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Foreword to "The Great financial Plumbing- The Great Financial Plumbing From Northern Rock to Banking Union" by Karel Lannoo
October 2015, Brussels

The past years have been a crucial period for financial regulation in Europe: lessons have been drawn from the major gaps and failures that had led to the 2008-2009 crisis and dramatic changes have taken place in almost all areas related to financial services.

The sheer scale of the work that has been done to tighten financial regulation in the EU is undeniably impressive. With regards to this aspect of legislation, many steps have been taken towards making our financial system more stable and resilient. However, the jury is still out concerning the ability of this reformed financial system to deliver on growth. As we are now a few years into the implementation of some of the earlier measures, time is now ripe to take a step back, take stock of the changes introduced and identify the improvements that can be made.

In a context in which many decisions have been taken in a short timeframe, timely, proper and effective implementation of the measures agreed on is also of the essence and should be, in the near future, one of the main priorities. In some cases, it is only when full implementation is effective that it will be possible to assess whether the objectives of the legislation have been met. For instance, one of the objectives of the wave of financial re-regulation was to do away with the moral hazard problems caused by institutions that were considered too-big-to-fail. The moving of supervision to a higher decision-level, intended, inter alia, to limit the possible leniency of national supervisors towards their own institutions, as well as the re-design of the insolvency architecture with the introduction of tools such as bail-in and the establishment of a single resolution fund, were intended to achieve this goal. However, the new system is to be gradually implemented and it might now be still too early to say if the provisions will be sufficient. In the same vein, it is not at all clear today whether the Banking Union in its current shape has really managed in practice to break the negative bank-sovereign feedback loop, which was its original aim.

Of course, beyond the effort made in terms of financial re-regulation, the current situation in the EU is raising other issues and calling for actions in different fields. A case in point is the need to promote growth and investment, for which the need is pressing but which, so far, has been eclipsed by the necessity to amend the regulatory framework. It is time, now that timid growth seems to be returning and the bulk of the work in terms of financial regulation has been done, to shift our focus to innovation and investment. Welcome initiatives to this end have been taken or reflected on at the EU level. In particular, the Capital Markets Union project aims at decreasing to some extent the reliance on bank funding which has for years been a fixture of the EU's financial landscape, in order to provide new, alternative sources of funding for European companies and thereby bridge some of the investment gap that

we have been witnessing for years. This issue of investment will surely be one of the major discussion topics for the coming years.

Two final issues raised by the progress made towards a tightening of financial regulation are these of the democratic accountability of the system and of euro/non euro divide.

Concerning the first issue, which has been pending for some time and has been put to the fore by the increase in EU competences brought about by the recent reforms, one of the ways to address the challenge should be to strengthen the role of the European Parliament but also of national parliaments in the decision-making and activity-monitoring processes. The process of monetary dialogue with the ECB and the conclusion of interinstitutional agreements between the European Parliament on the one side and, respectively, the ECB carrying out its tasks within the framework of the Single Supervisory Mechanism and, soon, the Single Resolution Board, on the other side, are mechanisms that can be built on, but the crucial role of national Parliaments should be taken into account and a way of involving them more closely should be reflected on.

The recent developments relating to the Banking Union also entail the risk of increased fragmentation and of a divide between countries that are members of the euro area and therefore de facto members of the banking union, and the others, that have to choose to opt in. Bearing in mind that most of countries which are currently not members of the euro area are actually pre-ins, intending to adopt the single currency when they meet the criteria, there is a solid case for a system that allows non-euro area countries to remain as closely involved as possible in the decisions taken in the euro area. This is something that should be kept in mind in a context in which there is sometimes a tendency to push for a reinforcement of the cohesion of the "core" in order to solve immediate issues and demonstrate credibility on the short term. A balance must be found and the issue of multi-speed Europe is certainly one of the most important current constitutional issues.

As a contribution to the effort to evaluate and take stock of recently-passed legislation in order to identify and address future issues, this book is a welcome piece of work and a very useful background document.