STATE STREET.

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Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20051

E-mail: regs.comments@federalreserve.gov
Docket Number: OP-1594

Proposed Supervisory Guidance – Risk Management and Controls for Large Financial Institutions

Dear Ms. Misback:

State Street Corporation ("State Street") welcomes the opportunity to comment on the proposed supervisory guidance ("proposed guidance") issued by the Board of Governors of the Federal Reserve System ("FRB") regarding core principles of effective senior management, the management of business lines, and independent risk management and controls for large financial institutions ("LFI"). LFIs are defined for purposes of the proposed guidance as any United States ("US") bank holding company ("BHC") or savings and loan holding company with more than $50 billion in total assets, as well as any foreign banking organization with more than $50 billion in US assets. Included within this definition are those LFIs which are subject to the FRB's Large Institution Supervision Coordinating Committee ("LISCC") framework, which is intended to provide heightened supervision for certain firms which the FRB believes may pose greater risks to US financial stability.

State Street welcomes and supports the FRB's ongoing efforts to clarify the supervisory framework for LFIs. This includes two previously released proposals: the first which establishes a new rating system for certain LFIs, and the second which establishes expectations for boards of directors.[1] Nevertheless, in order to ensure that the proposed guidance effectively balances

[1] Federal Reserve System, 'Proposed Rule: Large Financial Institution Rating System: Regulation K and LL' (August 17, 2017) and Federal Reserve System, 'Proposed Guidance: Supervisory Expectation for Boards of Directors' (August 9, 2017).

the FRB's overarching focus on safety and soundness, with the diversity of LFI business models and risk profiles, we urge the FRB to clarify that all LFIs, both LISCC and non-LISCC firms, are permitted to determine the scope of their business lines subject to the proposed guidance, informed by a comprehensive and fully documented assessment of the materiality of their business units and functions.

Headquartered in Boston, Massachusetts, State Street specializes in the provision of financial services to institutional investor clients. This includes investment servicing, investment management, data and analytics, and investment research and trading. With $33.1 trillion in assets under custody and administration and $2.8 trillion in assets under management, State Street operates in 30 countries and in more than 100 geographic markets.[2] State Street is organized as a US BHC and is among the firms which are subject to supervision under the LISCC framework. As of December 31, 2017, State Street's Basel III advanced approach common equity Tier 1 ("CET1") ratio was 12.3% and our Basel III standardized approach CET1 ratio was 11.9%. Our estimated *pro forma* supplementary leverage ratio equaled 6.5% at the level of the BHC and 7.1% at the level of our primary bank subsidiary, State Street Bank and Trust Company.

We have participated in the development of industry association responses to the proposed guidance, notably the submissions from The Clearing House Association and the American Bankers Association, which we broadly endorse. Our intention in submitting this letter is to emphasize the particular importance that we attach to ensuring that the proposed guidance provides sufficient flexibility for all LFIs, both LISCC and non-LISCC firms, to determine the scope of their business lines which are subject to the proposed guidance, in a manner consistent with their organizational structure and risk profile.

In the preamble of Section VI B of the proposed guidance, the FRB asserts that the 'core principles of the management of business lines' ("core principles") apply to all of a LISCC firm's business lines, due to the 'size, risk profile and systemic importance' of the firm.[3] By contrast, the FRB asserts that for non-LISCC firms, the core principles 'would apply to any business line where a significant control disruption, failure, or loss event could result in a material loss of revenue, profit, or franchise value, or result in significant consumer harm.'[4] We strongly support the use of a materiality standard in the FRB's core principles and believe that this standard should apply to all LFIs, regardless of their designation as a LISCC or non-LISCC firm. This is true for several reasons.

First, the proposed guidance employs a very broad definition of 'business line' which has the potential to capture nearly any business unit or function, in a manner that does not necessarily correspond with an LFI's organizational structure, or an understanding of whether that unit or function is the source of material risk. Second, notwithstanding the FRB's characterization of the universe of LISCC firms in the preamble, not all LISCC firms are of the same size, have the

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[2] As of December 31, 2017.
[3] FRB Proposed Supervisory Guidance, page 11.
[4] FRB Proposed Supervisory Guidance, page 11.

same business model or risk profile, and therefore do not have the same systemic footprint. This difference is recognized, among other, in the Basel Committee's assessment methodology for global systemically important banks ("G-SIB"), as adopted by the FRB, where a G-SIB is assigned a risk-based capital surcharge of between 1% and 2.5% based on five metrics which serve as a proxy for the presence and distribution of systemic risk within the banking system.[5]

Furthermore, State Street's balance sheet is approximately one-tenth of the size of the largest LISCC firm and is also smaller than four firms which otherwise fall within the non-LISCC category.[6] Similarly, as a stand-alone custody bank, State Street has a relatively simple business model and operational structure, with only limited amounts of trading and capital markets activities. Finally, even in the case of a LISCC firm, not all of an LFI's financial activities are material or are deserving of the same level of internal oversight and control. As such, we believe that it makes little sense to insist on a 'one-size fits all' application of the core principles for business lines to any and all of a LISCC firm's business units or functions, an approach that may create unwarranted potential conflicts between a LFI's business lines as defined for purposes of the FRB's guidance and the way in which the firm is actually managed.

We therefore strongly urge the FRB to adjust its proposed supervisory guidance to permit all LFIs to determine both the organizational level at which a business unit is defined, and the extent to which a particular unit or function poses a material source of risk to the firm. In order to ensure appropriate risk management and control, this determination would require a comprehensive and fully documented assessment of risk, subject to both senior management oversight and approval. Moreover, and as emphasized in the preamble to section VI B, the 'supervisory expectations concerning effective senior management oversight and internal risk management and controls' would continue to apply on a firm-wide basis.[7]

Thank you once again for the opportunity to comment on the proposed guidance. Please feel free to contact me at smgavell@statestreet.com should you wish to discuss State Street's submission in greater detail.

Sincerely,

Stefan M. Gavell

[5] State Street is assigned a 1% risk-based surcharge under the FRB's Method 1 approach and 1.5% under the FRB's Method 2 approach.
[6] State Street's balance sheet is smaller than that of US Bancorp, PNC Bank, Capital One and TD Bank.
[7] FRB Proposed Supervisory Guidance, page 11.