



STATE STREET.

Stefan M. Gavell
Executive Vice President and Global
Head of Regulatory, Industry and
Government Affairs

State Street Corporation
State Street Financial Center
One Lincoln Street
Boston, MA 02111-2900

Telephone: +1.617.664.8673
Facsimile: +1.617.664.4270
smgavell@statestreet.com

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European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ
United Kingdom

Consultation Paper 2012/05 – Draft Implementing Technical Standards on supervisory reporting requirements for liquidity coverage and stable funding

Dear Sir/Madam:

State Street Corporation (“State Street”)¹ appreciates the opportunity to comment on the Consultation Paper (“CP”) issued by the European Banking Authority (“EBA”) on draft implementing technical standards (“ITS”) for the supervisory reporting of liquidity coverage and stable funding.

Headquartered in Boston, Massachusetts, with branches and subsidiaries throughout the European Union (“EU”), State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With USD 22.4 trillion in assets under custody and administration and USD 1.9 trillion in assets under management, State Street operates in 29 countries and in more than 100 markets worldwide.² Our European workforce of 9,000 employees provides services to our clients from offices in ten EU Member States. Our comments relative to the various questions posed by the EBA are as follows:

Q1: Are the proposed dates for first remittance of data, i.e. end of January and end of March 2013, feasible?

¹ State Street’s identification number in the European Transparency Register is 2428270908-83.

² As of June 30, 2012.

The EBA intends to finalise the draft ITS and endorse it for submission to the EC by November 2012. The proposed submission dates assume that a final CRR will be available beforehand. While this is a very short period of time before reporting is legally required, in the case of many large institutions, they will have been reporting on a voluntary basis for an extended period of time, and other institutions can plan on the basis of final legislative text which should be available at a much earlier date.

It is important to keep in mind that timelines contained in the CRR might change which may impact the above dates related to the ITS. In any case, EBA will adapt its draft ITS according to the final version of the CRR text before submitting it to the EC for adoption.

The deadlines proposed by the EBA for the initial reporting of data on the Liquidity Coverage Ratio (“LCR”) and the Net Stable Funding Ratio (“NSFR”) do not seem feasible given the very short timeframe between these dates and the final publication of the ITS. While State Street has closely followed the consultation process - both at the level of the Basel Committee for Banking Supervision and at the level of the EU - and has participated in various Quantitative Impact Studies (“QIS”), the information provided to date is often subject to interpretation and requires the sort of precision that can only be provided by the publication of final regulations. Indeed, the final ITS forms the basis for proper and consistent technical implementation.

In the course of discussions with industry vendors, it has been determined that the software required for the reporting of data will only be available approximately six months after the final regulations are published. In view of these considerations, we would propose the postponement of the first reporting date for the LCR and NSFR on a solo level to six months after publication of the final regulation. For the technical implementation of a consolidated solution regarding the LCR and NSFR, a timeframe of 12 months after final publication of the final regulation would seem appropriate to ensure proper consideration of data inputs for all consolidated entities.

The challenges associated with the technical implementation of IT solutions is reflected in the “Update of the finalization and implementation of the standards on supervisory reporting” published by EBA on July 31, 2012.

In addition, according to Article 403.2, institutions are required to report items separately if they are indexed to a currency where the institution has significant liquidity risk or such currency is the lawful currency of a jurisdiction where they have a significant branch.

For the purposes of harmonising the definition of a currency where an institution has significant liquidity risk the EBA proposes that this should be limited to those currencies which comprise more than 5% of an institution’s liabilities.

Q2: Do respondents agree with this proposal for defining significant currency?

The reporting for investment firms should be done following the requirements of Part 1, Title II until the eventual implementation of any legislative proposal referred to in Article 480(2) of CRR.

State Street would welcome confirmation from EBA that the LCR ratio for significant currencies is part of a pure monitoring instrument - as stated in the Basel Accord³ - and therefore is not subject to a minimum requirement. Furthermore, clarification of if and when foreign currency LCRs will have to be submitted to the authorities would be appreciated.

In our view, the definition of a significant currency should not only consider a fixed 5% threshold, but should also take into consideration factors like the overall size of the respective FX markets (e.g. the setting of a higher threshold for core markets like USD, GBP, CHF, JPY where liquidity is significantly higher than in smaller markets) as well as a minimum absolute amount of liabilities in foreign currencies (e.g. 5% of a relatively small overall liability exposure is unlikely to cause any material liquidity problems during times of stress).

Although State Street fully understands that the implementation of a risk-oriented definition is required, the proposed 5% level seems too rigid. Given existing local regulations (e.g. the FSA definition of 20%⁴), a significant currency level of 10% could form a reasonable number. In addition, the EBA should consider the implementation of additional influencing factors based on a self-assessment by the financial institution. This approach would enable institutions to identify potential FX-related liquidity risks by analyzing not only the liability side of the balance sheet, but also total balance sheet composition and other risk management instruments.

The proposed remittance period is 15 days for the monthly reporting and 15 days for the quarterly reporting.

Q3: Is the proposed remittance period of 15 days feasible?

For a reconciled calculation, State Street would propose that results be submitted on the 20th business day for both the LCR and NSFR. The EBA should also take into consideration that a consolidated ratio - which incorporates all relevant input figures - may require an even longer time frame to complete. This is especially true in view of the technical limitations noted in the context of Q1, notably during the observation period.

Notwithstanding monthly LCR reporting, State Street fully agrees that institutions should be in a position to closely monitor their short-term liquidity risks. It is evident that the respective processes and tools implemented with regard to this monitoring effort support an economic management of liquidity risk and are not inevitably reconciled to all other financial data.

³ Please refer to “Basel III: International framework for liquidity risk measurement, standards and monitoring” as of December 2010, note 175.

⁴ Please refer to the definition of a “Material currency” according to the glossary in the FSA Handbook.

The items listed for reporting in the template include all the necessary items specified in Articles 400 to 415 of the CRR. Certain additional items are included to help institutions and supervisors check data quality and to inform other relevant policy options, such as intra-group treatments.

Q4: Are there additional sub-categories of inflows and outflows that are consistent with the specification of the liquidity coverage requirement in the CRR and would inform policy options that should be included in the template and accordingly reported?

Consistent with the particular business model of custody banks, State Street believes that the deposits of institutional clients (primarily investment funds) covered by a national deposit insurance scheme should be separately reflected in supervisory reporting. As an example, the deposits of non-bank clients of State Street Bank GmbH are fully protected by the ‘Germany Deposit Insurance Fund’. While we acknowledge that existing national deposit insurance schemes differ with regard to their scope of coverage, a distinction between insured and uninsured deposits should nevertheless be introduced. We note, in this respect, that the Basel III Accord incorporates a 5% outflow rate for ‘stable deposits’, defined as those deposits that are fully covered by a deposit insurance scheme or public guarantee where (i) the depositor has an established relationship with the bank or (ii) the deposit is held in a transaction account. Similarly, deposits provided by certain entities, such as non-financial corporate customers, sovereigns, central banks and public sector entities that benefit from deposit insurance coverage and with whom a bank has an established relationship, can also be treated as stable deposits.

In general, State Street would propose that institutions be provided with consistently used terminology with regard to all line items, such as an explicit definition of “Financial institutions” and “Non-financial customers”. To ensure proper transparency and consistency the European industry standard classification “Nomenclature statistique des activités économiques dans la Communauté européenne” (“NACE”) could be used for this purpose. According to the EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for institutions (CP 50) and the EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for large exposures (CP 51), this standard should be applicable with regard to other regulatory reports in the future. Relying on uniform industry standard classification would help increase the level of automation and hence improve the overall quality of reported data.

With respect to the reporting of liquid assets according to Annex III and Article 404, in the absence of a harmonised definition, institutions are permitted to use internal definitions for the purposes of liquidity reporting. The CRR also permits competent authorities to give guidance institutions shall follow in identifying assets of high and extremely high liquidity and credit quality.

It is not practical in the context of a harmonized reporting framework for institutions to have complete freedom to define such assets, both from the point of view of having common IT solutions and data comparability across submissions. Therefore the EBA is

using this consultation to ask institutions what additional data on asset class holdings should be collected. The most significant amendments to the CRR in respect of liquidity reporting proposed by the co-decision bodies are to include equities, gold and high-quality residential mortgage-backed securities or state-guaranteed bank debt.

It should be noted that collecting data on additional assets does increase the complexity of the template given that the inflow and outflow rates on repo and reverse repo transactions are varied according to the liquidity category which each asset belongs to in accordance with Articles 410 and 413.

The responses to the following question will be taken into account together with any mandated inclusions or exclusions of assets in the final version of the CRR for the purposes of giving the guidance to institutions permitted in Article 404.

Q5: For the purposes of providing guidance as to transferrable securities of high and extremely high credit and liquidity quality, what additional assets, if any, should the ITS collect?

State Street would also recommend the inclusion of equities, gold, high-quality residential mortgage-backed securities and state-guaranteed bank debt in the above mentioned asset classes. This includes assets issued or guaranteed by US Government Sponsored Entities (e.g. Government National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association), and non-central government Public Sector Entities (e.g. Student loan securitizations). We also recommend the inclusion of both Credit Card and Auto loan ABS.

In general, central bank eligibility is a good indicator for high / extremely high liquid assets and would help support the development of the single rulebook in the EU. In terms of the eligibility of ABS, the ECB's ABS loan-level initiative will help improve transparency, including more timely information on underlying loans and their performance in a standardised format, thereby helping to improve overall market liquidity.

The amount of stable funding required of a specific institution should be a function of the liquidity characteristics of various types of assets held, off-balance sheet contingent exposures incurred and/or activities pursued by the institution.

Q6: Do respondents agree that the template captures the requirement of the draft CRR on reporting of stable funding?

Where applicable, the information required on stable funding will have to be presented in five buckets (within 3 months, between 3 and 6 months, between 6 and 9 months, between 9 and 12 months and after 12 months).

A comparison between the draft CRR and the template indicates that Operational deposits as defined in Article 410(4) are missing from the template.

Additional comments

In addition to the questions raised by EBA, State Street would appreciate consideration of the following comments in respect of the NSFR.

While we understand and support the goals of the Basel III liquidity framework, we believe that certain changes are required to the NSFR in order to ensure proper alignment with the business model of the custody banking industry. We note, in this respect, our strong support for the introduction within the LCR of a 25% run-off rate for operationally-linked deposits from financial and non-financial institutional customers. This is a very important step forward in recognizing one of the custody industry's main balance sheet building blocks. The balance sheets of custody banks are built around customer deposits derived from the provision of core custody and fund administration services to institutional investor customers. These deposits are a direct byproduct of the custody relationship and are not a form of wholesale funding.

Custody banks currently receive no recognition within the NSFR for the unique operational nature of their deposit base and are therefore severely disadvantaged when seeking to meet its intended requirements. This is true notwithstanding clear evidence that operational linked deposits are a stable source of funding that would be difficult to transfer even over a longer term horizon. This reflects a number of factors including the existence of long-term custody contracts, the need for customers to keep transaction balances on deposit with their custodian to facilitate investment activity, the pricing of custody deposits well below wholesale funding, and also industry experience during the financial crisis. Consistent with their more favorable treatment under the LCR, we therefore strongly recommend that operationally linked deposits should receive consideration under the NSFR as an Available Stable Funding resource.

Thank you once again for the opportunity to comment on the important matters raised within this CP. Please feel free to contact me should you wish to discuss State Street's submission in greater detail.

Sincerely,



Stefan M. Gavell
Executive Vice President
Global Head of Regulatory, Industry
and Government Affairs