STATE STREET.

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

State Street Corporation
1 Lincoln Street
P.O. Box 5225
Boston, MA 02206-5225

Telephone: 617-664-8673
Facsimile: 617-664-4270
smgavell@statestreet.com

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Via e-mail: Comments@FDIC.gov

Robert E. Feldman
Executive Secretary
ATTN: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

RE: RIN 3064-AD26

Notice of Proposed Rulemaking - Processing of Deposit Accounts in the Event of an Insured Depository Institution Failure and Large Bank Deposit Insurance Determination Modernization

Dear Sir:

State Street Corporation ("State Street") appreciates the opportunity to comment on the Notice of Proposed Rulemaking ("NPR") issued by the Federal Deposit Insurance Corporation ("FDIC") on January 14, 2008. The first part of the NPR proposes to modify the FDIC's practice for determining deposit account balances at a failed insured depository institution. The second part of the NPR proposes to establish new systems and data requirements for large institutions which are intended to facilitate the FDIC's deposit insurance determination process in the event of a failure.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With $15.3 trillion in assets under custody and $2.0 trillion in assets under management as of December 31, 2007, State Street operates in 26 countries and more than 100 markets worldwide. As a result of our institutional client base, State Street operates a very small number of insured deposit accounts, most of which routinely carry balances in excess of the FDIC's core $100,000 insurance threshold.

State Street commented on the FDIC's two previous Advanced Notices of Proposed Rulemaking ("ANPRs") on this subject and welcomes improvements made in response to industry comments. Nevertheless, the FDIC's proposal continues to raise a number of concerns for State Street. We have structured our response around the two individual parts of the consultation paper.

Part One – Determining Deposit Account Balances at Failed Depository Institutions

State Street supports the FDIC's proposal to define a deposit account balance on the day of failure as the end of day ledger balance, and its recommendation that all pre-arranged automated cash sweeps be recognized in determining that balance. We note that these recommendations are consistent with banks' current operational practice in the normal course of business.

State Street, however, has concerns with the proposal to establish a regulatory cut off point for the calculation of the end of day balance which could supersede an institution's normal cut off time. As acknowledged in the NPR, all banks process transactions to deposit accounts according to a pre-determined set of rules, which help ensure the proper conduct of day to day business operations. These practices are well-established, non-controversial and reflect institutional and client needs, as well as the global, automated, and interdependent nature of today's financial system. We believe that a final rule should not unnecessarily disrupt this process. State Street therefore recommends that the FDIC adopt an approach which relies on banks' ordinary cut off times, rather than a regulator imposed cut off time.

State Street notes that the NPR includes an extensive proposal regarding the treatment of cash sweep products not found within either of its two initial ANPRs. While State Street understands the FDIC's interest in clarifying issues related to sweeps, we are concerned that such a proposal has the potential to substantially impact the functioning of an important segment of U.S. financial markets. This includes both repurchase and internal cash sweep transactions. Given the importance of the issues raised, we suggest the FDIC defer the sweeps proposal to a separate rulemaking process, which would enable full participation and comment by all relevant market participants and regulators.

Part Two – Large Bank Deposit Insurance Determination Modernization

Definition of "Covered Institutions"

As proposed, the NPR applies new large bank deposit insurance determination rules to "Covered Institutions" with at least $2 billion in domestic deposits and either 250,000 deposit accounts or total assets over $20 billion. State Street has far fewer than 250,000 deposit accounts, but total assets over $20 billion, so would meet the proposed definition of a "Covered Institution."

As discussed in our responses to the FDIC's prior consultations, State Street is not convinced that there is a need to include institutions with fewer than 250,000 deposit accounts within the scope of the FDIC's proposal.

First, notwithstanding our status as a large and internationally active bank, State Street maintains a very small number of deposit accounts, the overwhelming majority of which are institutional. As such, our insurance determination profile is no more complex than that of a small to mid-size bank.

Second, due to the large balances of our typical deposit accounts, the ratio of our deposit insurance coverage to our domestic assessed deposit base is substantially lower than nearly all other U.S. banks. State Street's potential exposure to the insurance fund is therefore at best modest and creates few of the complex challenges which the NPR seeks to address.

We estimate that the cost of our initial compliance with the proposal would be in excess of $2 million, a figure which excludes ongoing maintenance and testing requirements. As a result, the costs that State Street would incur as a Covered Institution are substantially out of proportion to any benefit provided to the deposit insurance system. State Street therefore strongly urges that the definition of a Covered Institution be revised to exclude any bank with fewer than 250,000 deposit accounts.

Complexity

State Street appreciates FDIC efforts to provide greater flexibility for banks to comply with the terms of its proposed rulemaking, such as allowing banks a choice of a hold mechanism that is most consistent with their existing operational framework. We also welcome the proposed exception for bank deposit systems with a small number of accounts, but believe the proposal could be enhanced by the development of a specific exemptive threshold for such systems. This could be based, for example, on a ratio of small system accounts to total accounts, with a suggested threshold of 5%.

In addition, State Street believes the proposal could be further improved by requiring the use of as few provisional hold ratios as possible, and reconsideration of the potentially costly proposal to require banks to develop functionality to allow customers to view provisional holds placed on their accounts after a failure.

Data Requirements

State Street strongly supports the statement in the NPR indicating "Covered Institutions would not be required to collect or generate new depositor or customer information." We recommend this principle be retained in any final rule. In addition, we suggest the FDIC clarify that it intends to provide sufficient flexibility to ensure additional data collection is not required, particularly for specialized institutions whose business profile, operational practices, and informational needs differ from the retail institutions which are the primary focus of the proposal.

Testing

State Street welcomes the additional flexibility provided by the current NPR in the proposed testing protocol. We remain concerned, however, that the NPR's approach is still overly complex, particularly for low-risk institutions. We therefore repeat our recommendation made in response to the FDIC second ANPR, that testing for lower risk institutions (i.e. those within FDIC Risk Category I), including in-house testing, should only be conducted on an infrequent basis, ideally on a five year cycle. More frequent testing could be required should an institution's risk position show signs of substantial deterioration.

Effective Date

Compliance with the FDIC's proposal will require the development, testing, roll-out and maintenance of significant technology enhancements, often across multiple systems. This will require substantial time and result in considerable costs. State Street therefore believes that an eighteen month implementation timeframe is too aggressive, especially at a time of heightened regulatory attention across the financial industry. In our response to the FDIC's second ANPR, we recommended the use of an implementation timeframe of at least two years. Based upon a further, more detailed analysis of the complex technological and operational issues involved, we have determined that a three year implementation timeframe is more appropriate. We also recommend an opportunity for a further extension in instances where legitimate business imperatives (e.g. a substantial merger or acquisition) may complicate the roll out process.

Unique Identifier

State Street notes the request for comment in the NPR on a potential requirement for Covered Institutions to assign a unique depositor ID when a new account is opened. As was the case in our response to the FDIC's first ANPR, State Street is strongly opposed to this suggestion. We remain concerned that such a requirement would significantly complicate compliance with the proposal and would offer little benefit beyond existing common criteria such as a client's taxpayer ID. State Street therefore suggests any final rule not include a requirement to use a unique depositor ID for new accounts.

In summary, State Street appreciates the improvements in the pending NPR over previous proposals. We continue, however, to support further changes to ensure that any new requirements are proportional, cost-effective, and consistent with current industry practice. In particular, we strongly urge the FDIC to revise its proposal to only cover banks with over 250,000 deposit accounts.

Thank you once again for the opportunity to comment on the FDIC's proposed regulation. Please do not hesitate to contact me should you have any questions regarding our submission.

Sincerely,

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