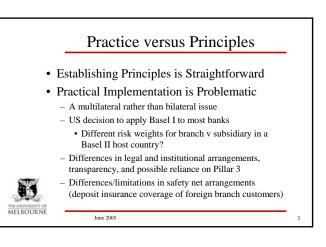
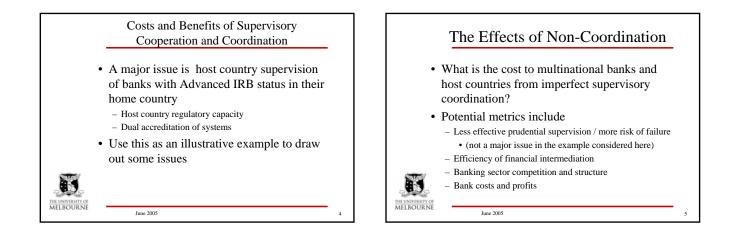
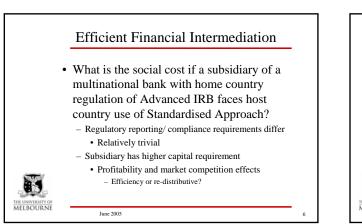
Outline

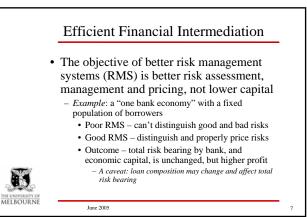
- · Impediments to supervisory coordination
- Coordination, Banking Profits and Economic Welfare

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Efficient Financial Intermediation

• If better RMS are value adding they will be used internally anyway for risk assessment and management, regardless of the regulatory reporting and capital requirements.

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Banking Sector Competition and Structure

- Better RMS provide a competitive advantage to their users
 - Better identification and pricing of risks

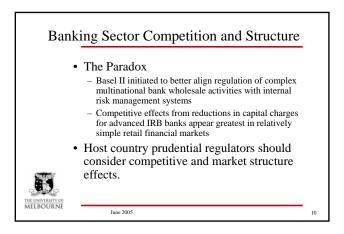
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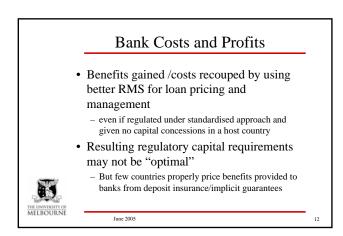
• Lower Advanced IRB capital requirements provide an extra competitive advantage

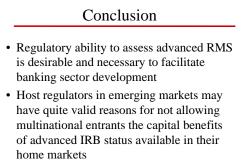
 Risk of failure may be lower, but how does the social cost of failure of a large "advanced IRB" bank compare to that of a smaller "standardised approach" bank?

Policy needs to reflect both risk of failure and (social) costs of failure



Bank Costs and Profits Naturally, individual banks will seek out every competitive advantage possible Including those arising from the design and interaction of regulatory systems Spreading costs of, and extracting benefits from, RMS development over a larger multinational customer base is a reasonable objective





- NB implications for form of entry (branch/subsidiary)

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