

Simpler and Stronger Bank Solvency and Resolution Requirements by Jesús Saurina

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5th CEMLA/Dallas Fed Financial Stability Workshop, November 13th, 2026

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Summary of the Paper

- Regulatory complexity creates costs to stakeholders.
  - Compliance burden for banks, opacity for investors, reduced effectiveness for supervisors.

- Specific proposals to simplify bank solvency and resolution requirements in the EU.
  - Reduce complexity.
  - Improve transparency and predictability for banks and investors.
  - Maintain/enhance financial resilience (focus on absolute loss-absorbing capacity).
  - Remain compatible with existing Basel III and FSB international standards.

- Empirical evidence supporting the viability of a simpler regulatory framework.
  - It can deliver higher absolute capital buffers and resilience without hampering market value.

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Comment 1

Proposal: Single micro-prudential buffer

Merge the CCoB, P2R and P2G into a new public buffer determined by a top-down stress test conducted by the supervisors. “Eventually, these models could be made public to enhance transparency and scrutiny.”

- Proposal sounds great in theory but “one size fits all” can be hard to implement.
  - Potential non-compliance with Pillar 2.
  - Supervisors’ incentives will change, and the financial stability cost of inaction will be increased. Additonally they can lose control.
  - Designing a stress test is not a minor point.
- Banks can game the models if they become public.
  - **Goodhart’s law:** “When a measure becomes a target, it ceases to be a good measure.”
  - Yet stress test parameters and models are public in the U.S. since Sept. 30, 2026.

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Comment 2

Proposal: Single macro-prudential buffer

Retain GSII/OSII buffers for international alignment and collapse all other macro-prudential buffers into a redefined CCyB (ranging from 0% to 5%) based on a few cyclical indicators, correlated with banks' profits.

- Will this be a symmetric buffer?
  - It requires a starting level (say 2.5%), which goes up or down based on the financial cycle.

- What cyclical indicators should be used?
  - European, local, weighted indicators?
  - How to make activation triggers apply equally across EU banks?

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Comment 3

Proposal: Single subordinated resolution requirement

Replace all MREL ratios (risk-weighted and leverage-based) with a single requirement of 8% of Total Liabilities and Own Funds (TLOF), to be met exclusively with fully subordinated instruments (CET1, AT1, T2, subordinated debt); no senior debt nor derivatives.

- What about contingent liabilities? Conversion rate?
  - Incentives to move items off the balance sheet.

- To avoid the impression of redundant requirements, explain the difference between:
  - 8% TLOF and 3% Leverage Ratio.

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Comment 4

Proposal: GSIB/GSII alignment

For GSIBs/GSIIs, apply the maximum of either the international TLAC requirement or the proposed 8% TLOF requirement to ensure full compliance with global standards without adding complexity.

- Not a full disentanglement between solvency and resolution requirements.

- If the TLAC requirement is binding:
  - Resolution requirement can still depend on RWAs.
  - There can still be uncertainty on how RWAs would be computed.

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Miscellaneous Comments

- Clearly state each proposal at the start of each section (or all together in an annex).
  - Splitting proposals from comments/benefits/implications will facilitate policy discussions.
- Counterfactual applying the proposed requirements to EU banks (at least G-SIBs).
  - Dzezulskis et al. (2026) do it but applying the US framework.
- Add a list of acronyms (in annex) because topic becomes a soup letter quickly (50+).
- Add chart (like Fig 1) showing the proposed requirements in going and gone concern.
- Equivalence principle:
  - A simplified requirement can achieve a similar outcome than a complex one.

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Open Questions

- How would the single micro-prudential buffer interact with the supervisory process?
  - Strengthens or weakens it? Toothless supervisors?
- What is the expected transition period from current to proposed requirements?
- Do higher capital levels or dividend restrictions impact bank valuations conditionally?
  - Ex. in recessions/expansions, in high/low interest rate environments.
  - Can add interaction terms with binary variables in regressions.
- What could be the effects on NBFIs (Non-Bank Financial Intermediaries)?
  - Some bank activities moved to NBFIs after the GFC reforms due to the regulatory burden.
  - Could activities go back to the banking sector under the proposed requirements?

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Reflections

- We have been here, what did we miss?
  - BCBS created in 2012 the Task Force on Simplicity and Comparability (TFSC) during the development and implementation phases of the Basel III framework.

- What about simplifying the regulatory process and architecture in the EU?
  - A footnote acknowledges it but it is the elephant in the room.
  - Too many layers there.
  - It takes away flexibility from the regulator.

- Proposals are important, but they are a second or third best to the main issue. Unless we start designing regulation with a General Equilibrium view, we will always be left with problems, inconsistencies and unintended consequences.

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Conclusions

- Timely and relevant paper that pushes the debate forward.
- Specific proposals and supporting empirical evidence.
- Comments to clarify the proposals and strengthen the evidence.
- All the best in shaping the discussion to simplify the EU framework!

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