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January 18, 2006

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
regs.comments@occ.treas.gov

Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
regs.comments@federalreserve.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
comments@FDIC.gov

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: No. 2005-40
regs.comments@ots.treas.gov

Dear Sir or Madam:

State Street Corporation appreciates the opportunity to comment on the Joint Advanced Notice of Proposed Rulemaking (ANPR) issued on October 20, 2005 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") related to possible changes to existing capital rules based on the "International Convergence of Capital Measurement and Capital Standards" (Basel I).

State Street Corporation specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With $10.1 trillion in assets under custody and $1.4 trillion in assets under management, State Street operates in 26 countries and more than 100 markets worldwide. State Street expects to be designated a "core bank" under the U.S. implementation of the Basel Committee's "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II).

As a "core bank," State Street does not expect to be permitted to use the revised Basel I approach described in the ANPR (the so-called "Basel I-A" approach). We therefore limit our comments on the ANPR to a specific issue related to the potential use of Basel I-A rules in the calculation of minimum regulatory capital under Basel II. Specifically, the Agencies have invited comment on whether the Basel I-A revisions should be incorporated into the definition of the Basel II transitional capital floor.

As a general principle, State Street supports a highly risk sensitive, flexible approach to calculating regulatory capital. We believe the adoption of Basel II is a considerable improvement over Basel I in achieving this goal, and urge the Agencies to move forward expeditiously on an effective, efficient implementation of the new Accord. While we understand the reasoning behind including as part of Basel II transitional floors based on Basel I, we assume these floors will be temporary and eliminated as soon as the Agencies become comfortable with the Basel II system. However, even during the transitional period, we believe our resources will be most effectively deployed toward implementing Basel II, rather than calculating the transitional floors.

As a result, we strongly believe that the incorporation of potential Basel I-A revisions into the calculation of the transitional floors for Basel II should not be mandatory. Basel II banks should be permitted to use the existing Basel I rules for the calculation of the transitional floors. However, in cases where the Basel I-A revisions complement the Basel II processes, or where any increase in risk sensitivity offered by Basel I-A over Basel I are particularly relevant, banks should be permitted to use the Basel I-A revisions, in whole or in part, as appropriate, based on the specific characteristics of the individual institution.

We therefore urge the Agencies to adopt a flexible approach to the definition of the Basel II transitional floors, allowing banks to choose a methodology for calculating such floors using either the existing Basel I or the revised Basel I-A capital measurement rules. Allowing banks such flexibility will result in more risk-sensitive regulatory capital calculations, while avoiding detraction from the overall goal of implementing Basel II for large, internationally-active banks.

Once again, thank you for providing State Street Corporation the opportunity to comment on this proposal.

Sincerely,

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

cc: Cathy E. Minehan, President and Chief Executive Officer, Federal Reserve Bank of Boston