

October 28, 2005

Technical Director
File Reference 1204-001
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 110 File Reference: 1204-001

Re: Proposed Statement of Financial Accounting Standards - Business Combinations, a replacement of FASB Statement No. 141 (File reference 1204-001)

Citizens Financial Group, Inc. (Citizens) appreciates the opportunity to comment on the proposed Statement of Financial Accounting Standards on Business Combinations issued on June 30, 2005 by the Financial Accounting Standards Board (File Reference 1204-001). CFG is a \$150 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. Citizens has completed 28 business combinations since 1988.

In question 8 of the "Notice to Recipients" section of the proposal, the FASB has asked for comments on the proposed requirement to measure and recognize assets acquired and liabilities assumed at fair value. Citizens would like to comment on this requirement, and in particular paragraph 34, which states that "The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets required to be recognized at fair value in accordance with this Statement." Paragraph 34 proposes to discontinue the practice of carrying over the book value of the acquired company's allowance for credit losses in an acquisition.

We believe that the proposed changes will reduce consistency and comparability in accounting for Citizens' loan portfolios. We also believe financial statement comparability throughout the banking industry will be compromised. The proposal requires acquired loans to be recorded on acquisition date at fair value. The fair value would include an estimate related to uncertainty of collectibility of payments due over the life of the acquired loans. Therefore, the proposal will result in two separate processes for recording estimates of loan impairment. Loan impairment for acquired loans will be reported as an adjustment to the loan balances as part of the fair value mark, while loan impairment for originated loans would be reflected in a separate valuation account. Additionally, the proposal would also result in two separate calculations of loan impairment for each acquired loan, as additions to the impairment subsequent to the acquisition would be shown within the separate valuation account, and not as an adjustment to the loan balance.

This is similar to the requirements of AICPA Statement of Position 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 requires certain loans to be recorded at an estimate of expected future cash flows. Increases in those expected cash flows are recorded as an adjustment to the book value of the loan, while decreases to the expected cash flows are recorded as a contingent loss in the reserve for credit losses. This requires duplicate sets of record keeping which are very costly, inefficient and add little value to the reporting process.

The banking industry is highly regulated, and as such, accounting and financial reporting throughout the industry are broadly consistent and comparable. Additionally, there are extensive measurement and disclosure requirements regarding the accounting for credit reserves. Such consistent practices and useful disclosures are not available in reporting on fair values. Using fair value adjustments to record credit losses inherent in acquired portfolios is a practice that is more prone to errors, inconsistencies and manipulation than the highly regulated procedures in use today throughout the banking industry.

The original FAS 141 requires accounting for acquired loans at "present values of amounts to be received to be determined at appropriate current interest rates, less allowances for uncollectibility and collection costs, if necessary" (paragraph 37(b)). Citizens suggests that this treatment carry over to FAS141R. Under FAS 141, credit reserves are initially recorded by the acquiring company at an amount equal to the book value of the reserve on the books of the acquired company. The acquiring company would then increase or decrease the reserve (through the income statement) based upon analyses performed through their own credit review process.

In addition to the loss of comparability and consistency, the implementation of the proposal would be costly. The systematic changes required to update banks' processes for accounting and reporting on loan impairment would be extensive. Banks would be required to create systems to track credit related fair value marks on acquired loans. This new process would essentially duplicate the work already done through the current credit reserve accounting systems.

Another issue for banks is the use of credit reserves in determining appropriate amounts of regulatory capital. Changes to the accounting for credit reserves would require significant changes to the way banks manage and report capital. Changes to the regulatory requirements for reserves and capital, already undergoing revisions due to the pending implementation of Basel II, would have a large impact on the industry.

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

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Group Executive Vice President

Chief Financial Officer