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Office of the Comptroller  
Office of the Comptroller of the Currency  
250 E Street SW  
Public Info Room Mailstop 1-5  
Washington DC 20219  
USA

Robert E. Feldman  
Executive Secretary  
550 17th Street NW  
Washington DC 20429  
USA

Ms. Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal  
Reserve System  
20th Street and Constitution Avenue NW  
Washington DC 20551  
USA

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street NW  
Washington DC 20552  
USA

Dear Sirs/Madam,

**Joint Advance Notice of Prudential Rulemaking:  
Possible modifications to Risk-Based Capital Guidelines**

Nos. R-1238 (Federal Reserve Board), 05-16 (OCC), 2005-40 (OTS)

Thank you for the opportunity to comment on your proposals concerning the creation of a new Basel 1a standard within the United States.

By way of background, the Royal Bank of Scotland (RBS) is the eighth largest bank in the world, by market capitalisation. We have significant exposure in North America, including Retail and Commercial Banking, Asset Finance and Capital Markets operations. The largest single US business, measured by assets, is Citizens Financial Group, Inc., a Providence-based commercial bank holding company operates branches in 13 states including Connecticut, Delaware, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Vermont, and Rhode Island, with non-branch offices in more than 30 states. Citizens Bank, with over \$148 billion in assets, falls outside the "top 10" group of core banks mandated to operate the advanced approaches for credit and operational risk by 1<sup>st</sup> January 2009.

However, Citizens, does fall into the second tier of Banks that may "opt in" to the advanced approaches. The majority of the Group's other exposures fall within the EU and will be covered by the recently agreed EU Capital Requirements Directive (EU CRD).

With regards to your Basel 1a proposals, we have been active in the Risk Management Association (RMA) response and support its conclusions. However, the objective of this separate response is to highlight certain issues that are particularly pertinent to an internationally active bank like ourselves, expected to migrate to the Basel 2 advanced approaches.

Our key points are:

- **The Basel 1a proposals would benefit from a Quantitative Impact Study:** Once the final rules in this area are known, it would be very useful to understand the likely level of regulatory capital delivered through this approach. This would enable firms to consider the strategic consequences of the various approaches, including any unintended competitive

implications across certain portfolios and markets. The results of such a study would facilitate deeper discussion regarding the various risk-weighting proposals made within the ANPR (HVCRE, residential real estate, etc.) as well as any areas which may become 'unduly burdensome' should such changes be implemented.

- **What is the future role, if any, of Basel 1?** Initially, our expectation was that Basel 1a would replace Basel 1; however, the future of Basel 1 and the timing of the implementation of Basel 1a remain unclear. It would be useful to have greater clarity regarding regulatory expectations. For example, will Basel 1 be an option should any certain portfolio be deemed immaterial or given exemption status? Also, can firms adopting Basel 2 retain Basel 1 for the calculation of capital floors, or is it a requirement to implement a Basel 1a solution for this purpose? Given that EU firms with branches in the US will be using Basel 1 to calculate capital floors, it may make sense to use the same approach in the US, thereby minimising international fragmentation.
- **Timing of implementation:** irrespective of the above, we believe there is real value in having the Basel 1a changes coming into effect at the same time as the US authorities move to Basel 2, i.e., 1/1/09. Larger firms are very much focused towards that objective; Citizens Financial Group would not wish to be diverted from this goal by having to implement a further set of standards on some different timescale.
- **Basel 1a does not provide a solution to the "gap year" issues relating from the change in US implementation date to 2009.**

Please do not hesitate to contact me should you wish to discuss any of these points in more detail.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Richard Gossage', written over a horizontal dashed line.

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