



STATE STREET.

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March 4, 2009

Committee of European Banking Supervisors
25 Old Broad Street
London, United Kingdom

Via e-mail: cb@c-eps.org

Call for Evidence for Custodian Banks on Trade Internalization and CCP-like Activities

Dear Sir/Madam:

State Street Corporation (State Street) appreciates the opportunity to respond to the Committee of European Banking Supervisors (CEBS) Call for Evidence on the extent of trade internalization and central counterparty (CCP) like activities undertaken by custodian banks. Headquartered in Boston, U.S.A., State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With \$12.04 trillion in assets under custody and \$1.44 trillion in assets under management as of December 31, 2008, State Street operates in 27 countries and more than 100 markets worldwide. Our European-based workforce of over 6,200 employees provides institutional investors with local support and services from our offices in Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Poland, Switzerland and the United Kingdom.

As an initial observation, State Street notes that global custodian banks play a role in the post-trade system which is distinct from that of market infrastructure such as central securities depositories (CSD) and CCPs. More specifically, global custodian banks act on behalf of their clients as users rather than as providers of post-trade services.

Our specific answers to the questions posed by CEBS in this Call for Evidence are as follows:

Questions relating to internalization of settlement

1. Of those Central Securities Depositories (CSD) you have access to, how many of them allow you to hold an omnibus account (the prerequisite for internalizing settlement)?

State Street offers global custody services via its wholly owned bank subsidiary, State Street Bank and Trust Company. State Street maintains on behalf of its clients a global custody network which makes extensive use of local subcustodian banks. State Street's interaction with European CSDs is therefore predominantly indirect, with direct custody operations limited to the United Kingdom (CREST). In addition, State Street is a direct participant in two international CSDs; Euroclear Bank and Clearstream Banking.

Securities markets have over time evolved towards the broader use of omnibus account structures, as these structures afford investors the same high levels of control and protection offered by individual accounts, while creating a significantly more cost and time effective operational framework. Global trends, such as moves to depository-based and dematerialized holdings, shortened settlement cycles that place additional pressures on processing and account efficiency, and growing acceptance of nominee holding have led the way in the widespread implementation of omnibus accounts.

State Street's preference is to hold all client assets via omnibus accounts where the local market provides such opportunities. Our subcustodians will in turn maintain one or more accounts with local CSDs on our behalf, in accordance with regulations and prevailing practices.

State Street notes that in addition to the existence of an omnibus account structure, trade internalization is contingent on the following prerequisites:

- (i) having clients representing both the buy side and the sell side of a trade;
- (ii) having a dominant market share of both the buy and sell side of the business; and
- (iii) having the technology to recognize that two transactions are somehow tied and stop both transactions from flowing through to the next level of the chain of intermediation.

For State Street, these prerequisites do not apply. Moreover, we receive instructions only after the execution of a trade in the market and after settlement details have been determined by relevant counterparties. As such, we do not engage in the practice of trade internalization.

In rare cases, our clients require us to re-balance certain holdings across their portfolios, which may be done by simply transferring securities from one portfolio's account to another. However, we view this as maintenance support for clients rather than internalization, and note that it is performed only under client instruction.

2. What percentage of trades to be settled that enter your system is passed on to a CSD, and what percentage is internally settled?

100% of market transactions that enter our system are passed on to local custodians and/or CSDs.

3. Do you aggregate all your clients in such omnibus accounts where they exist? If not, how many of your clients are held in such accounts and how do you decide whether or not they should be included (please also indicate the total number of clients)? Does the allocation depend on the underlying nature of the client (i.e. institutional, retail, ...)? If yes, please indicate the nature of the clients.

As noted in our response to Q1, State Street's general practice is to hold client assets via omnibus accounts where the local market provides such opportunities. Where possible, we seek to operate with as few omnibus accounts as practical. It is common, however, to establish multiple omnibus accounts in certain markets to accommodate efficient tax or income processing, or to meet local segregation requirements. Additionally, in certain instances we establish segregated accounts for individual investors based on client preference and instruction.

4. How do you monitor the trades that get settled internally? Do you have specific rules and procedures relating to these processes?

This is not applicable as State Street does not internalize trade settlement.

5. Do you inform your customers explicitly when you internalize settlement rather than passing trades on to the CSD? How much information do you provide to your client on the process of internalization?

This is not applicable as State Street does not internalize trade settlement.

6. Is there a difference in the degree of internalization between different product classes (e.g. homogenous products, such bonds, versus more heterogeneous products, such as equities) and/or different type of trades (e.g. exchange traded versus OTC)?

This is not applicable, as State Street does not internalize trade settlement.

Questions relating to CCP-like activities

7. Do you undertake any activity whereby you take on the counterparty risk of a party to a trade and assume all losses that may derive from such a position? If yes, is the volume of such activity significant to your business? Are your clients aware of such activity?

State Street does not engage on behalf of its clients in activity involving the assumption of principal risk in a market transaction.

8. Do you provide services whereby you act as an intermediary between a client and a CCP (i.e. you act as General Clearing Member)? If yes, is such activity significant to your business?

State Street does not act on behalf of its clients as a General Clearing Member in any market of the European Union.

9. In either of the above cases, how do you monitor and protect yourself and your clients from the risks arising from such activities?

This is not applicable, as State Street does not engage on behalf of its clients in activity involving the assumption of principal risk in a market transaction or act on behalf of its clients as a General Clearing Member in any market of the EU.

10. Do you differentiate between products (including derivatives) and trading types when deciding whether to provide such services?

This is not applicable, as State Street does not engage on behalf of its clients in activity involving the assumption of principal risk in a market transaction or act on behalf of its clients as a General Clearing Member in any market of the EU.

Thank you once again for the opportunity to respond to this important Call for Evidence. To summarize, State Street does not internalize the settlement of securities transactions or engage in CCP-like activities on behalf of our clients. We reiterate in this regard the crucial observation that global custodian banks do not play the same role in the post-trade system as market infrastructure such as CSDs and CCPs. More specifically, global custodian banks act on behalf of their clients as users rather than as providers of post-trade services.

Please do not hesitate to contact me should you have any questions in regards to State Street's submission.

Sincerely,



Stefan M. Gavell