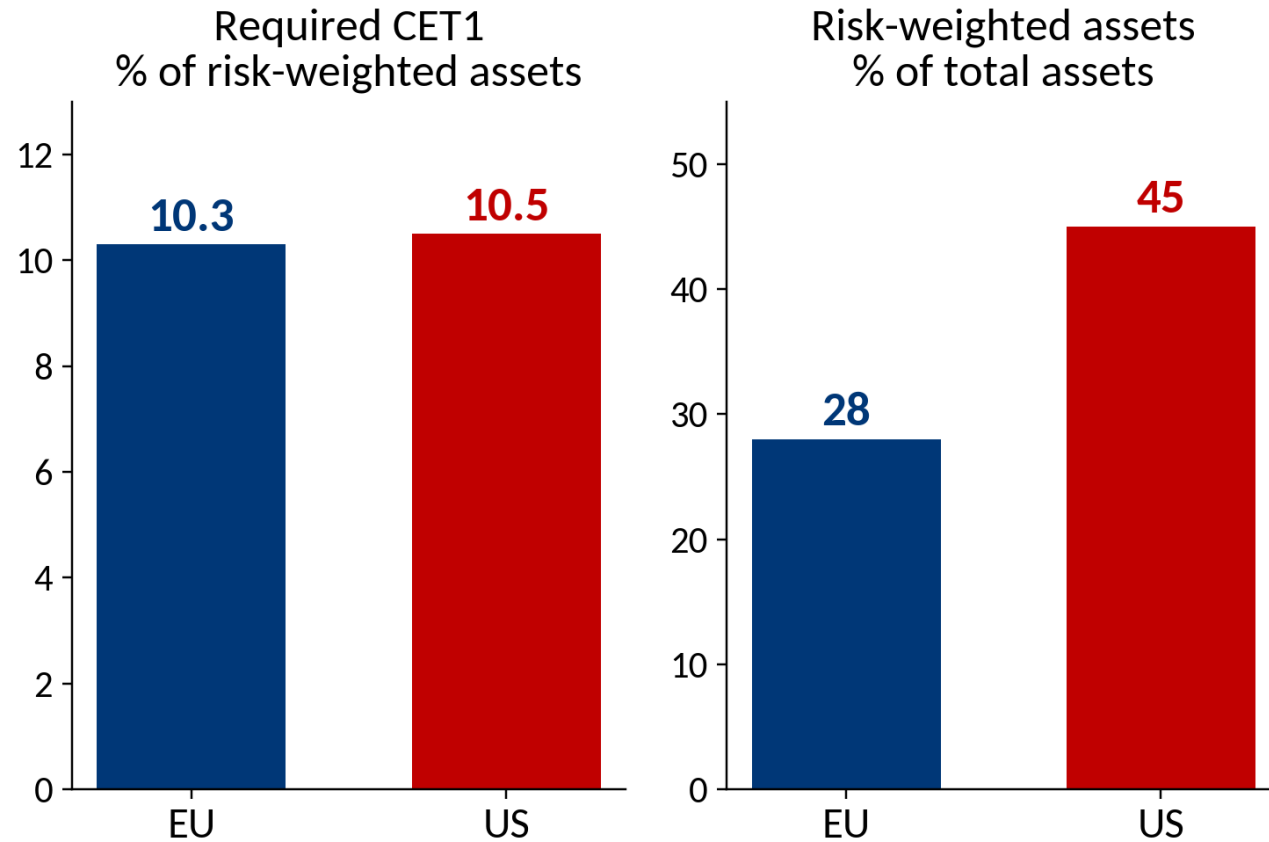
More equity funding, higher returns



EU caught up
Rules unchanged

Sources: FDIC Quarterly Banking Profile; EBA Risk Dashboard.

Same ratio, different denominator

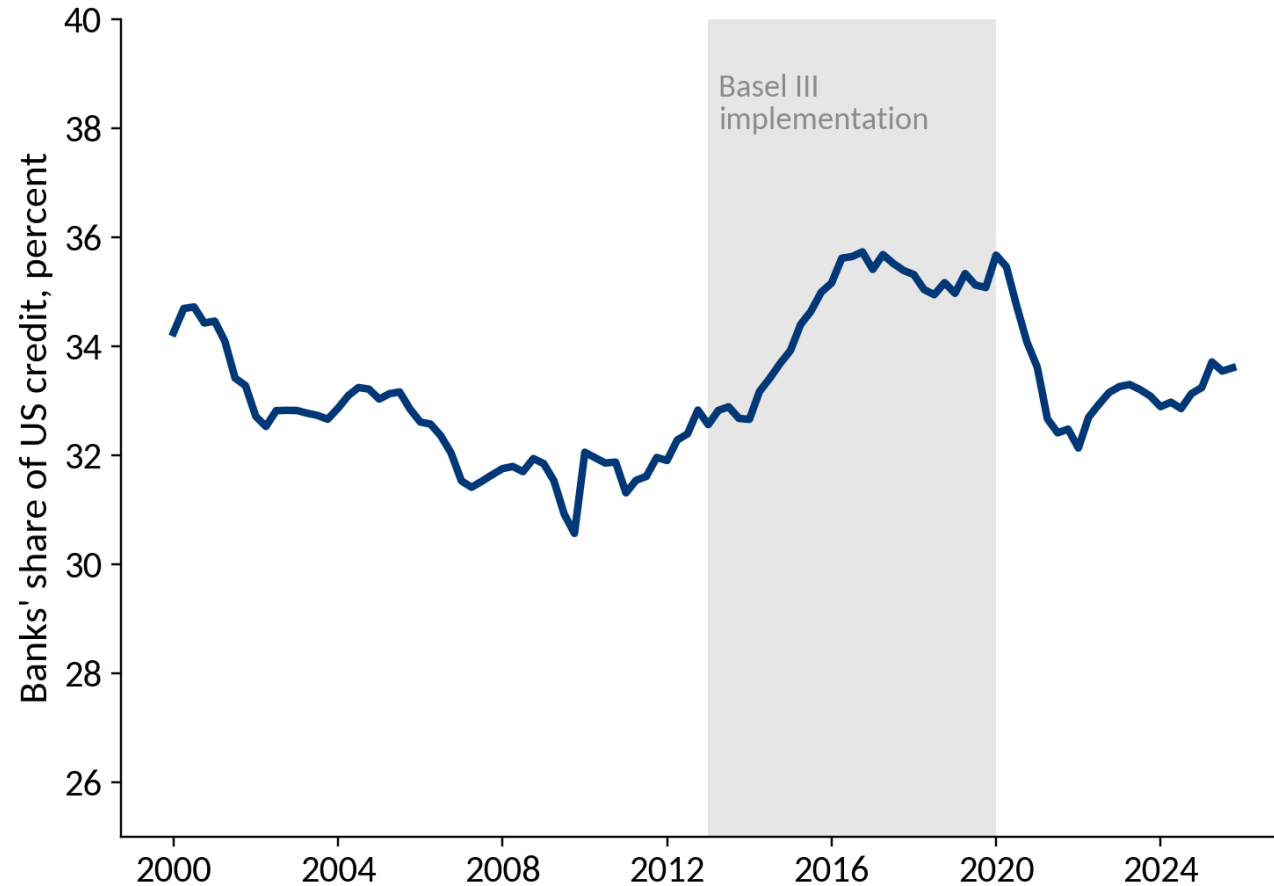


G-SIBs, end-2025; binding requirements

Sources: BIS FSI Insights No 76 (2026), Table 1, end-2025; Saurina (2026).

- Required CET1: ~10½% in both
- RWA density: EU 28%, US 45%
- US: more equity per asset
- Valuations ignore requirements

Higher requirements, steady lending



- US requirements doubled
- Banks' share rose as rules tightened
- Lower requirements → payouts

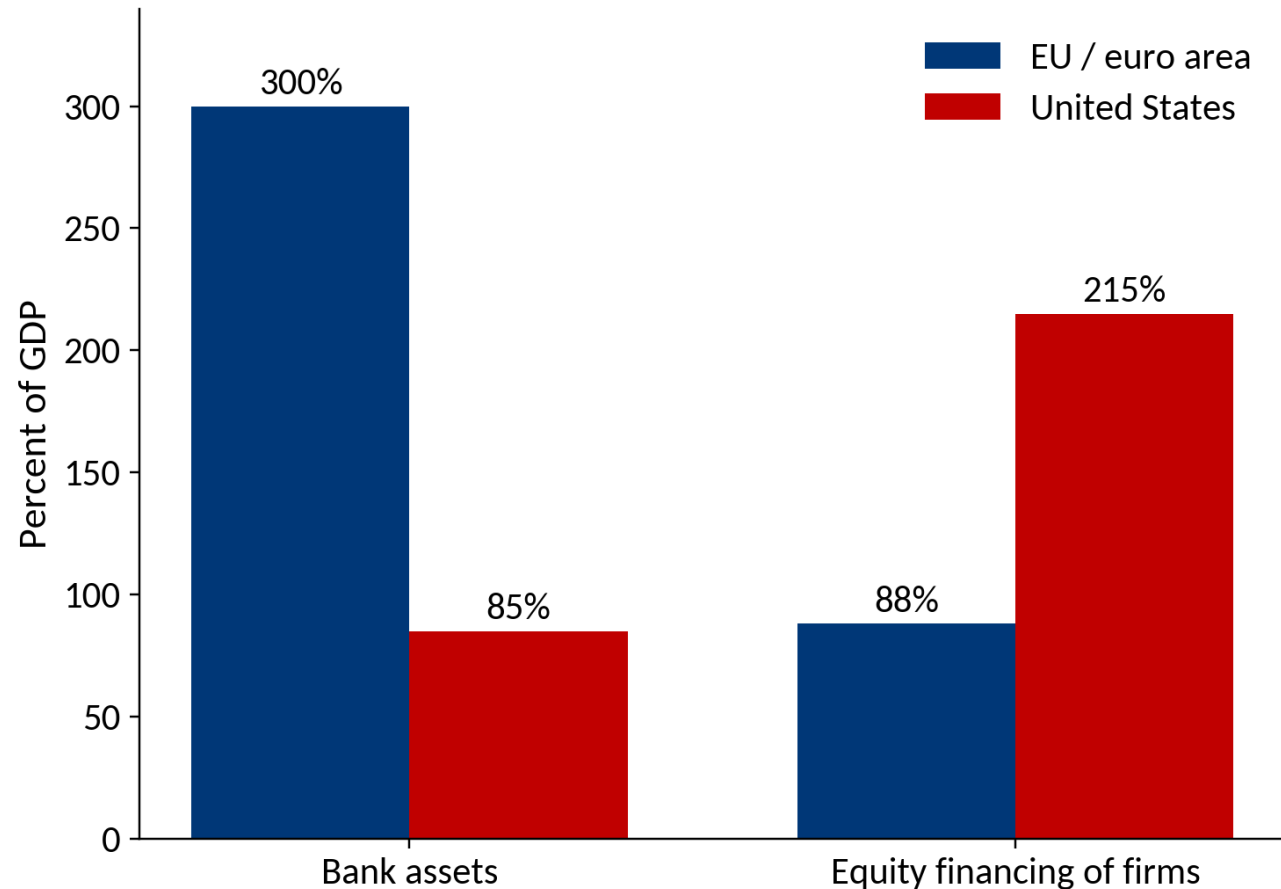
Source: Federal Reserve, Z.1 Financial Accounts, tables L.100 and L.101, and Cecchetti, Kress and Schoenholtz, *Journal of Economic Perspectives* 2025.

Making borders within the EU irrelevant

- The problem: failure is national
 - Hosts ring-fence because they still pay for failure
 - Stand-alone subsidiaries make groups fragile
- The fix: share the cost of failure
 - Common deposit insurance
 - Liquidity in resolution, backed by a shared backstop
 - Enforceable parent support and internal loss-absorbing debt

Sources: European Commission, SWD(2026) 615, Section 3.1.5; Bellia et al. (2023), JRC132364; Bonfim and Santos (2023); ECB Occasional Paper No 308.

Large banks, shallow markets



- Largest banks: EU $\approx$ US
- The gap: capital markets
- Mergers won't close the gap
- Bigger banks, bigger risks

Sources: FSB G-SIB list, November 2025; Villeroy de Galhau, speech, 19 March 2025. Bank assets: EU; equity: euro area.

Two questions, two goals

Can we simplify regulation?

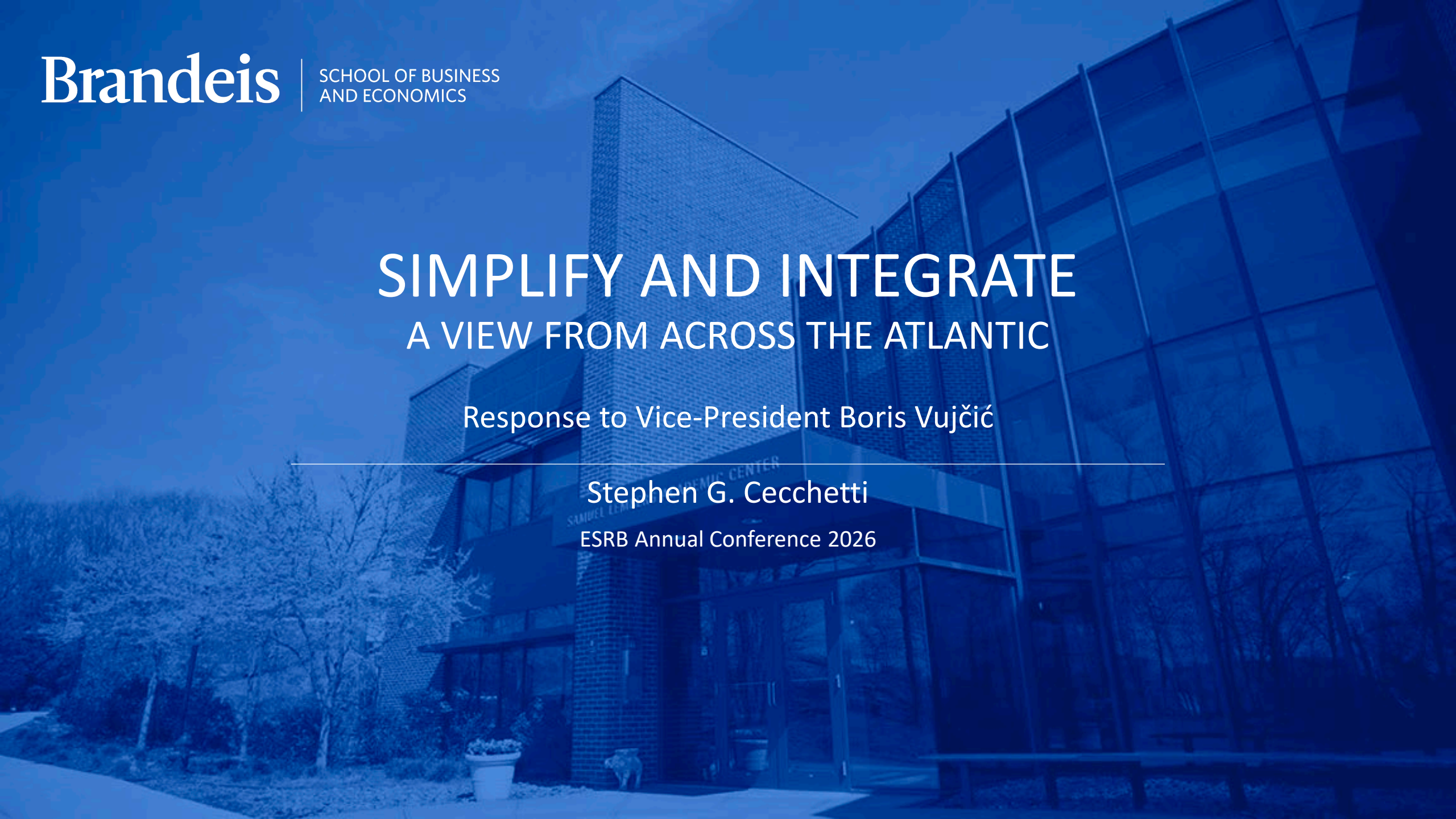
Yes: fewer layers and ratios, same combined level

Simplify the rules, don't weaken them

Do capital and liquidity requirements hinder competitiveness?

No: the problem is where they apply, not their level

Make borders within the EU irrelevant, don't lower requirements



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