



The Royal Bank of Scotland Group

Ensuring Convergence

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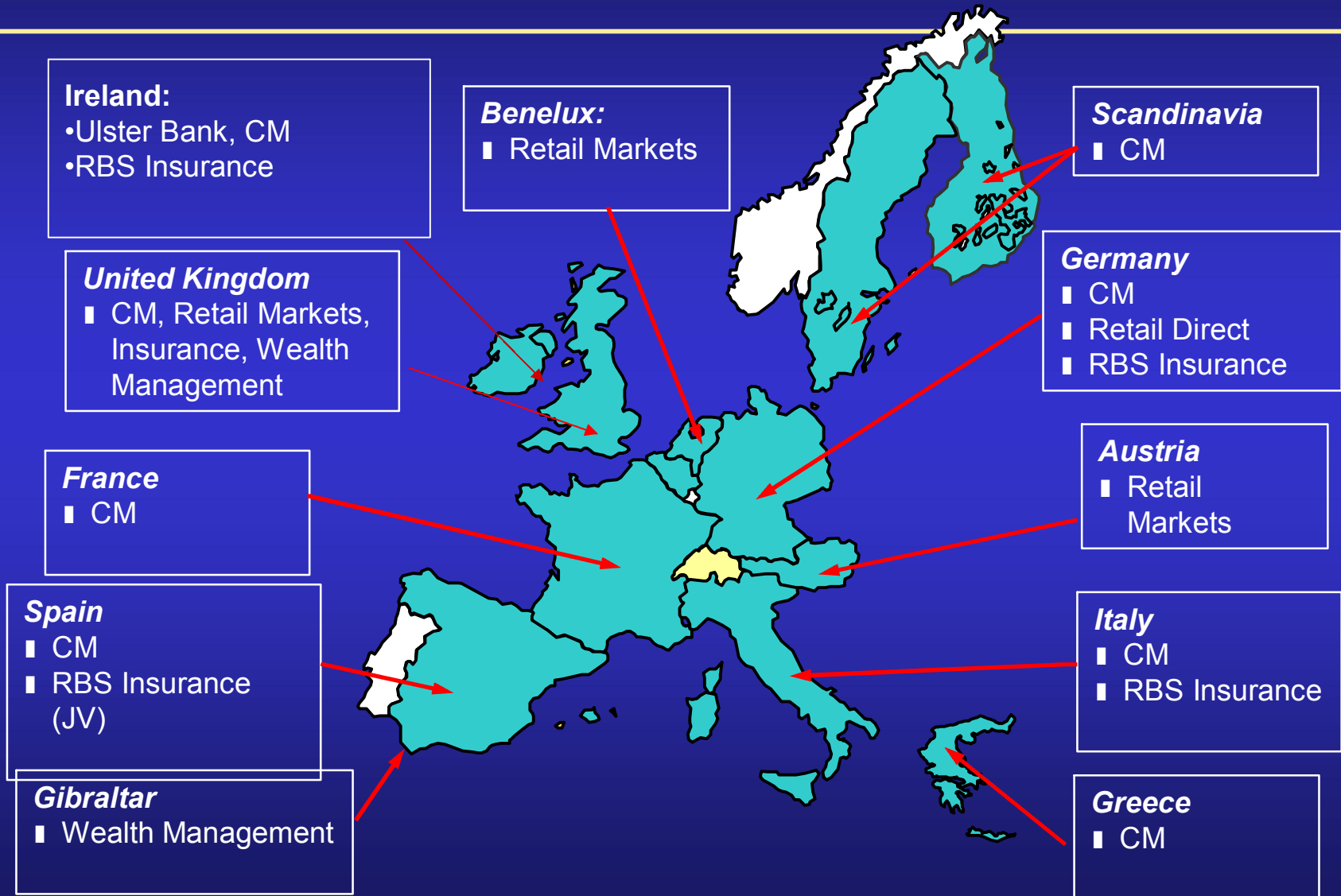
Definitions...

Converge

- 1 If lines, roads or paths converge, they move towards the same point where they join or meet.
- 2 To come from other places to meet in a particular place.
- 3 If ideas and opinions converge, they gradually become similar.

Source:
Cambridge Dictionary

Why is convergence important to RBS...



Convergence – the strategic context...

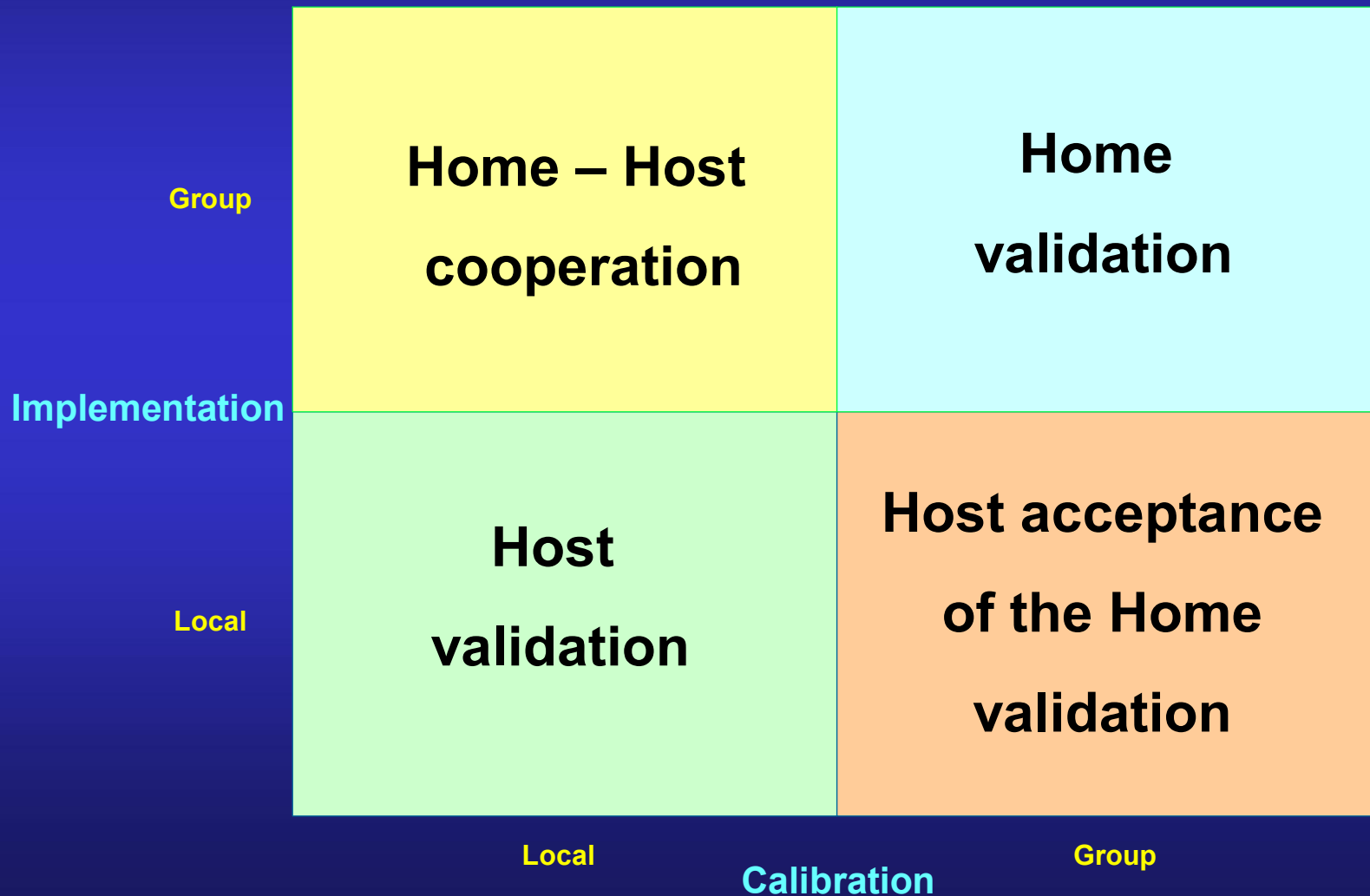
Starting point is fragmented:

- ⌘ Different regulatory cultures and objectives.
- ⌘ Banks themselves are different; firm specific solutions are tailored to business structures, culture and strategy.
- ⌘ Within the CRD, a large number of (sometimes unhelpful) national discretions.

There are other drivers:

- ⌘ Continued consolidation by firms.
- ⌘ Need for global solutions.
- ⌘ Home – host issues; branches vs subs, Article 129 (CRD) etc.

Basel II & Model Validation...



RBS experience in model validation...

The RBS experience, to date, has been broadly favourable, given:

- ⌘ Centralised approach to model development and implementation.
- ⌘ Relatively simple operating structure, relying on branches (rather than subs) across Europe.
- ⌘ Leadership from (and readiness by) the home regulatory authority.

Speaking to other EU firms, key issues for the industry include:

- ⌘ Conflict between home regulation and systemic host risk.
- ⌘ Expectations of emerging market regulators.

Solutions...

If converge is about approaches “gradually becoming similar”:

- ⌘ **Evolution, rather than revolution.** From a Basel II perspective, firms and regulators are learning together.
- ⌘ **Be flexible and practical.** One size does not fit all.
- ⌘ **Encourage regulators to work together, directly or through “Colleges”.** Different solutions are required given the scale and complexity of any group and the relationship between home and host supervisors.
- ⌘ **For convergence to work, we all need simplicity.** The focus should be on common frameworks. Convergence does not equal complexity.

Conclusion...

- ⌘ We all share the same objective of making Basel II work – but the objectives and aspirations will only be achieved through evolution and flexible solutions.
- ⌘ Whilst CEBS has taken a lead for EU issues, practical application requires global solutions to global problems. This is not just an EU issue.