

Letter of Comment No: 139 File Reference: EITF03-1A

October 29, 2004

Mr. Lawrence Smith
Director and Chairman of the Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re:

Proposed FASB Staff Position, EITF Issue 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

Dear Mr. Smith:

Citizens Financial Group, Inc. (CFG) appreciates the opportunity to comment on the proposed Staff Position issued on September 15, 2004 by the Financial Accounting Standards Board (FSP 03-1-a). CFG is a \$130 billion multi-bank holding company headquartered in Providence, RI. CFG is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc, the sixth largest bank in the world by market capitalization. CFG's \$30 billion bond portfolio consists primarily of US Agency MBS and other non-Agency MBS (AAA rated).

CFG utilizes its bond portfolios to assist in managing interest rate risk created in other parts of the balance sheet. In order to maximize the use of its portfolios for managing interest rate risk and liquidity, all securities are classified as "available-for-sale" (AFS) under SFAS 115. The role that the portfolios play in managing this risk has intensified as a result of the implementation of SFAS 133. CFG relies upon shifting the duration of its mortgage-backed securities portfolios to assist in creating and maintaining an institutional interest rate risk posture that remains within policy approved limits. If securities need to be sold and repositioned, losses, as well as, gains may be realized in the process.

CFG believes that SFAS 115 gives sufficient accounting guidance for AFS high quality bond portfolios. CFG should be able to continue to account for declines in market value below amortized cost, due solely to interest rates, as temporary if the AFS portfolio is being managed as part of an overall interest rate risk management process as described above. Subsequent sales of individual securities at a loss for risk management purposes should not be viewed as "tainting" other AFS investments.

If additional guidance is provided for AFS investments, CFG requests the following changes be considered. First, "ability", rather than ability and intent, should be required only at a portfolio level instead of at an individual security level. Ability and intent at an individual security level is not practical and does not reflect how AFS portfolios are used to manage liquidity and interest rate risks. "Intent" needs to be responsive to circumstances that can change quickly. It is far more important to possess the ability to carry securities. Second, the words "unexpected and significant" be removed from the guidance provided in FSP 03-1-a in section 7 a and b. Changes in liquidity or interest rates/sector spreads should be sufficient to not call into question the investor's ability or intent to hold other securities to recovery. Third, the effective date for any changes is delayed at least one year after the final guidance has been

issued. Significant system changes may be required from software vendors to implement new requirements.

FASB has requested comment on whether a bond would be exempt from the need for management to assert that it has the ability and intent to hold the bond until a forecasted recovery if the impairment, based on a certain percentage of cost, is less than some percentage of cost. The suggestion that this "bright line" number be 5% does not recognize the extreme market volatility of the past few years. There have been two instances in the last 15 months when the price of 30-year FNMA 5% pass-through MBS declined in the range of 7-8% within very short periods of time. (June-July 2003 and March-May 2004). Consequently, a 5% band is far too limiting.

Interest rate changes have resulted in significant swings in the value of CFG's bond portfolio. At June 30, 2004, the market value of the portfolio was \$343 million below amortized cost. At September 30, 2004 the market value of the portfolio was \$223 million above amortized cost. CFG is concerned about the income statement impact of the proposed changes. CFG believes that it is misleading to take losses in one accounting period and accrete the losses back into income in subsequent periods and would question how this proposed change will help readers of our financial statements.

We appreciate the opportunity to comment on this proposal. If you would like to discuss these comments please contact me at 401-282-5932.

Very truly yours,

James B. Fitzgerald

Group Executive Vice President

Chief Financial Officer

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