BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, DC 20551

May 13, 2021

Mr. David C. Phelan
Executive Vice President and General Counsel
State Street Corporation
One Lincoln Street
Boston, Massachusetts 02111

Dear Mr. Phelan:

This responds to the request by State Street Corporation ("State Street"), Boston, Massachusetts, for the Board of Governors of the Federal Reserve System ("Board") to mitigate the impact of State Street's participation in the Federal Reserve's Money Market Mutual Fund Liquidity Facility ("MMLF") on State Street's global systemically important bank holding company ("GSIB") surcharge under the Board's regulatory capital rule ("Regulation Q").[1]

The Board authorized several emergency lending facilities under section 13(3) of the Federal Reserve Act to respond to the COVID-19 event.[2] One of these facilities, the MMLF, provided liquidity support to money market mutual funds. Under the MMLF, banking organizations were provided advances by the facility and those advances were used to purchase eligible assets from money market mutual funds. In turn, the purchased assets were posted as collateral to the MMLF until such time as the advances were repaid with interest. In part due to the lack of credit and market risks associated with MMLF participation, the Board neutralized the effect of exposures to the MMLF by allowing banking organizations to exclude such exposures from their risk-based and leverage capital ratios.[3]

Under the GSIB surcharge framework in Regulation Q, a GSIB is subject to a GSIB surcharge based on its systemic footprint.[4] A GSIB's systemic footprint is calculated each year using two different methodologies – method 1 and method 2 – and

[1] 12 CFR 217.405.

[2] 12 USC 343(3).

[3] 85 FR 16232. (March 20, 2020) ("March 2020 interim final rule")

[4] 12 CFR 217.403.

the greater of the resulting surcharges under the two methodologies is the GSIB surcharge applicable to the firm. The data used to calculate a GSIB surcharge in a given year is year-end data from the prior year. In general, the GSIB surcharge takes effect a year and a day after the as of date of the data.[5] However, if a GSIB would be subject to an increased GSIB surcharge, the increased GSIB surcharge does not take effect until the beginning of the calendar year after the immediately following calendar year.[6]

Additionally, the Board's GSIB surcharge rule does not require a firm to increase its GSIB surcharge if the firm's surcharge is reduced during the next year. Specifically, a GSIB may be scheduled to increase its GSIB surcharge based on its score. However, if that score is reduced during the next GSIB surcharge calculation—before the increased surcharge takes effect—the increased GSIB surcharge would never take effect and the firm would remain at its original GSIB surcharge throughout.

Based on data as of December 31, 2019, State Street's method 2 score was 190 basis points, resulting in a 1.0 percent GSIB surcharge. Based on data as of December 31, 2020, State Street the firm's method 2 score was 245 basis points, which would result in a 1.5 percent GSIB surcharge starting on January 1, 2023.

State Street requests that the Board take action to neutralize the effects of participation in the MMLF in the GSIB surcharge framework, in a manner similar to that which the Board took in March 2020 to neutralize effects of MMLF participation on risk-based and leverage capital ratios. State Street represents that it was the largest participant in the MMLF and that its participation in the MMLF represents 18 basis points out of its year-end 2020 method 2 score of 245 basis points. As a result, State Street notes that, had it not participated in the MMLF, its method 2 score would have been 227 basis points, which would have resulted in a 1.0 percent GSIB surcharge.

In evaluating State Street's request, I considered the risk of MMLF exposures, the Board's actions to neutralize the effect of MMLF participation on the risk-based and leverage capital requirements, and the role of financial institution participation in the MMLF to achieve its financial stability purpose.[7] Based on all the facts and representations set forth in State Street's request and in related correspondence, and acting pursuant to authority delegated by the Board under section 265.5(a)(2) of the Board's Rules Regarding Delegation of Authority,[8] I have granted a one-year extension, until January 1, 2024, for State Street to apply the 1.5 percent GSIB surcharge calculated based on its systemic footprint as of December 31, 2020.

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[5] 12 CFR 217.403(d)(1).

[6] 12 CFR 217.403(d)(2).

[7] In the rule neutralizing exposures to the MMLF from risk-based and leverage capital ratios, the Board described exposures to the MMLF as containing no credit or market risks. 85 FR 16232, 16234 (March 23, 2020).

[8] 12 CFR 265.5(a)(2).

This action will provide State Street with one additional year to retain its surcharge at 1.0 percent thereby giving the firm additional time to take actions to shrink its systemic footprint or plan for the higher surcharge level.

This action is consistent with other regulatory efforts to neutralize the regulatory capital effects of participation in the Board's emergency lending facilities. It is also consistent with the feature of the GSIB surcharge rule where a firm is not subject to an increased surcharge if it subsequently reduces its systemic footprint score. Additionally, the action is specific to the circumstances of State Street where there is a demonstrable regulatory consequence solely due to the firm's participation in the Board's emergency lending facilities.

This action is based on all the facts of record and the representations in your submissions. Any material change in those facts or representations could affect this action and should be communicated promptly to Board staff. This action should not be construed as granting relief from any other conditions, commitments, or requirements to which State Street may be subject.

Very truly yours,

(Signed) Ann E. Misback

Ann E. Misback
Secretary of the Board