

SPEECH

# Making supervision simpler: the role of supervisory guides

**Keynote speech by Frank Elderson, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, at the ECB and EUI Banking Governance High-Level Seminar “Board of the Future”**

*Florence, 27 October 2025*

It is a great pleasure to be with you here in Florence.

I am sure that on your way to this venue many of you have spotted some of the breathtaking examples of Florentine Renaissance architecture: Brunelleschi's dome of the cathedral, Alberti's façade of Santa Maria Novella or the Pazzi chapel in Santa Croce.

By overcoming the often convoluted Gothic ornaments in favour of classical principles, Florence transitioned from medieval complexity to the cradle of the Renaissance that we know today.

The Florentine Renaissance showed that progress isn't about adding additional layers of complexity, but about applying enduring principles such as clarity, proportion and structure.

In that sense the Renaissance was a conscious act of simplification, back from the ornaments and multiple layers to the solid foundational elements that truly matter.

This analogy couldn't be more timely today, as voices are growing louder that banking regulation and supervision have given rise to undue complexities and should be simplified.

In my remarks I will argue that simplification is indeed desirable and achievable and explain the steps the ECB is taking to make it a reality. But just as the Florentine architects achieved simplification by reverting to classical foundations, today's supervisors need to reduce overlaps, undue complexity and costs without damaging the solid foundations on which the European banking system is built: we need to simplify without compromising resilience.

## How can supervisory guides help?

In this context, let me first clarify the role of supervisory guides<sup>[\[1\]](#)</sup> that have recently been subject to some debate.

The guides developed by the ECB over the last decade serve distinct purposes. Guides are issued to ensure consistency in our approach to the supervision of banks across the banking union, and to provide

transparency on how the ECB interprets and applies the relevant provisions of Union law, as well as the processes it follows.

They may also set out supervisory expectations or disseminate good practices that we have observed in our interactions with banks such as in the example of our draft [Guide on governance and risk culture](#) that we published in July 2024<sup>[2]</sup>. The Guide sets out supervisory expectations in those areas, taking into account the diverse governance structures and corporate arrangements stemming from the different national laws across Europe.<sup>[3]</sup> We received very valuable feedback from the industry and in order to ensure consistency, avoid overlaps and undue layers of complexity, we will also take into account the outcome of the European Banking Authority's (EBA) public consultation on the review of their own Guidelines on Internal Governance. We expect this will bring the publication of the final Guide well into 2026.

Having listened carefully to stakeholders and the industry, we understand that sometimes there are still doubts about the legal nature of our guides. In times where supervisors and banks alike attach great importance to reducing undue complexities, I would like to shed the clearest of lights on this very relevant issue. So, let's go one level deeper and unravel the different types of content that a supervisory guide may include in more detail. In doing so, I will distinguish between binding obligations, supervisory expectations and good practices.

## **Binding obligations**

First and foremost, legally binding requirements are only derived from directly applicable European regulations or directives as transposed into national law. When referring to binding requirements set out in legislation, the ECB supervisory guides use binding language. For example, when we state that banks "must", "need to", "shall", or "are required to" act in a certain way, it is because they are obliged to do so by directly applicable European or national law. In such cases we clearly refer to the specific legal provisions. As I said, these obligations are created by the legislator, not by us as a supervisor. We choose to include these obligations in our guides because it makes life simpler for the banks to have the relevant rules and our interpretation of them in one place.

Indeed, where binding obligations are broadly formulated, the ECB may offer its interpretation of the concepts used by the legislator<sup>[4]</sup>. First of all, the ECB regards relevant case law from the Court of Justice that may be available, as the Court of Justice has the ultimate say on the correct interpretation of EU legislation. In the absence of relevant guidance from the Court, the ECB bases its interpretation on existing EBA Guidelines<sup>[5]</sup>, or, if they are not available, on its own view as the supervisory authority charged with ensuring the application of the prudential framework. When doing so, the ECB tries to help banks' compliance with the relevant legal provisions. This also promotes consistency in the ECB's supervisory approach and fosters transparency. Banks may, of course, disagree with the ECB's interpretation when applied in a specific case and challenge that particular ECB decision, either by submitting a request to the Administrative Board of Review<sup>[6]</sup>, or by bringing a legal action against the ECB

before the Court of Justice.<sup>[7]</sup> And banks have not shied away from standing up for their interests by initiating legal proceedings against the ECB.<sup>[8]</sup>

## **Non-legally binding expectations**

Second, some areas of the prudential framework are not or only partially covered by binding obligations set by the legislator. However, supervisors may still wish to steer banks' action in these areas in a particular direction to ensure appropriate risk management and coverage. This is where supervisory expectations may come into play.

Let me be crystal-clear: these supervisory expectations do not create new binding obligations on the banks. The ECB therefore communicates its supervisory expectations using non-binding language such as "the ECB expects banks to..." or "banks should aim to". The ECB publishes supervisory expectations to enhance transparency about its supervisory approach.

## **Good practices**

And third, there are good practices that represent desirable behaviours in light of the requirements of the legal framework or the ECB's expectations. In banking supervision, the ECB normally speaks of "good practices" or sometimes "sound practices" or "observed practices" to identify specific practices that in our judgment facilitate banks' compliance with legally binding requirements or alignment with supervisory expectations as regards proper coverage and management of prudential risks. The purpose of these statements is therefore not to present "best practices", because this would not do justice to the different types, business models and sizes of banks the ECB supervises. A bank can fully meet all regulatory requirements without following any of the examples listed. This is why we welcome feedback and alternative examples from banks where different practices have proven more effective, as they may in turn enrich our compendium of good practices.

Let me be clear again: the good practices we publish do not create new binding obligations on the banks. They are shared as illustrative examples of approaches that, in our experience, have worked well in certain contexts. Their purpose is to foster transparency and help banks reflect on possible ways to strengthen their own risk management and governance frameworks. Consequently, the ECB communicates good practices by using language such as "the ECB recommends", "advises", or "considers good practice".<sup>[9]</sup>

## **How does all of this work in practice?**

The starting point of the interactions between supervisors and banks is obviously the regulatory framework. After all, as supervisors we are not rule *makers* – that's the role of the legislator. We do our job – ensuring banks' safety and soundness – as rule *takers* on the basis of the applicable regulatory framework as interpreted by the Court, or in light of the relevant EBA Guidelines, or following our own interpretation which may be contained in a guide, as the case might be. When we identify shortcomings in the way a given bank is meeting the regulatory requirements, we take action to bring it back to full

compliance with the prudential framework. The specific type of measure is chosen having regard to the peculiarities of the case, the nature of the shortcoming, its severity and other relevant circumstances to ensure a proportionate supervisory reply.

Beyond compliance with binding requirements, we also discuss with banks the prudential risks they are or might be exposed to and their plans about how to manage and cover those risks. When assessing banks' plans in the context of our supervisory dialogue we may consider the expectations set out in our guides. This dialogue often ends positively, with the ECB finding that, having considered the bank's explanations and particular circumstances, the prudential risks it is, or might be, exposed to are sufficiently covered and adequately managed. It is only when this is not the case that the ECB takes further supervisory steps, which — following an escalated approach when appropriate — may end up with requiring the bank, for instance, to strengthen specific areas of its internal control framework or hold additional capital.

Does this mean that we are enforcing the ECB's expectations in those particular instances? Not at all. We only take supervisory measures if we are convinced that not all the relevant prudential risks to which the bank is exposed are adequately addressed. And those supervisory measures do not impose our expectations in a binding manner: these measures are designed and tailored to the specific circumstances of the given bank to ensure proper coverage and management of all its prudential risks.

Finally, good practices do not play any other role in our interactions with banks than providing them with a point of reference for designing their systems and operations in a manner that has proven sound for other banks. Obviously, they are never a ground for enforceable supervisory measures, as not every practice is relevant for every bank, and institutions may take different routes to achieve the same sound outcomes.

## **Reducing complexity by making supervision more efficient, effective and risk-based**

While it is obviously essential to communicate precisely on what is mandatory and what is not to facilitate compliance with the complex regulatory framework and proper coverage and management of relevant prudential risks, it is but one of the elements of our broader drive towards more efficient, effective and risk-based supervision.<sup>[10]</sup> Let me mention a number of other elements as well.

At the heart of our cultural transformation is a comprehensive reform of the Supervisory Review and Evaluation Process (SREP) which we already set in motion back in 2022. We have embraced risk-based supervision through initiatives like the risk tolerance framework and a multi-year approach, which allow us to more effectively focus resources on the most relevant risks. By integrating supervisory activities more seamlessly, leveraging the full breadth of our supervisory toolkit, improving our communication to banks, and reducing unwarranted supervisory burden, we continue to enhance our ability to address challenges dynamically. Today, these reforms are already delivering results: the SREP is leaner and focuses on the most relevant risks, while supervisors communicate key findings to banks in a timelier manner.<sup>[11]</sup>

Another example of simplification is our drive to reduce the reporting costs by establishing an integrated reporting framework accessible to statistical, prudential and resolution authorities.

Moreover, we are also reducing undue complexities by streamlining our supervisory processes in our “next-level supervision” project.<sup>[12]</sup> This covers areas such as capital-related decisions, on-site inspections and internal models. In the area of governance, with investment in technology we have increased efficiency in the field of fit and proper assessment. For example, we reduced the average processing time from 109 days in 2023 to 97 days in 2024 and for non-complex cases to as little as 61 days meaning that we can dedicate more time and resources to complex cases in line with our risk-based approach.<sup>[13]</sup>

Lastly, the ECB’s Governing Council created the High-Level Task Force on Simplification to develop proposals for simplifying the European prudential regulatory, supervisory and reporting framework, while still maintaining our strong and resilient banking sector in Europe. The high-level task force plans to deliver its proposals for simplification to the Governing Council by the end of 2025, after which they will be presented to the European Commission.

## Conclusion

Let me conclude.

As we are addressing the unwarranted complexities in the European regulatory and supervisory framework, the insights from the Florentine Renaissance could not be more timely.

Simplification does not mean dismantling the foundations of resilience.

The Renaissance architects of Florence mastered the art of simplification by reverting to the solid classical foundations. In doing so they were striving to reduce undue complexities without, crucially, dismantling the very bedrock on which stable edifices are built.

In the same vein, let us tackle overlaps, unwarranted complexity and undue costs without compromising the foundations of resilience on which our stable European banking system lies.

Let us strive for simpler yet stronger rules that allow us to supervise in the most efficient and effective manner. To make sure that banks remain resilient so they can support the real economy in both good and bad times. Because strong and resilient banks are nothing less than the bedrock of long-term competitiveness.

Thank you for your attention.

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1.

ECB supervisory guides consider and build on EBA recommendations and guidelines that are issued with a view to ensuring the common, uniform and consistent application of Union law.

2.

On the importance of risk culture see Elderson, F. (2023), “[Treading softly yet boldly: how culture drives risk in banks and what supervisors can do about it](#)”, speech at the 10th Conference on the Banking Union organised by Freshfields Bruckhaus Deringer, the Institute for Law and Finance at Goethe University and

the Center for Financial Studies, Frankfurt am Main, 19 September; Enria, A. (2025), [\*Moving the Dial: Fostering a Culture of Supervisory Effectiveness\*](#), 9 October; Starling Insights (2025), [\*Bank of England Governor Bailey & Former Fed Vice Chair for Supervision Quarles to Discuss 'Supervisors on Supervision'\*](#), 31 July.

3.

For why governance and risk culture are not peripheral issues but at the core of prudential supervision and hence remain a crucial focus for European banking supervision, see Elderson, F. (2025). [\*"What good supervision looks like"\*](#) keynote speech at the 24th Annual International Conference on Policy Challenges for the Financial Sector, Washington DC, 12 June.

4.

This for instance, is the case in the area of governance, where the applicable CRD provisions do not cover a fully specified range of obligations.

5.

Pursuant to Article 16(3) of the [\*EBA Regulation\*](#), supervisors shall make every effort to comply with EBA Guidelines.

6.

Article 24(5) Council Regulation 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

7.

Article 263 of the Treaty on the Functioning of the European Union.

8.

Some 111 cases have been initiated by banks against the ECB since the inception of the Single Supervisory Mechanism. The Court has so far decided on 88 cases and has confirmed the ECB's stance in almost 80% of these.

9.

Good practices are sometimes set out in a publication named as such but can also be communicated as part of the ECB's supervisory guides. For example, in the 2022 thematic review entitled "Good practices for climate related and environmental risk management" the ECB shares good practices to help institutions make progress on managing climate-related and environmental risks. In "Sound practices in counterparty credit risk governance and management", the ECB presents sound practices in counterparty credit risk governance and management to encourage institutions to improve their risk management capabilities in this area. However, in the "ECB Guide on outsourcing cloud services to cloud service providers", in

addition to providing transparency on its supervisory expectations, the ECB introduces some concrete examples of actions it has assessed as adequate with “The ECB considers it good practice...”.

10.

Although the discussions on competitiveness have brought simplification into the limelight, taking continuous stock of the extent to which our processes are efficient and effective is nothing new. Consider that as early as back in 2018 we started to streamline our decision-making processes. One outcome was the delegation framework for routine ECB supervisory decisions. Over the years, we have made significant improvements to how we conduct fit and proper assessments, how we make decisions on banks' own funds and how we interact with banks via our IMAS portal. We have also enhanced transparency regarding our supervisory priorities and begun providing more detailed information about our planned supervisory activities, enabling banks to plan more effectively. All these initiatives have had a tangible impact on banks.

11.

For instance, SREP decisions have become more focused on relevant risks, which ensures clearer communication and quicker SREP decisions. The number of new SREP measures has decreased significantly, with a stronger emphasis on addressing severe findings. SREP decisions are also being issued earlier. In next year's SREP, we will also implement a revised and simplified methodology to calibrate the Pillar 2 requirement. See [ECB \(2025\), “SREP reform: towards more efficient and effective supervision”](#), *Supervision Newsletter*, 14 May; Buch, C. (2025), “[Reviewing the Pillar 2 requirement methodology](#)”, ECB, *The Supervision Blog*, 11 March.

12.

See [Making European supervision more efficient, effective and risk-focused](#); Donnery, S. (2025), “[As simple as possible, but not simpler](#)”. ECB, *The Supervision Blog*, 8 September.

13.

In addition, while 70% of fit and proper decisions before 2023 had ancillary provisions (including recommendations), no more than 28% of cases had such provisions in 2024, showing that we are focusing specifically on the riskier issues identified. Deploying our digital tools such as Heimdall or the IMAS Portal will help us to further streamline our assessments, improve the level playing field and speed up response time to banks. For certain appointments, such as renewals of mandates, we will further streamline the assessment process.

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