HSBC

Robert M. Butcher
Senior Executive Vice President and
Chief Risk Officer

October 30, 2003

Ms. Jennifer J. Johnson
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551
Docket No. R-1154

Office of the Comptroller of the Currency
250 E Street, SW
Public Information Room, Mailstop 1-5
Washington, DC 20219
Attention: Docket No. 03-14

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Risk Based Capital Guidelines; Implementation of New Basel Capital Accord

HSBC Bank USA appreciates the opportunity to comment on the framework set forth in the advance notice of proposed rulemaking (ANPR) for implementing the new Basel Capital Accord in the United States. We agree that the ANPR represents a significant improvement over the current capital standards and fully support the initiative to create a more risk sensitive framework. We also endorse the inclusion of operational risk as a component of Pillar I minimum capital requirements.

We wish to advise that David Palmer, in his letter of April 22, 2003, indicated that HSBC Bank USA's participation in the new capital framework was considered voluntary. However, all the necessary preparations are being made to "opt-in" to IRB Advanced and AMA.

Other comments regarding specific provisions follow.

- Securitization – Asset securitization is a key risk management tool and liquidity source for the industry. We are concerned that the proposed treatment for securitizations is overly complex and conservative and will limit the benefits of this important activity.

- Credit Card Treatment – We are concerned that the proposed treatment for undrawn credit card lines does not account for the uncommitted, cancelable nature of these exposures and will inflate capital requirements. Separately, we are pleased that the definition for default for credit cards and other retail exposures has been revised from that listed in CP3.

- Home/Host Issues – Greater clarity is needed to define how the requirements of 'Home' regulators will impact banking subsidiaries in 'Host' jurisdictions and vice versa, especially where different approaches are permitted to quantify credit and operational risk. We would hope that regulatory agreements could be reached that would eliminate the need to calculate capital ratios using two different approaches for banks operating in Host countries.

- Benefits of Diversification – Business line diversification is, in itself, a significant risk mitigant for internationally active banks. However, none of the proposed approaches contain provisions that recognize the benefits of diversification and its impact on the safety and soundness of the organization. We think the value of diversification should be quantified by applying a factor (high, medium, low) at the total bank level to adjust the capital requirement according to a bank's overall business mix.

- Capital Coverage of Expected Losses - We applaud the recent decision to exclude expected losses from the capital calculation as it will more closely align regulatory capital with the industry standards used for economic capital.

- Conservatism – The combined effect of the conservative treatment for determining many of the risk parameters - - e.g. high default period LGDs, the 10% LGD floor for residential mortgages, fixed formula asset value correlations, PD floors - - is likely to produce minimum capital requirements well in excess of economic capital calculations.

- CRA Investments – If the 10% materiality test for equity investments is adopted as proposed, banks may choose to limit their CRA investment activity to avoid triggering higher capital charges. We recommend that qualifying CRA investments be excluded from the materiality test and continue to be treated as they are currently.

While we are grateful for the willingness of the Agencies to consider revisions to the proposed regulation, we also suggest that a comment period, followed by formal amendments, be made available each year leading up to the implementation date. This would provide an opportunity to address issues as they come up during preparation that may not be evident today.

We would be happy to discuss our views on these or other matters in greater detail. Please address your comments to John Roesgen, SVP Risk Management (716) 841-4123 or to the undersigned.

Sincerely,

Robert M. Butcher
Senior Executive Vice President and
Chief Risk Officer

CC: Martin Glynn, CEO HUSI
Jim Gunner, Senior Executive HGHQ
John Roesgen, SVP HUSI
Sarah Dahlgren, SVP Federal Reserve Bank of NY
AJ Badyal, Supervising Bank Examiner, Federal Reserve Bank of NY
Manzar Atabaki, Assistant Deputy Superintendent, State of New York Banking Dept