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De Larosière report fails to tackle main issues

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"The de Larosière report fails to tackle the main fault lines that the credit crisis has shown to exist in the EU supervisory landscape," write Professors Laurens Jan Brinkhorst (University of Leiden), Jean-Victor Louis (Université Libre de Bruxelles) and René Smits (University of Amsterdam) in a March paper.

"The report does nothing to repair the absence of clear EU-wide authority to take decisions, also in respect of the supervision, bail-out or liquidation of individual firms, or the clear lack of effectiveness of colleges of supervisors (see Fortis) which already operated without transparent decision-making," write the authors.

Regarding colleges of supervisors, "the report does not address the danger that each such college will develop differently from its peers overseeing other cross-border firms, which would undermine effective supervision and a level playing field among the larger institutions themselves," they say.

"As these colleges consist of different authorities, reflecting national markets [...], they will have different ideas on how to act in the face of prudential concerns or when banks are in distress," the authors state. "This does nothing to enhance the unity of the market or of its overseers," the paper claims.

The professors deplore "the timidity of the group's proposals in respect of deposit guarantee schemes". "An EU-wide fund to finance pay-outs is exactly what should be considered to prevent 'passing the buck' problems," they write.

"Coordination between central banks and prudential supervisors is necessary in any case," underline the authors. "Not making the ECB competent or, at least, closely involving it in prudential supervision, is a mistake which the report should not have made," they believe.

Finally, the paper stresses the "need for further alignment of national competences in respect of bank bailouts, including *ex ante* agreement on burden sharing in case of failure of a major cross-border firm and, perhaps, even EU-wide fiscal authority to step in to avoid financial disasters in the future".

"For all its wisdom and sometimes far-reaching suggestions, the de Larosière report fails us. Europe deserves better solutions," the academics conclude.