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Via E-mail

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., N.W.
Washington, D.C. 20551

Re: Request for Comments on the Potential Use of International Financial Reporting Standards in the FFIEC 002 (OMB Control Number 7100-0032) and FFIEC 002S (OMB Control Number 7100-0273)

Dear Ms. Johnson:

The Institute of International Bankers appreciates this opportunity to comment on the potential use of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”) instead of U.S. generally accepted accounting principles (“U.S. GAAP”) in the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002) and the Report of Assets and Liabilities of a Non-U.S. Branch that is Managed or Controlled by a U.S. Branch or Agency of a Foreign (Non-U.S.) Bank (FFIEC 002S).¹ The Institute’s members are internationally headquartered banking/financial institutions that operate branches and agencies in the United States, some of which manage or control non-U.S. branches, and therefore are subject to these reporting requirements.

The Institute strongly supports permitting international banks the option to use IFRS in their Branch/Agency Call Reports and urges that such action be taken as soon as reasonably possible. Many international banks use IFRS in their global, consolidated financial statements, and with few exceptions those that do not prepare their global

¹ See 73 Fed. Reg. 2491, 2496 (Jan. 15, 2008). In addition to requesting comment on the potential use of IFRS in the FFIEC 002 and FFIEC 002S (collectively, the “Branch/Agency Call Reports”), the Federal Register notice proposes certain revisions to various aspects of these reporting forms. Our comments are limited to the IFRS-related questions set forth in the notice; we do not address the proposed revisions to other aspects of the forms.



financial statements on the basis of IFRS use their home country accounting principles.² The requirement to use U.S. GAAP in Branch/Agency Call Reports requires maintenance of separate systems, books and records that is very costly to a reporting bank and complicates oversight of its operations on a comprehensive, consolidated basis by its home country supervisory authority.

The benefits of permitting international banks to use IFRS in their Branch/Agency Call Reports would be significant. Indeed, we believe that many institutions would be in a position to implement IFRS in their Branch/Agency Call Reports in place of U.S. GAAP on an expedited basis were the decision made to permit use of IFRS. Because not all institutions use IFRS in preparing their global financial statements, the use of IFRS in the Branch/Agency Call Reports should be optional and not mandatory. Further, those institutions which opt to use IFRS should be permitted to do so without reconciliation to U.S. GAAP.

We believe that use of IFRS in Branch/Agency Call Reports *a fortiori* would call for use of IFRS in the Weekly Report of Assets and Liabilities for Large U.S. Branches and Agencies of Foreign Banks (FR 2069). In addition, we support optional use of IFRS in other types of financial statements that are required from international banks for U.S. bank regulatory purposes, including the Financial Statements of U.S. Nonbank Subsidiaries of Foreign Banking Organizations (FR Y-7N and FR Y-7NS), and urge that such action be taken as soon as reasonably possible. In the interim, we believe a flexible, case-by-case approach should be taken in situations where an international bank acquires a U.S. nonbank subsidiary that uses IFRS in its financial statements. In general, the instructions to the FR Y-7N and FR Y-7NS call for financial statements prepared in accordance with U.S. GAAP, but the process of converting from IFRS to U.S. GAAP is time-consuming, costly and burdensome. We believe it would be appropriate in such situations to balance the benefits that might result from having U.S. GAAP-based financial statements for a particular nonbank subsidiary against these important considerations with a view to minimizing the compliance burden.

We note that the Securities and Exchange Commission (the “SEC”) has solicited public comment on the potential use of IFRS by domestic issuers.³ In a similar vein, we believe that consideration should be given to the optional use of IFRS in the Consolidated Reports of Condition and Income (FFIEC 031 and FFIEC 041) filed by U.S. bank subsidiaries of international banks, as well as in the Thrift Financial Report (OTS Form 1313) filed by their thrift subsidiaries. We would support any legislative or regulatory action necessary to accomplish this goal.

² We note in this regard that the instructions to the Annual Report of Foreign Banking Organizations (FR Y-7) call for submission of financial statements prepared in accordance with the reporting international bank’s home country accounting practices.

³ See Release No. 33-8831, 34-56217 and IC-27924, 72 Fed. Reg. 45599 (Aug. 14, 2007).



In addition to the foregoing comments, the Institute offers the following comments in response to the specific questions raised in the Federal Register notice.

- The ability of respondents to prepare the FFIEC 002 and FFIEC 002S based on IFRS as issued by the IASB.

The request for comments on the potential use of IFRS in the Branch/Agency Call Reports follows the recent action taken by the SEC in agreeing to accept from foreign private issuers financial statements prepared in accordance with IFRS as issued by the IASB.⁴ We believe it would be appropriate to permit an international bank that uses a jurisdictional or other variation of IFRS as issued by the IASB in its global financial statements the option to use the same set of accounting principles in its Branch/Agency Call Report in situations where the institution, were it a “foreign private issuer” under the SEC’s rules, would be permitted to do so.⁵

The “jurisdictional adaptation” question is especially relevant with respect to IFRS as adopted by the European Union (“EU IFRS”), which permits institutions to “carve out” IAS 39 with respect to hedge accounting for certain financial instruments from their financial statements. The SEC has provided temporary transitional relief for foreign private issuers that are existing Commission registrants which enables them to utilize EU IFRS for two-years, provided they include a reconciliation to IFRS as issued by the IASB.⁶

We believe a similar approach would be appropriate regarding Branch/Agency Call Reports for international banks that use EU IFRS in their global financial statements, but we do not believe it would be necessary to impose a time limit. The investor protection concerns underlying the federal securities laws’ disclosure requirements which lie at the heart of the SEC’s action are not relevant to the purposes underlying the Branch/Agency Call Reports, which instead are intended to address safety and soundness and other bank supervisory considerations. Limiting the time during which an institution could use EU IFRS with reconciliation to IFRS as issued by the IASB would not serve these purposes.

- The degree to which respondents would need the agencies to provide specific reporting instructions to supplement IFRS to accurately prepare the FFIEC 002 and FFIEC 002S.

⁴ See SEC Release No. 33-8879 and 34-57026; International Series Release No. 1306, 73 Fed. Reg. 985, (Jan. 4, 2008).

⁵ See 73 Fed. Reg. at 993.

⁶ See 73 Fed. Reg. at 994.



We recognize that the Branch/Agency Call Reports require the provision of certain information that is useful for supervisory purposes but strictly speaking is not required under U.S. GAAP, and we would anticipate that such information would continue to be required upon conversion to IFRS. We believe that the shift to IFRS also would require certain revisions to the Glossary and instructions, and would look to the supervisory authorities in the first instance to lay them out.

In the event an issue arises on which IFRS provides no or only limited guidance, we would suggest that, consistent with current practice as described in the instructions to the FFIEC 002, a reporting institution should be encouraged to consult with its primary federal supervisory authority or with the Federal Reserve Bank to which its reports are submitted.

- The amount of time respondents would need to prepare their systems, personnel, and processes to transition from the current U.S. GAAP-based FFIEC 002 and FFIEC 002S to IFRS-based reports.

As discussed above, we believe those international banks that currently apply IFRS in their global financial statements would be in a position on an expedited basis to adopt IFRS in their Branch/Agency Call Reports. For other institutions, especially those that do not use IFRS in their global financial statements, the transition from U.S. GAAP to IFRS would require greater time and effort; we expect that some institutions would shift to IFRS more quickly than others. Accordingly, we strongly recommend the adoption of a gradual approach whereby an institution would be permitted the option to use IFRS in its Branch/Agency Call Reports when it otherwise implements IFRS as the basis for its global financial accounting.

Please contact the Institute if we can provide additional information or assistance.

Very truly yours,

Lawrence R. Uhlick
Chief Executive Officer