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The Institute's mission is to help resolve the many special legislative, regulatory and tax issues confronting **internationally headquartered** financial institutions that engage in banking, securities and/or insurance activities in the United States.

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INSTITUTE SUBMITS LETTER TO CHAIRMAN BERNANKE ON DAYLIGHT OVERDRAFT/DEDUCTIBLE ISSUES FOR INTERNATIONAL BANKS

The Institute submitted a letter dated October 4, 2006 to Chairman Bernanke requesting that the Federal Reserve address the disparity in treatment of international banks vis-à-vis U.S. domestic banks under the Federal Reserve's existing overdraft policy on a separate and expedited track from the comment period for its draft Consultation Paper on Intraday Liquidity Management and Payment System Risk Policy. (The letter and other documents on this issue are available on the Institute's web site at http://www.iib.org/member/Other-Regs.)

Support from home country authorities would be very helpful to this initiative, including conferring with the Federal Reserve on the question as may be appropriate.

As previously reported, the Federal Reserve's Consultation Paper (published in June with comments due by December 15, 2006) recognized many of the systemic and operational risk dangers resulting from the current rules that the Institute has pointed out in many prior meetings and written communications with Federal Reserve staff. But while the paper expresses a goal to provide "equitable treatment of all service providers and users in the payment system," it did not specifically address the inequitable treatment built in to the Federal Reserve's existing formula that discounts international bank capital by 65 percent or more.

The current payment system rules base both the overdraft cap and the related deductible on a calculation using an institution's capital. International banks receive not more than 35% credit for their capital compared to 100% for domestic banks in this calculation. As a result, international banks face higher fees and lower caps than their domestic counterparts of comparable size based on the differentiation in the recognition of their capital.

INSTITUTE HOLDS FURTHER DISCUSSIONS ON BASEL II HOME/HOST-COUNTRY IMPLEMENTATION ISSUES

As a follow-up to meetings with U.S. bank regulators on August 1st to discuss Basel II implementation issues, the Institute hosted a conference call on October 3rd with representatives of the OCC, Federal Reserve and OTS to provide them with detailed information from our member banks regarding the practical consequences of the differences between the definitions of default prescribed under the EU's Capital Requirements Directive (CRD) and the U.S. bank regulators' recently published notice of proposed rulemaking (NPR). Institute memoranda and related documents regarding Basel II are available on the Institute's web site at www.iib.org/member/Basel-Capital/.We believe the call helped the regulators to appreciate the types of problems that would result from efforts to reconcile the differences between the two definitions and that such efforts would present significant compliance burdens. The discussion also touched upon concerns regarding (i) the 5% threshold applied under the NPR for purposes of measuring when a "material credit-related economic loss" has occurred; and (ii) the 8% floor proposed in the NPR with respect to determining Loss Given Default (LGD) under the Advanced IRB approach. The regulators indicated they are open to suggestions regarding these aspects of the proposal.

The Institute urges interested member institutions to reinforce these points in connection with their own discussions with the U.S. authorities regarding Basel II, and we plan to address them further in the Institute's comment letter on the NPR.

In a related development, the Institute held a conference call on August 25th with Nick Le Pan, Chairman of the Accord Implementation Group, and members of the Basel Supervisory Committee staff to review key Basel II home/host-country implementation issues for international banks operating in the United States.

Some of these Basel II implementation issues were also addressed in a paper presented at the Chicago Fed's Ninth Annual International Banking Conference on October 6th by Lawrence R. Uhlick, the Institute's Chief Executive Officer. Mr. Uhlick's paper, which provided a private-sector perspective on home/host-country supervisory issues, is available on the Institute's web site at www.iib.org/cletters&speeches/.

INSTITUTE PURSUES ISSUES RELATING TO FEDERAL REPORTING REQUIREMENTS

As a follow-up to our previously reported meeting on July 11th with staff of the Federal Reserve Bank of New York and our September 21st conference call for member institutions, the Institute is pursuing a number of issues relating to Federal Reserve reporting requirements, including i) the proposed new combined FR Y-10 reporting form and proposed changes to the FR Y-7; ii) our concerns regarding the reporting of controlling investments in non-U.S. commercial companies held under Section 2(h)(2) of the Bank Holding Company Act (BHCA); and iii) our concerns regarding the Federal Reserve Board's test for measuring an international bank's qualification as a "qualifying foreign banking organization" or QFBO.

The Institute will hold a conference call for interested member banks on Tuesday, October 17th at 3:00 p.m. to discuss these issues further. In addition, the Institute is organizing a one-day seminar in late January on Federal Reserve reporting matters that will include both governmental and private sector experts. The seminar will provide a comprehensive overview of key Federal Reserve reporting forms in the morning session, including remarks by Federal Reserve representatives, and proceeding to follow-up discussion of more advanced topics in the afternoon. (Institute memoranda are available at www.iib.org/member/FRY-7.)

FinCEN RESPONDS TO INSTITUTE CONCERNS REGARDING INFORMATION REQUESTS UNDER SECTION 314(a) OF THE USA PATRIOT ACT

Responding to problems identified by the Institute in a letter dated July 19th, the Treasury Department's Financial Crimes Enforcement Network (FinCEN) said in letter to the Institute dated August 11th that efforts are underway to streamline the 314(a) Secure Information Sharing System, including updating of point of contact information. (The letters are available on the Institute's web site at http://www.iib.org/member/Anti-Money/.)

In our July 19th letter to FinCEN Director Robert Werner, the Institute cited problems that a number of our member banks have experienced in connection with point of contact information that banks provide to FinCEN for purposes of receiving Information Requests under Section 314(a) of the USA Patriot Act. As stated in the Institute's letter, we understand from our members that there are situations in which information provided on their Call Reports (which may have been revised from a previous Call Report) is correct but is not incorporated into FinCEN's 314(a) Information Request system, including for purposes of accessing FinCEN's 314(a) Information Request webpage.

INSTITUTE COMMENTING ON NEW INTEREST ALLOCATION REGULATIONS INCREASING "FIXED RATIO" TO 95 PERCENT

In August, the U.S. Treasury Department and the Internal Revenue Service released new regulations under section 1.882-5, dealing with the calculation of an international bank's deductible interest expense. Most significantly, the persistent, multi-year efforts of the Institute have finally been rewarded, as the new regulations increase the "fixed ratio" for computing the leverage ratio of the U.S. branch for tax purposes from 93% to 95% (thereby reducing the imputed equity-to-assets ratio from 7% to 5%).

For a U.S. branch with $20 billion of assets, the reduction in the imputed capital from 7% to 5% translates into an allowance of interest expense on an additional $400 million of debt. This change will benefit not only banks that are on the fixed ratio, but also banks that have been on the actual ratio and wish to ease their administrative burdens and audit exposures by shifting to a more secure and reasonable 95% fixed ratio. Most

calendar year taxpayers will be able to elect to apply the 95% fixed ratio for their 2005 tax year.

The regulations also make a number of other changes, including allowing banks to elect on an annual basis to use a 30-day LIBOR rate to compute their excess interest under the adjusted U.S. booked liabilities method, instead of having to determine the actual dollar borrowing rate of their non-US branches and offices. The Institute has also been advocating this simplification measure.

The Institute has had follow-up discussions with Paul Epstein at the IRS, who was the principal author of the regulations, and will be submitting a letter to Treasury and the IRS commending them for the regulations but making three comments: (i) requesting an extension of the 95% fixed ratio to the 2005 fiscal year of Australian and Canadian banks, (ii) expressing concerns about the failure to provide branch profits tax relief in respect of the increase in the fixed ratio, and (iii) requesting that taxpayers be allowed to elect to identify an integrated non-ECI position consisting of a third party borrowing, interbranch loan and related foreign currency exposures.

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