13 April 2004

The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris
FRANCE

Dear Sirs,

CESR Consultative Concept Paper of March 2004 on Transaction Reporting, Cooperation and exchange of information between competent authorities

The Royal Bank of Scotland Group welcomes the opportunity to respond to CESR's second consultation with regard to the Provisional Mandates under the Directive on Financial Instruments Markets.

We have also been involved in the preparation of the response submitted by the British Bankers Association. We support that paper, but additionally wish to highlight certain points ourselves.

CESR's Objectives

We agree with CESR's assessment of the potential regulatory benefits of transaction reporting. One comment we would make, however, is that in terms of Market Abuse, transaction reports can only assist after the event, sometimes with the benefit of hindsight, and are not a direct means of <u>preventing</u> abusive behaviour.

Section 2.2 - Methods and arrangements for reporting financial transactions

We very much welcome CESR's emphasis on cost-benefit considerations in implementing Article 25. While we would like to be able to produce reports on a common basis (as far as possible), CESR is quite correct to draw attention to the potentially significant costs involved in changes. These costs affect not only systems, processes, personnel and training within each firm, but also within each competent authority. Since the costs of changes within the authorities are also generally passed on to regulated firms, this means a "double hit" for firms.

One concern we have with CESR's interpretation of Article 25 of the Directive is that CESR describes the three channels for reporting under that Article, other than the option of direct reporting by the firm to its regulator, as being "waiver" options. We do not read Article 25 in this way. We see the four alternative channels for reporting all as valid options that must be permitted by Member States, with no question of a "waiver" being applied by competent authorities from the 'preferred' route of direct reporting.

We do not believe that CESR's advice need set out a complex inventory of conditions for reporting systems beyond the obvious such as data security, system reliability and fit and proper management/control.

Section 2.3 – Assessing liquidity

The criteria for assessing liquidity should be simple, logical, generally applicable across different markets (including equities, bonds, derivatives, commodity derivatives), and should not favour one market model over another (e.g. on-exchange as against off-exchange). At the simplest level, liquidity should place most weight on trading volumes, not on the perceived 'quality' of price formation.

Section 2.4 – Format of reports

Inevitably, the precise information required in transaction reports will vary according to the nature of the instrument and market. To take just one example, margin requirements will need to be reported in respect of some trades, but not others. So it would not seem realistic to aim for "identical" transaction reports across all EU markets (as suggested by Q10).

However, CESR is correct that it should be possible to identify a core set of standard data to be included in each report, to be supplemented where necessary in particular markets and by particular exchanges (for example). We believe that CESR's proposed list is a sensible core list of data elements. To maximise the benefits of the proposed standardisation, a common EU set of identifiers for investment firms will be required (point (d)) and - point (e) under Section 2.4) - a common set of identifiers for instruments (this would suggest ISIN numbers, at present).

We are not convinced that exchange of information among competent authorities need be a driving consideration. There are already well-established means for sharing information among regulators and other relevant authorities, which seem to work.

We also think that CESR is sensible to envisage a two-step approach to standardisation, and we suggest that the second stage (involving a common format for reports and fields within reports) should be a longer-term goal, carefully costed and probably phased in.

We would be happy to expand upon, or explain further, any of the points in this letter and to assist CESR in any way we can in its work over the coming year.

We should be grateful if CESR would treat this response as a confidential one.

Yours faithfully,

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