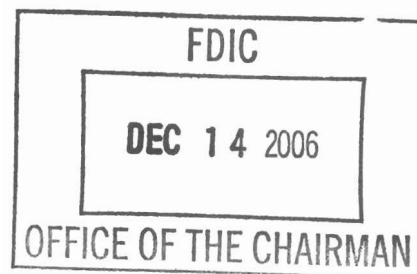




**David D. Gibbons**  
Senior Executive Vice President  
Chief Risk Officer



VIA OVERNIGHT MAIL

December 12, 2006

Mr. John C. Dugan  
Comptroller of the Currency  
Office of the Comptroller of the Currency  
250 E. Street, SW  
Washington, DC 20219

Ms. Sheila C. Bair  
Chairman  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Mr. Ben S. Bernanke  
Chairman  
Board of Governors of the Federal  
Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Mr. John C. Reich  
Director  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20552

Re: Notice of Proposed Rulemaking - "Risk Based Capital Standards: Advanced Capital Adequacy Framework" 71 FR 55830 (September 25, 2006)

Dear Ms. Bair and Messrs. Dugan, Bernanke, and Reich:

HSBC North America Holdings Inc. ("HSBC North America") welcomes the opportunity to comment on the Risk Based Capital Standard: Advanced Capital Adequacy Framework Notice of Proposed Rulemaking (the "NPR") issued jointly by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies"). This letter provides initial comments on the NPR that we anticipate later supplementing with more detailed comments on specific aspects of the NPR and related supervisory guidance.

HSBC North America is a bank holding company that offers a wide range of financial services through bank and non-bank subsidiaries in the United States, Canada, and the United Kingdom. Our largest bank subsidiary, HSBC Bank USA, N.A., Wilmington, Delaware, operates more than 400 branches, which are located in the states of New York, New Jersey, Florida, Pennsylvania, California, Washington, Oregon, and the District of Columbia. HSBC North America also owns HSBC Finance Corporation, which issues consumer credit cards through HSBC Bank Nevada, N.A., Las Vegas, Nevada, and consumer loans and mortgages through state licensed entities. HSBC

**HSBC North America Holdings, Inc.**  
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North America is a subsidiary of HSBC Holdings plc (“HSBC Group”), a banking organization based in the United Kingdom with operations in 80 countries.

With balance sheet assets of almost \$500 billion, HSBC North America will be a “core” bank for purposes of Basel II in the United States (as currently prescribed) and thus required to implement the advanced internal ratings based (“A-IRB”) approach for credit risk and the advanced measurement approach (“AMA”) for operational risk with an “earliest possible” effective date of January 1, 2009. Additionally, as a wholly owned subsidiary of HSBC Group, HSBC North America is also subject to the implementation schedule and capital rules as adopted for host jurisdictions by the UK Financial Services Authority (“FSA”), HSBC Group’s home supervisor.

HSBC North America supports the principles of Basel II. Specifically, we concur that large complex banking organizations should have robust risk management, regulatory capital should be sensitive to business risk, and the regulatory capital regime should be applied consistently among industry participants. In this regard, we support the Agencies’ work to advance Basel II in the United States. Further, as an international organization, HSBC Group strongly supports the implementation of a global capital accord applied consistently in all major banking jurisdictions.

With that preface, we cannot support the NPR in its current form. In many important areas, the proposed rule diverges sharply from both established internal risk management principles and international standards, imposing an extra layer of regulation on “core” banks without providing corresponding risk management benefits. In doing so, the NPR moves away from achieving one of the Basel Committee’s principal objectives – that of creating a consistent global capital standard. We fear the result of this regulatory framework could be to disadvantage United States banking organizations required to abide by its provisions and discourage other banking organizations from voluntary participation. In a world of global capital markets, requiring inefficient allocation of capital and operational resources by United States banking organizations could have a direct negative economic impact on those institutions as well as the broader banking industry and, especially, the capital and credit markets in the United States.

In particular, the NPR contains requirements that differ significantly from the international framework adopted by the Basel Committee on Banking Supervision, in which the United States is an active participant, as well as from the Capital Requirements Directive (“CRD”) as implemented by the FSA. The NPR’s more significant variances include:

- Use of only the advanced approaches;
- Different definitions of “default”;
- Extended transitional floor periods;
- Multiple Loss Given Default (“LGD”) calculations;
- Different treatment for insurance subsidiaries; and





