



State Street Corporation

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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Via electronic submission: www.bis.org/bcbs/commentupload.htm

Consultative Document – Capital Floors: The Design of a Framework Based on the Standardized Approaches

Dear Sir/ Madam:

State Street Corporation (“State Street”) welcomes the opportunity to comment on the Consultative Document (“Consultation”) issued by the Basel Committee on Banking Supervision (“Basel Committee”) regarding the development and design of a capital floor for internationally active banks based upon the standardized approach for risk-based capital (“standardized capital floor”). The proposed standardized capital floor is intended, among other things, to ensure the presence of a minimum level of capital within the banking system, to address possible deficiencies that may result from reliance on internally-modelled measures of risk, and to improve the comparability of capital outcomes among banks.

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With \$28.2 trillion in assets under custody and administration and \$2.5 trillion in assets under management, State Street operates in 29 countries and in more than 100 geographic markets. State Street is organized as a United States (“US”) bank holding company (“BHC”), with operations conducted through several entities, primarily its wholly-owned bank subsidiary, State Street Bank and Trust Company. As a US BHC, we are subject to Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, also known as the ‘Collins Amendment’, which imposes a statutory capital floor on certain US banks based upon the

‘generally applicable risk-based capital requirement’.¹ We therefore report and are subject to the lowest of our risk-based capital ratios calculated under both the standardized and advanced approaches. As of December 31, 2014, our Basel III advanced approach common equity Tier 1 ratio was 12.5% and our *pro forma* Basel III standardized approach common equity tier 1 ratio was 10.8%.

The Basel Committee asks three specific questions regarding the design of a standardized capital floor. We would like to offer our perspective on two of these questions. First, we strongly believe that the appropriate basis for calculating and reporting under a standardized capital floor is on an aggregate basis. This reflects the importance of providing market participants with a coherent and consolidated view of firm-wide risk, rather than on the basis of prudential sub-categories which may not be easy to interpret. Indeed, we are concerned that the calculation and reporting of a standardized capital floor on a disaggregated basis may not serve the interest of market participants in their efforts to monitor relative levels of risk. Furthermore, we believe that requiring banking institutions to undertake multiple calculations of their standardized risk-based capital introduces significant operational complexity, with little to no offsetting benefit. Internationally active banks are already required to calculate and disclose a substantial number of overlapping regulatory capital measures. In the case of US banks, this includes advanced and standardized capital ratios; the leverage and supplementary leverage ratios, and stressed measures of capital as part of the annual capital planning and review process.² We are concerned that any further disaggregation in the calculation and reporting of a standardized floor would simply serve to make the capital estimation process even more opaque and therefore undermine the market-wide understanding of risk.

Second, we strongly support the recommendation contained in Paragraph 26 of the Consultation that the standardized framework that should be used in the measurement of a standardized capital floor is the standardized framework that prevails in the home jurisdiction of the banking institution. While we recognize the importance of consistency in the measurement of risk-based capital, it is impossible to overlook the reality that certain national jurisdictions already have in place their own well-established versions of the standardized approach, and in the case of the US, their own statutory version of a standardized capital floor. As such, any requirement to make use of a revised standardized methodology would necessarily impact US banks in broad and highly disruptive ways. This includes further complexity in the internal allocation and management of capital and in the assessment of individual business activities, which can at times be impacted by measures of regulatory capital in broadly dissimilar ways. This also includes further confusion for market participants relative to the proper assessment of risk. Finally, a requirement to make use of a Basel Committee derived standardized framework, opens up the very real prospect for certain US banks of having to operate on the basis of two distinct capital floors: the statutory capital floor in US prudential

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, Section 171 (a) 2 and Section 171 (b) 2.

² Semi-annual Dodd-Frank Act Stress Testing (DFAST) and annual US Federal Reserve Board Comprehensive Capital Analysis and Review (CCAR).

regulation and some variant of the capital floor proposed by the Basel Committee. We believe that there is no clear policy justification for such an outcome, especially when the existing US national standard provides for capital requirements which are at least as stringent as the Basel Committee's proposed alternative.

Thank you once again for the opportunity to comment on the important matters raised within this Consultation. Please feel free to contact me at smgavell@statestreet.com should you wish to discuss our submission in further detail.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stefan M. Gavell', written in a cursive style.

Stefan M. Gavell