39th ISDA Annual General Meeting

Amsterdam, 15 May 2025

Beyond Basel III: Charting Europe's Path to Resilient Finance

Good morning, ladies and gentlemen,

It is a great pleasure and honour to address you today at the 39th ISDA Annual General Meeting here in Amsterdam, a city with deep historical ties to international finance.

Introduction

Today, we convene against a backdrop of renewed global economic uncertainty. Recent tariff negotiations among major economies are disrupting international trade flows, unsettling financial markets, and enhancing financial volatility. The IMF's April 2025 Global Financial Stability Report explicitly highlights increased volatility and higher risk premiums across financial markets as a direct consequence of these trade frictions.

Yet, the international financial system, and in particular Europe's banking sector, continues to demonstrate notable resilience, supported by the rigorous regulatory frameworks we have collectively built since the Global Financial Crisis.

This resilience was clearly tested and validated during recent global crises: the COVID-19 pandemic and geopolitical disruptions following Russia's aggression against Ukraine. Both events posed unprecedented challenges, yet European banks absorbed these shocks without triggering systemic instability. Banks have been in all these instances part of the solution, and this underscores the progress made since 2008 in fortifying our financial architecture.

The empirical evidence also confirms this: European banks' capital positions are robust, average CET1 ratios exceed 15%, liquidity buffers remain ample, and asset quality has improved despite tightening financial conditions.

Resilience: a fundamental value in uncertain times

Financial resilience is more than a regulatory target; it is a foundational value that supports the stability and growth of the European economy. According to the IMF, countries with resilient financial systems not only rebound faster from shocks but also incur significantly lower economic and fiscal costs during crises.

Banks' role in the economy

The essential role of banks in our economies further emphasises the value of this resilience. Today, European banks actively finance the economy and drive the continent's strategic transitions. They are pivotal in financing the green transition, promoting digital innovation, and underpinning Europe's strategic autonomy. The EBA's 2024 Report on Green Loans highlights a substantial increase in sustainable lending, demonstrating banks' proactive roles in shaping Europe's sustainable future.

Banks are not just part of the ecosystem — they contribute to its reshaping. But to fulfil this role credibly, they must remain resilient.

Stable Rules and Effective Implementation

Financial resilience is underpinned by regulatory predictability and efficient implementation. The Basel Committee's 2023 Monitoring Report emphasized that consistent and timely application of Basel III rules globally remains essential to preventing regulatory fragmentation and arbitrage.

Europe's transposition, embodied in the 2024 Banking Package (CRR3/CRD6), seeks to balance global regulatory consistency with tailored adaptations that reflect Europe's banking structure, including the proper enforcement of these rules to a substantial proportion of smaller institutions.

The EBA's Basel III Quantitative Impact Study confirms the readiness of EU Banks to implement these rules. Most banks already meet or nearly meet the revised standards, including the output floor, confirming the minimal systemic impact from full Basel III implementation.

Predictability and clarity in these regulatory adjustments facilitate innovation, long-term planning, and stability.

At the same time, we need to ensure that the rules are fit for purpose, proportional to the risks they need to address, and efficiently implemented.

Risks of Oversimplification

Proportionality in regulation is always beneficial, but we should treat simply what is simple and address complexity where it exists.

Oversimplification poses severe risks. Historically, overly simplified risk assessments have masked vulnerabilities, leading to greater systemic crises. During the Global Financial Crisis, opaque risk assessments exacerbated systemic risks, underscoring the need for careful calibration of regulatory simplicity.

While simplification efforts are necessary, particularly for smaller institutions, they must not compromise the integrity and depth of risk assessment frameworks. Short-term regulatory easing might offer temporary relief but could jeopardize long-term stability and market confidence.

Benefits of the Banking Package

The 2024 EU Banking Package offers multiple significant advantages:

increased credibility of capital adequacy measures, reducing opportunities for regulatory arbitrage;

enhanced comparability of banks' capital metrics through consistent application of output floor;

tailored proportionality, ensuring smaller institutions are not excessively burdened, thus preserving the diversity and robustness of Europe's banking sector.

Status update on EBA Basel III implementation

At the European Banking Authority, we have been busy delivering on our mandate. We have prioritised transparency, stakeholder engagement, and technical soundness at every step.

In the past year, the EBA published and completed public consultations covering credit risk standardised and IRB approaches, the revised market risk framework (internal models and Standardised Approach), the new operational risk Standardised Measurement Approach, the leverage ratio framework, and updated disclosure requirements. More than 420 public comments were received through these consultations and analysed. Final draft Implementing Technical Standards (ITS) and Regulatory Technical Standards (RTS) will be soon transmitted to the European Commission, allowing a six-month scrutiny period before legal adoption.

Moreover, we are embedding forward-looking elements to better assess and manage newer areas of risks, such as climate risk and cyber risk, in our supervisory expectations.

Consistency in the implementation across Member States is also crucial to ensure an effective single market. This is why the EBA is intensifying its work on supervisory convergence, launching new peer reviews and developing common supervisory reporting templates to harmonise practices across the EU.

Convergence as a means for simplification: The Example of SIMM

Simplification can—and should—serve efficiency without eroding resilience. Convergence should be one of the main avenues. A single regulation is by its nature simpler for a single integrated market than 27 national regimes which are likely to lead to divergences and market segmentation.

The new central validation function for pro forma initial margin models - that the EBA is mandated to establish under EMIR 3 - is a clear example of enhanced EU convergence and supervisory simplification. ISDA Standard Initial Margin Model (SIMM), which is the sole existing pro forma model to date, has been key in creating efficiency in the exchanges of initial margins and reducing the potential for collateral disputes.

However, while we had the ISDA SIMM, an industry-wide model used by a large number of counterparties in the EU and across the world, we were missing in the EU a centralised approach towards SIMM assessment and approvals. Essentially, the same model was being validated by a plurality of competent authorities within the EU, which was giving rise to a coordination problem.

To address this issue, EMIR 3 grants the EBA the task of operating as a central validator of pro forma models such as ISDA SIMM. In its new role, EBA will validate the general aspects of ISDA SIMM, while competent authorities will continue to be responsible for authorising the use of initial margin models at the supervised entity level. Each year, in cooperation with competent authorities, ESMA and EIOPA, EBA will analyse the performance of SIMM. Should shortcomings be identified, those shortcomings will be discussed with ISDA and other regulators outside the EU, hence contributing to overall enhanced coordination.

Thus, simplification is possible and we should be eager to identify further areas where it can be implemented — but it must never compromise the system's ability to identify, measure, and manage risk effectively.

The Case for a Globally Effective and Efficient Framework – the FRTB case

Finance is borderless, and prudential standards must reflect that reality. A patchwork of divergent rules would push activity into the cracks between frameworks, amplifying, rather than mitigating, systemic risk.

While Europe is committed to faithful Basel adherence, keeping an eye on international developments and recognising the merit of dialogue when rules encounter empirical friction is essential to a successful operationalisation.

The example on everyone's mind is the implementation of the Fundamental Review of the Trading Book (FRTB). The banking package incorporates more sophisticated risk measurement techniques and aims to align capital charges more closely to the actual risks banks are facing in their activities in capital markets. An international level playing field is particularly important for these activities, yet other major jurisdictions, for which level playing field considerations are very relevant, have yet to finalise their rules or communicate on a definite timeline for implementation.

In order to preserve the level playing field for the trading activities of European banks, and convinced that the implementation of the FRTB rules should converge as much as possible across jurisdictions, the European Commission took two relevant steps: 1) in July 2024 the European implementation of the FRTB has been delayed by one year, and 2) in March 2025 a targeted consultation to help determine the best approach for the application of the EU's framework on market risk prudential requirements for banks.

In particular, this consultation asks whether the EU should exercise its CRR empowerment to fine-tune—or postpone—the start of binding FRTB own-funds charges so that implementation reflects European market structure and remains aligned with other major jurisdictions. While the policy choice lies with the co-legislators, the EBA started laying the technical groundwork to provide tools for further evaluation: the EBA's 2024 market-risk benchmarking exercise published the first EU-wide assessment of both the Alternative Standardised Approach and internal models.

Complementing this, the EBA's joint discussion paper with ESMA on the prudential regime for investment firms, while acknowledging potential divergences of sources of risks, maintains the availability of consistent FRTB metrics across bank and non-bank trading entities, which could be construed as an essential step toward a single rulebook for Europe's capital markets.

Overall, effective FRTB implementation is not only about timing, but also about avoiding deepening regulatory friction, so that risk is measured the same way and priced the same way, wherever trades are booked.

Going forward

As we look ahead, we need to confront the key challenges to preserve and enhance resilient open financial markets. The focus should not be about increasing or reducing regulation, but about fostering a stable, efficient, and innovative financial ecosystem that is resilient and provides adequate services to the evolving needs of our economy and our citizens.

Internal challenges

Internally in the EU, a major challenge remains to fully exploit the benefits of a single market and to complete the Banking Union. Differences in supervisory practices, deposit insurance schemes, and crisis management frameworks continue to fragment the Single Market. Lacking a single rule book in this area, supervisory convergence remains our best tool to bridge gaps and ensure an effective market. The EBA's work in harmonising supervisory practices is critical to ensure that banks operate on a truly level playing field, irrespective of their Member State.

External challenges

Externally, we must engage with global partners to maintain consistency while ensuring that national specificities are respected. The recent EU consultation on the FRTB rules reflects an openness to dialogue with other jurisdictions, to avoid unnecessary fragmentation of trading books and capital requirements.

Competitiveness, resilience, and global integration are mutually reinforcing — not contradictory.

Emergence of new risks: cyber, ESG, geopolitics

Finally, we must not lose sight of the fact that the nature of risks is evolving.

Cyber risk has moved from the realm of operational nuisance to a core strategic threat. In a context of increased geopolitical tensions its range of materialisation is morphing from operational disturbance, to cyber crime, to potential cyber wars.

The ECB’s 2024 Threat Landscape Report recorded a 38 % year on year rise in serious cyber incidents affecting European financial institutions. Under DORA, starting January 2025, all significant banks must perform advanced testing at least every three years and report critical ICT incidents within four hours.

Climate and nature related risks are rising and will continue to rise. The IMF estimates that failure to transition to net zero could impose cumulative losses of 15 % of EU GDP by 2050. In response, we need to continue to enhance the financial sector ability to measure, model and manage these risks. The EBA has developed a number of policy guidelines to help supervisors and financial institutions to enhance their capabilities in this area. We will also continue to monitor the evolving risks including through regularly stress testing the industry on these issues.

Geopolitical risks is a third area that requires enhanced focus. Again quoting the IMF’s April 2025 Update, it suggests that international tensions and new barriers could raise the cost of cross-border funding for European corporates by up to 50 basis points. Banks must integrate geopolitical scenario analysis and supply chain vulnerability into their strategic planning.

Round-up and conclusion

To summarise: it is fundamental to preserve resilient, open and integrated financial markets. For Europe, this should be an strategic asset to ensure our future. Such markets are   built on three pillars—Insitutions robust business models, risk management and financial positions; predictable and efficient rules; and a proactive forward-looking view of emerging risks.

I would like to close with a simple message: resilience is not an obstacle to competitiveness; it is a precondition. By staying the course—finalising the Banking Union, engaging constructively with global standard setters, and tackling new risks head on—we will ensure that Europe’s banks remain engines of sustainable prosperity.

The EBA stands ready to work with you — industry leaders, policymakers, and global partners — to ensure that Europe's financial sector remains strong, innovative, and resilient.

Thank you for your attention. I look forward to our discussion and to continued collaboration with all stakeholders represented here at ISDA.