One Citizens Plaza Providence, RI 02903



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August 15, 2008

LETTER OF COMMENT NO. 56

Mr. Russell Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merrill 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Amendment to FASB Statement No. 133 - Accounting for Hedging Activities (Reference Number: 1590-100)

Dear Mr. Golden:

Citizens Financial Group ("CFG") is pleased to respond to the FASB's invitation to comment on the proposed standard *Accounting for Hedging Activities an amendment of FASB Statement No. 133.* CFG is a domestic super-regional bank and a wholly owned subsidiary of the Royal Bank of Scotland Group.

CFG supports the FASB's objectives of simplifying the accounting for derivatives and hedging activities, resolving existing practice issues, and improving the reporting of financial instruments for users of financial statements. There are certain aspects of the proposed amendment that CFG believes would be very beneficial in achieving these objectives, including the **introduction of a "reasonably effective"** threshold in favor of the current "highly effective" (80% to 125%) test, and the **elimination of quantitative effectiveness testing**. Banks manage many risks (e.g., mortgage prepayments) for which there may be few highly reliable hedge instruments. The current requirement of nearly perfect hedging penalizes merely good hedging; so FAS-133's "highly effective" test can have the perverse result of discouraging risk management. Furthermore, the requirement for entities to quantitatively assess the effectiveness of their hedges is the primary reason SFAS 133 has become the most complex and costly accounting standard ever released.

While the proposed amendment represents a step in the right direction conceptually, there are significant aspects that we feel will further complicate the financial reporting of derivatives & hedging activities. Most significantly, CFG disagrees with the **elimination of the "bifurcation-by-risk" concept** (except in very limited circumstances) as set forth in the proposed amendment. This change would likely disqualify some of the most simple and effective hedging strategies used in the industry and at CFG as derivatives are generally designed to manage discrete risks and not all risks. Even if the derivative is expected to be "reasonably effective", the changes in value in the hedged item related to unhedged risks would be recognized in current earnings, producing income statement volatility that would not have existed if hedge accounting treatment had not been applied. This would produce accounting results which are both inconsistent with documented risk management strategies and different from the economic hedge results measured by CFG.

Furthermore, if the proposed changes are adopted, the result may be that responsible economic hedging currently being done may not occur going forward. The elimination of bifurcation of risks leaves the institution with a choice – hedge the interest rate risk component and mark the credit component through income or leave the interest rate risk unhedged. If the anticipated volatility of the (unhedged) credit component is expected to be material, the institution may leave the interest rate risk unhedged due to the anticipated income volatility resulting from hedging a subset of the risk components. Even if an institution is willing to accept the income volatility of marking the credit risk of the hedge item, in many cases, the hedge items (e.g., middle market loans) would be level 3 category assets which can be difficult to value.

Finally, CFG would not support implementing any amendment to SFAS 133 that represents a divergence from the IFRS requirements currently contained in IAS 39 Financial Instruments: Recognition &

Page 2 August 15, 2008

Measurement unless such an amendment brought material offsetting advantages, such as an enhanced opportunity for responsible risk management and/or a reduced administrative burden. It is our belief important elements of the proposed amendment would place an undue burden on financial institutions that currently report their financial results under both U.S. GAAP and IFRS. Assuming the proposed amendment is adopted without any significant changes, entities (such as CFG) that prepare financial statements under both U.S. GAAP and IFRS will be forced to make significant changes to their systems, processes and documentation in order to properly account for derivatives and hedging activities under both SFAS 133-R and IAS 39. This will be a very costly endeavor of questionable value given the expected convergence of the two standards in the foreseeable future.

In conclusion, Citizens supports the Board's goal of simplifying the accounting for derivatives and hedging activities, particularly with the introduction of qualitative assessments of effectiveness and the concept of "reasonably effective" hedges. However CFG's preference would be for FASB to forgo the current project and instead pursue a joint project with the International Accounting Standards Board to develop a new hedge accounting model that will eventually apply under both U.S. GAAP and IFRS. Any such model should allow for bifurcation-by-risk hedging strategies, as they most accurately represent the true risk management objectives for which derivative instruments are utilized to achieve.

Sincerely,

James B. Fitzgerald Chief Financial Officer

Citizens Financial Group, Inc.