

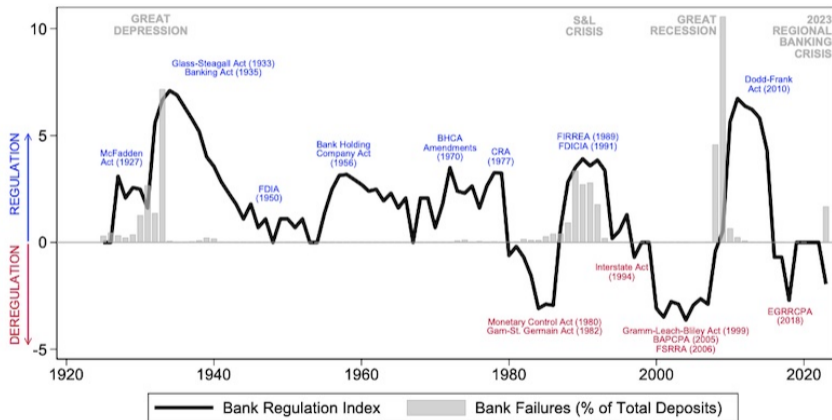
# Stringency & Complexity of Post Crisis Bank Regulation

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Sintra, June 30 2026

# Regulatory cycles and bank defaults



Measuring Bank Regulations: A Text-Based Approach (Mahmood 2025)

# How to simplify bank regulation

- Complex rules add costs
  - Overlapping buffers, costly reporting
  - Pillar II buffer corrections
  - Impossible to calibrate all risk
- This paper: **what do we lose as we simplify ?**
- Major challenges: measure complexity, estimate effect by some counterfactual

# Timely, innovative paper

- How to assess **system-wide policy changes** ?
  - Impossible to find **proper counterfactuals**
  - Hard to assess **qualitative features**
- Authors' solution combines:
  - **LLM pairwise rankings of regulatory events**
  - **Synthetic control design**
- Goal: separate stringency and complexity
  - Naive prior: stringency good, complexity bad

# Views of complexity

- 1 Calibration of many risks
  - Many unknown, hard to quantify
- 2 Close gaps to regulatory arbitrage
- 3 Overreach to protect supervisors
  - Formal box ticking vs holistic view
- 4 Industry demands
  - Exemptions complicate simple rules

# AI interpreting legal text

- Large Language Model **interprets legal text**
  - Better than counting presence of terms
- Rank each event on stringency and complexity
  - Group standardized scores on sign vs excess above medians
- Are bank profits, solvency under stress, credit supply affected?
  - Project on market measures of stability (SRISK), bank profits, credit volume
- Estimate by imputation-based synthetic control design

# Imputation-based synthetic control design

## **Goal: construct a no-regulation counterfactual**

- Identify untreated comparable sample
- Estimate untreated outcomes with fixed effects, latent interactive factors, lagged macro-financial controls.
- Impute the counterfactual path for treated sample
- Estimate local projections of the imputation residuals

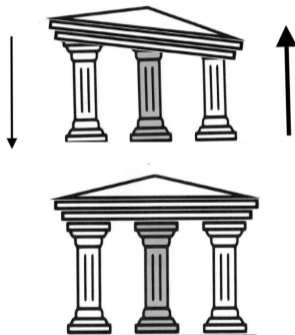
# Key Results

- Large **overlap** of complexity / stringency measures
  - Distinct in broad capital and liquidity reforms
- **Complexity alone insignificant on solvency**
  - No effect on credit availability
- **Effect of stringency + low complexity fades fast**
- **When both are high, medium term systemic risk reduced**
  - No significant fall in private credit

Insight for simplification drive: simpler rules alone are weaker

# Rebalancing Pillars under Simpler Rules

If reduce **resistance**, **compensate** by better **ex post** response



# Less Resistance, More Resilience (Brunnermeier 2022)

## Resistance

- **Capacity to withstand shocks:**
- Capital & liquidity buffers
- Calibrated to known risks
- Aim: withstand shocks

## Ex post Resilience

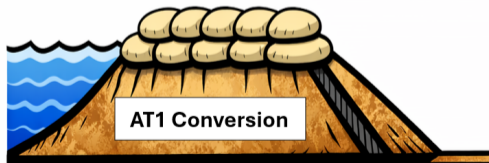
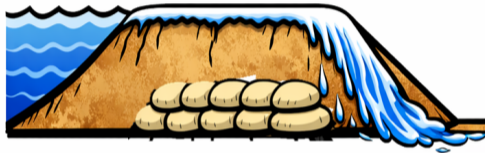
- **Recovery capacity:**
- Mandate to act promptly
- Recovery tools, reserves
- Decisive action contains risk escalation

# Rebalance Supervisory Intervention

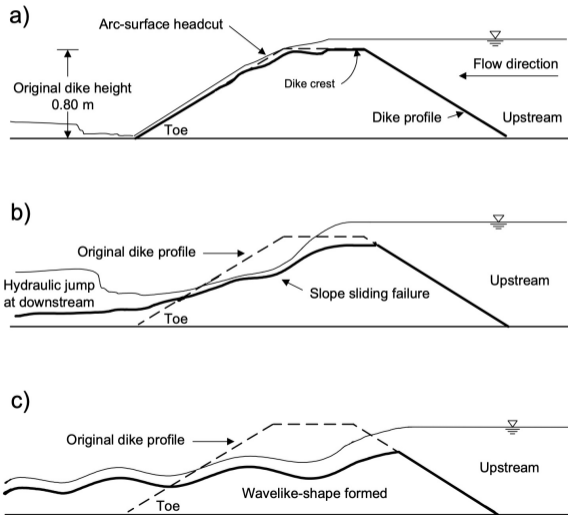
- Streamline reporting: fewer signals, more salient
- Less minute disclosures, some role for market signals as co-triggers
- Skip minor triggers (eg coupon suspensions)
- Empower decisive action upon salient signals
  - Create supervisory triggers
  - Early intervention supported by liquidity backstop
  - Involve central bank and management
  - But final word to supervisor
- Rules inevitably incomplete, so use contingent tools

# Simpler rules, more resilience

- Clear mandate to act promptly
- Adequate tools and reserves
  - AT1 equity conversion
  - Preposition collateral
- Liquidity backstop
  - Temporary fees, gates
  - Conditional ELA



# Phases of dike overflow



# Flood emergency steps

- Raise back wall by pushing forward material
- Place sandbags to stem flow
- Redirect flow into basins
- Disrupt flow via stepped spillways
- Reassure population

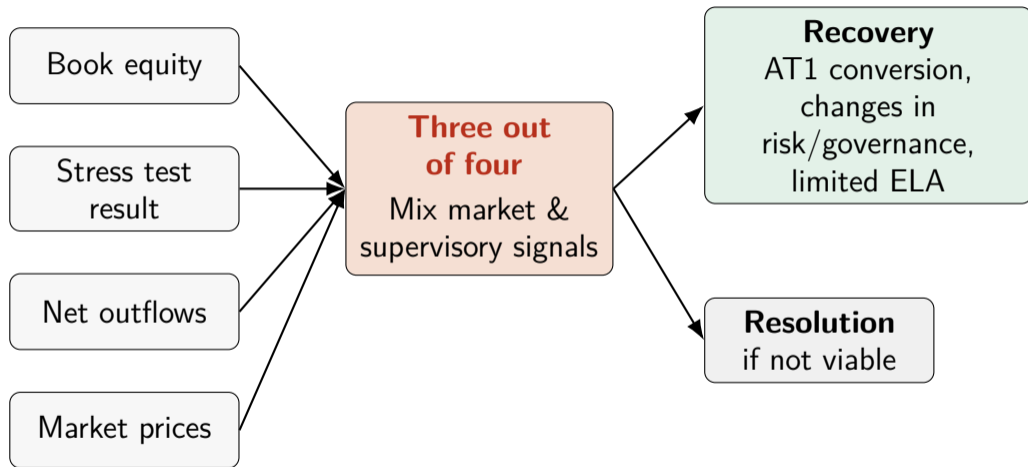
# Bank emergency steps

- Raise back wall by pushing forward material: **Prepositioned collateral**
- Place sandbags: **conversion of AT1 debt**
- Direct flow into basins: **central bank LOLR**
- Disrupt flow via spillways: **redemption charges**
- Reassure population: **prompt action helps confidence**

# Credible measures must be protected from runs

- Take a page from MMF regulation
- Automatic fees upon large outflows has **direct** effect
- *I have to pay to withdraw now.. do I still want to ?*
- Also an **indirect** effect by disrupting run narrative
- *Others must pay to withdraw now, will they still do ?*
- Key step: break expectations of natural escalation

# Decisive action must be proportionate



## Conclusions: key insight for the debate

- Complex, stringent norms do contain risk shifting
  - Simpler rules soon bypassed
- Balance simplification with stronger response mandate
  - Fewer signals, minor interventions
  - Timely corrective action with contingent tools
- Revise Pillar 3: fewer disclosures, attention to market signals
- ECB report: cost savings reinvested in supervision