Rajan Kapoor
Group Chief Accountant

RBS
The Royal Bank of Scotland Group

Carlo Comporti
Secretary General
Committee of European Securities Regulators
11-13 Avenue de Friedland
75008, Paris
France

Group Finance
PO Box 12264
1 Princes Street
London EC2R 8BP
Telephone: 020 7714 5740
Facsimile: 020 7714 5822
www.rbs.com

11 September 2008

Dear Mr Comporti,

Draft CESR statement on fair value measurement and related disclosures of financial instruments in illiquid markets

The Royal Bank of Scotland Group is one of the world's largest banks with shares listed on the London and New York Stock Exchanges. Our comments on the Committee's draft statement are set out below.

Our major comment on the Statement relates to its status. International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board; interpretations of IFRS are the exclusive prerogative of the International Financial Reporting Interpretations Committee. We are firmly opposed to other regulatory bodies, national or supranational, issuing interpretations or glosses on IFRS with the concomitant risk of inconsistent application. Although the draft statement appears to repeat the content of existing IFRS, there is a significant risk that additional material or the manner in which the IAS text has been summarised may be seen as authoritative guidance. We believe that the Statement should make it clear that its contents do not constitute application guidance or interpretations of IFRS. Furthermore, the IASB's Expert Advisory Panel is considering the valuation of financial instruments in inactive markets and the related disclosures. We believe CESR should engage with the Expert Panel to assist them in improving existing guidance in IFRS.

Our replies to the questions in the consultation paper are set out below.

1. *Do you agree with CESR's views above regarding the distinction between active and non active markets for fair value measurement?*

   The material on active and non active market summarises IAS 39's requirements and is in general uncontroversial. It is however hard to discern any particular views being expressed.

   Furthermore, the paragraphs in this section illustrate the risk that the Committee may inadvertently interpret IFRS. For example, the second sentence in paragraph 21: "The amount of discretion by issuers to apply that judgment should be properly documented in a valuation policy that should be disclosed …' could be seen as providing guidance on the requirements of IFRS 7. Similarly the last sentence in paragraph 28 gives guidance beyond that in IAS 39.

2. *Do you agree with CESR's views above regarding inputs to valuation techniques for financial instruments in illiquid markets?*

   This section summarises the requirements of IFRS and provides some specific material on valuing sub-prime exposures. We have no comments on it.

3. *Do you agree with CESR's views above regarding disclosures of financial instruments in illiquid markets*

4. *Do you agree that the benefits of the presentation of disclosures regarding financial instruments in illiquid markets in the example in Box 2 outweigh the costs of preparing this information?*

   We support requirements to provide useful and relevant disclosures. However, we are unconvinced that mandating prescriptive disclosure formats is the most effective way of encouraging high-quality disclosures. Disclosure requirements should allow management sufficient flexibility to present disclosures that reflect the diversity and complexity of their business.

Please contact me if you have questions on our response.

Yours sincerely

Rajan Kapoor
Group Chief Accountant