STATE STREET.

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Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 1-5
Washington, DC 20219
E-mail: regs.comments@occ.treas.gov
Docket Number OCC-2008-0006

Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
E-mail: comments@FDIC.gov
RIN 3064-AD29

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
E-mail: regs.comments@federalreserve.gov
Docket Number R-1318

Regulation Comments, Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20552
Attention: OTS-2008-0002
http://www.regulations.gov

Proposed Rule and Notice -- Risk-Based Capital Guidelines; Capital Adequacy Guidelines: Standardized Framework

Dear Sir or Madam,

State Street Corporation appreciates the opportunity to comment on the July 29, 2008 proposal 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”) to establish a new risk-based capital framework (the “proposed standardized framework”) based on the standardized approach for credit risk and basic indicator approach for operational risk described in the “International Convergence of Capital Measurement and Capital Standards: A Revised Approach” (the “New Accord”) issued by the Basel Committee on Banking Supervision.

State Street Corporation is the world's leading provider of financial services to institutional investors, including investment servicing, investment management and investment research and trading. With $14.0 trillion in assets under custody and $1.7 trillion in assets under management at September 30, 2008, State Street operates in 26 countries and more than 100 geographic markets worldwide.

State Street has consistently supported providing U.S. banking organizations the ability to choose between the full range of Basel II credit and operational risk approaches, and supports the Agencies' efforts to develop the proposed standardized framework.

As a designated "core bank" for purposes of U.S. implementation of Basel II, the Agencies' proposed standardized framework would not, under the Agencies' rulemaking to date, be available to State Street. Our comments today focus on the ability of core banks to use the proposed standardized framework, as raised by Question 3 in the Agencies' commentary on their pending proposal:

> **Question 3: The agencies seek comment on whether or to what extent core banking organizations should be able to use the proposed standardized framework.**

As we have in previous comment letters, State Street urges the Agencies to allow U.S. banking organizations greater flexibility in choosing the most appropriate risk-based capital requirement methodology. Specifically, for core banks limited by current U.S. rules to the advanced approaches, we recommend the Agencies permit targeted use, with regulatory approval, of either the proposed standardized framework or the general risk-based capital rules for certain portfolios or business units.

We believe use of the less sophisticated approaches for certain portfolios would be particularly beneficial to core banks as a transitional measure as they work toward full adoption of the advanced approaches.

Under the New Accord, for credit risk, banks would be allowed to adopt a "phased roll-out" of the IRB approach, either by asset class or business line. As discussed in the New Accord, the Basel Committee recognizes "that for many banks, it may not be practicable for various reasons to implement the IRB approach across all material assets classes and business units at one time." While a bank adopting the IRB would still be expected to ultimately use the IRB for all material asset classes and business units, the New Accord provides a process for a "roll-out" that allows use of the IRB in some asset classes or business units while a bank uses, on a transitional basis, less sophisticated approaches for other asset classes or business units. We suggest the Agencies adopt a similar concept for U.S. implementation.

For operational risk, we again support the additional flexibility included in the New Accord, which provides for "partial use" of the AMA, with approval by the supervisor. Similar to the "phased rollout" for credit risk, the New Accord allows banks to use the AMA for some parts of its operations and the Basic Indicator or Standardized Approach for others, provided certain conditions are met, including a condition that the bank provides the supervisor a plan specifying the timetable to which it intends to roll out the AMA across all but an immaterial part of its operations. We encourage the Agencies to provide a similar process for U.S. implementation of Basel II.

We also suggest the Agencies adopt greater flexibility for core banks in establishing regulatory capital methodologies for certain types of limited-purpose banking subsidiaries. The Agencies, propose, in fact to permit such an option under the proposed standardized framework, as described on page 43986 of the Federal Register notice:

> **The agencies recognize, however, that there may be infrequent situations where the use of the standardized rules could create undue burden at individual**

depository institutions within a corporate family. Therefore, under section 1(c) of the proposed rule, a banking organization that would otherwise be required to apply the standardized rule because a related banking organization has elected to apply it may instead use the general risk-based capital rules if its primary Federal supervisor determines in writing that that application of the standardized framework is not appropriate in light of the banking organization's asset size, level of complexity, risk profile, or scope of operations.

We support this approach, and suggest similar flexibility to use either the general risk-based capital rules or the proposed standardized framework be made available to individual subsidiaries of core banks under the advanced approaches.

In summary, we believe the adoption of a more flexible, phased approach to qualification for the advanced approaches will reduce implementation costs for U.S. banks and accelerate U.S. banks' ability to qualify for the advanced approaches for their most significant portfolios or business lines.

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

Sincerely,

Stefan M. Gavell