



ESRB

European Systemic Risk Board

European System of Financial Supervision

Press release

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Report of the Advisory Scientific Committee on regulatory complexity

The Advisory Scientific Committee of the European Systemic Risk Board has today published a report discussing how excessive regulatory complexity can contribute to systemic risk and possible ways to address the issue, in view of the existing significant complexity and uncertainty in the financial system.

The report starts with an explanation of the recent perceived increase in regulatory complexity and tries to identify the factors behind it. It then presents the channels through which regulatory complexity can contribute to systemic risk and the downsides of a simple regulatory framework. While it does not question the need for or extent of financial regulation, the report considers that the observed degree of complexity in financial regulation may limit its effectiveness in dealing with systemic risk.

Some actions to address the current degree of regulatory complexity are presented in the last section of the report. In order to address systemic risk optimally, the report concludes that current financial regulation should be made more robust to uncertainty. To that end, the report establishes seven broad principles that would help make financial regulation more robust: adaptability, diversity, proportionality, resolvability, systemic perspective, information availability and non-regulatory discipline.

The report contributes to the ongoing debate on the optimal form of financial regulation, taking an approach focused on addressing systemic risk in the whole financial system within the context of a continuously evolving environment.

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