April 12, 2016

Mr. Jay Hooley
Chairman and Chief Executive Officer
State Street Corporation
State Street Financial Center
One Lincoln Street, 11th Floor
Boston, Massachusetts 02111

Dear Mr. Hooley:

On July 1, 2015, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC) (together, the Agencies) received the annual resolution plan submission (2015 Plan) of State Street Corporation (STT) required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 and 12 CFR Part 381 (the Resolution Plan Rule). The Agencies have reviewed the 2015 Plan taking into consideration section 165(d) of the Dodd-Frank Act, the Resolution Plan Rule, the letter that the Agencies provided to STT in August 2014 (the 2014 Letter) regarding STT's 2013 resolution plan submission, the communication the Agencies made to STT in February 2015 clarifying the 2014 Letter (the 2015 Communication), other guidance provided by the Agencies, and other supervisory information available to the Agencies.

In reviewing the 2015 Plan, the Agencies noted improvements over prior resolution plan submissions of STT. Nonetheless, the Agencies have jointly determined pursuant to section 165(d) of the Dodd-Frank Act and section .5(b) of the Resolution Plan Rule that the 2015

Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code. Section II of this letter identifies the aspects of the 2015 Plan that the Agencies jointly determined to be deficient.

STT must provide a submission that addresses the deficiencies jointly identified by the Agencies and otherwise satisfies the requirements of section .5(c) of the Resolution Plan Rule by October 1, 2016 (2016 Submission). The 2016 Submission must include a separate public section that explains the actions the firm has taken to address the jointly identified deficiencies. The 2016 Submission will satisfy the informational requirements of STT's annual resolution plan submission for 2016 (i.e., the 2016 Submission is not required to contain informational content other than as specified in this letter). In the event that the 2016 Submission does not adequately remedy the deficiencies identified by the Agencies in this letter, the Agencies may jointly determine pursuant to section .6 of the Resolution Plan Rule that STT or any of its subsidiaries shall be subject to more stringent capital, leverage, or liquidity requirements, or restrictions on their growth, activities, or operations.

In addition, the Agencies have identified a shortcoming in the 2015 Plan. The Agencies will review the plan due on July 1, 2017 (2017 Plan) to determine if STT has satisfactorily addressed the shortcoming identified in Section III below. If the Agencies jointly decide that this matter is not satisfactorily addressed in the 2017 Plan, the Agencies may determine jointly that the 2017 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code. The 2016 Submission should include a status report on STT's actions to address the shortcoming. The public section of the 2016 Submission also should explain, at a high level, the actions the firm plans to take to address the shortcoming.

I. Background

Section 165(d) of the Dodd-Frank Act requires that each bank holding company with $50 billion or more in total consolidated assets and each designated nonbank financial company report to the Agencies the plan of such company for its rapid and orderly resolution in the event of material financial distress or failure. Under the statute, the Agencies may jointly determine, based on their review, that the plan is "not credible or would not facilitate an orderly resolution of the company under Title 11, United States Code."[1] The statute and the Resolution Plan Rule provide a process by which the deficiencies jointly identified by the Agencies in such a plan may be remedied.

In addition to the Resolution Plan Rule, the Agencies have provided supplemental written information and guidance to assist STT's development of a resolution plan that satisfies the requirements of section 165(d) of the Dodd-Frank Act. This information and guidance included:

- The April 2013 joint guidance to 2012 plan filers, which addressed a number of resolution plan issues and detailed five significant obstacles to orderly resolution in bankruptcy (multiple competing insolvencies, global cooperation, operations and interconnections, counterparty actions, and liquidity and funding).[2]

- The 2014 Letter, which outlined a number of shortcomings in the 2013 resolution plan submission and specific issues to be addressed in the 2015 Plan. The 2014 Letter explicitly reminded STT that failure to make demonstrable progress in addressing these shortcomings and in taking the additional actions set forth in the 2014 Letter could result in a joint determination that STT's 2015 Plan is not credible or would not facilitate orderly resolution in bankruptcy.

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[1] 12 U.S.C. § 5365(d)(4),

[2] *See* "Guidance for 2013 §165(d) Annual Resolution Plan Submissions by Domestic Covered Companies that Submitted Initial Resolution Plans in 2012" (2013 Guidance), issued jointly by the Agencies on April 15, 2013. The 2013 Guidance further noted that "this list of Obstacles is not exhaustive and does not preclude other Obstacles from being identified by the Agencies in the future, nor does it preclude Covered Companies from identifying and addressing other weaknesses or potential impediments to resolution."

- The 2015 Communication, which provided additional staff guidance in response to STT's December 2014 submission describing certain proposed elements of the 2015 Plan. Among other things, the 2015 Communication reminded firms to make conservative assumptions and provide substantial supporting analysis concerning certain of the proposed 2015 Plan elements.

Furthermore, since the release of the 2014 Letter, the Agencies have made staff available to answer questions related to the 2015 Plan.

In July 2015, the Agencies received the 2015 Plan and began their review. The Agencies reviewed STT's 2015 Plan to determine whether it satisfies the requirements of section 165(d) of the Dodd-Frank Act and the Resolution Plan Rule. As part of their review, the Agencies assessed whether the 2015 Plan addressed each of the items identified in the 2014 Letter and the 2015 Communication, including whether the firm has made demonstrable progress to improve resolvability under the U.S. Bankruptcy Code based on the actions that the firm had completed by the 2015 Plan date against the firm's full-implementation schedule. Firms were expected to provide a timetable for completion of the remaining actions after the 2015 Plan date that included well-identified interim achievement benchmarks against which the Agencies can measure progress. Planned future actions are generally expected to be fully implemented by the date of the firm's 2017 Plan or earlier.[3]

Progress Made by STT

Over the past several years, STT has taken important steps to enhance the firm's resolvability and facilitate its orderly resolution in bankruptcy, including:

- Since the crisis, the firm has increased firm-wide high-quality liquid assets.

[3] The 2015 Communication explicitly advised that remaining actions required by the Agencies in the 2014 Letter and the 2015 Communication to improve resolvability generally are expected to be completed no later than July 1, 2017.

- In addition to improving its overall capital position, STT has complied with the clean holding company guidance from the 2014 Letter and 2015 Communication.

- The firm has strengthened its governance related to resolution through the formation of a [redacted] committee; continued to develop a governance playbook that addresses how its board of directors would execute its resolution strategy and deal with potential conflicts and stress events; and developed a communication plan to address regulators and other constituencies in resolution and an employee retention plan that identifies critical staff.

- The firm has developed a securities lending playbook that documents the necessary steps to unwind securities finance arrangements.

- STT has moved certain [redacted] entities out of its [redacted]; initiated the development of a playbook [redacted]; and reduced the overall number of legal entities in its organization.

- The firm has adhered to the International Swaps and Derivatives Association 2015 Universal Resolution Stay Protocol.

II. Deficiencies and Remediation

Notwithstanding the noted progress STT has made to date, the Agencies jointly identified four aspects of the 2015 Plan that are deficient.

OPERATIONAL

Shared Services: The Agencies identified a deficiency regarding shared services in the 2015 Plan. As provided in both the 2014 Letter and the 2015 Communication, the Agencies expected the 2015 Plan to reflect that STT has established service level agreements (SLAs) and contingency arrangements between material entities,[4] as well as between material entities and third parties, to ensure surviving entities would have continued access to services that support

[4] "Material entities," "critical operations," and "core business lines" refer to the material entities, critical operations, and core business lines identified in the 2015 Plan.

critical operations. As explained below, STT has not made sufficient progress toward identifying shared services and establishing SLAs and contingency arrangements.

In particular, STT has not made demonstrable progress towards developing an actionable implementation plan to ensure the continuity of shared services that support critical operations (critical services). The firm has not completed the identification of its shared services [redacted]. The identification of shared services is a fundamental first step toward achieving basic capabilities related to the continuation (including transfer or wind-down) of critical operations in resolution. Failure to have completed the identification of the critical services raises uncertainty about STT's ability to maintain critical operations and execute its preferred resolution strategy.

To address this deficiency, by the 2016 Submission STT must identify all critical services; maintain a mapping of how and where these services support its core business lines and critical operations; and incorporate such mapping into its legal entity rationalization criteria and implementation efforts (i.e., stating that all critical services are provided in the bank chain does not suffice).

LEGAL ENTITY RATIONALIZATION

The Agencies also identified a deficiency in the 2015 Plan regarding the criteria for a rational and less-complex legal entity structure.

The 2014 Letter directed STT to develop a set of criteria for a rational legal entity structure that would consider the best alignment of legal entities and business lines to improve the firm's resolvability. While STT provided criteria for a rational legal entity structure (LER Criteria), the LER Criteria are not appropriately focused on resolution considerations as many of

the criteria do not mandate or clearly lead to actions or arrangements that promote the best alignment of legal entities and business lines to improve the firm's resolvability. Specifically, a number of criteria in the 2015 Plan provide a significant amount of discretion to determine that increased complexity may be permitted without regard to the effects of that complexity on resolvability. This discretion could be used, for example, to prioritize business-as-usual needs over resolution needs in determining which project plans are undertaken. Other criteria do not focus on complexity at all [redacted] While conducting business as usual in an efficient way is an important factor in designing the structure of the firm, the resolution plan must include an adequate framework for determining when the benefits of resolution planning outweigh increased complexity, and, importantly, how the firm would address the impediments to resolution that are created by increased complexity that might serve business as usual.

To address this deficiency, STT's 2016 Submission must establish criteria that (A) are clear, actionable, and promote the best alignment of legal entities and business lines to improve the firm's resolvability, and (B) include the facilitation of the recapitalization of material entities prior to the resolution period. The 2016 Submission also should reflect that STT has established governance procedures to ensure its revised LER Criteria are applied on an ongoing basis.

CAPITAL

Resolution Capital Execution Need: The Agencies have identified a deficiency in the 2015 Plan regarding the methodology used to determine the capital needed by material entities at the point of resolution to support the execution of the resolution strategy. The 2015 Plan assumed that the recapitalization level of State Street Bank and Trust (SSBT), the lead bank,

would be sufficient to successfully execute the single point of entry (SPOE) strategy. While the 2015 Plan projects that SSBT would be recapitalized [redacted] do not reflect well-capitalized positions at all times during the resolution period as reflected in the table below:

[redacted]

Furthermore, assumptions regarding the rapid indemnification liability reduction raise questions as to the sufficiency of the recapitalization level. The 2015 Plan projected that STT's indemnification liabilities associated with securities lending transactions—which comprised $[redacted] of risk-weighted asseets (RWAs) on December 31, 2014—would decline to $[redacted] at initial recapitalization and $[redacted] at the end of [redacted]. This reduction in RWA is premised on (A) [redacted], and (B) [redacted] The 2015 Plan did not provide analysis supporting the assumed [redacted]. Absent this analysis, STT's projected reduction in RWAs is questionable and could potentially overstate the

associated projected Total RBC ratio.

To address the deficiency, the 2016 Submission must include a revised capital projection in resolution that meets or exceeds the prompt corrective action (PCA) well-capitalized standard for [redacted] and [redacted]. The revised projection should include an explanation of what adjustments had to be made in other parts of the 2015 Plan to meet the standard, as well as analysis supporting such adjustments.

In addition, the firm should provide an analysis of the reduction in RWAs associated with securities lending, including analysis of the plausibility of the speed by which the underlying components unwind.[5]

LIQUIDITY

Resolution Liquidity Execution Need (RLEN): The Agencies identified a deficiency regarding liquidity in the 2015 Plan. As described below, STT does not have an appropriate model and process for estimating its liquidity needs to fund its material entities during the resolution period, and to continue supporting the provision of payment, clearing, and settlement (PCS) services to clients. In particular, the firm's 2015 Plan assumes that approximately $[redacted] at SSBT would cover non-PCS working capital needs not already captured in the 2015 Plan. The firm did not provide daily cash flow forecasts by material entity to support the estimation of peak funding needs to stabilize each entity in resolution. The firm also did not link its estimate of the liquidity need in resolution to the governance mechanism for informing the firm's board of directors of when it might need to take resolution related actions.

[5] Total cash reinvested from securities lending is nearly $[redacted].

Specifically, STT's liquidity methodology did not provide for daily cash flow forecasts over the entire stabilization period. The 2015 Plan only provided [redacted] cash flows during the runway and for the [redacted] after the parent's bankruptcy filing. In addition, while these [redacted] cash flow projections estimated [redacted] for each material entity during this period, the resolution liquidity need was not specifically stated for all material entities. For example, the liquidity need was not provided for [redacted], which would have needed to consider STT's bankruptcy filing and [redacted]. In particular, the 2015 Plan failed to support [redacted] stabilization given the nominal volume of projected available liquidity in [redacted] at "stabilization" [redacted]

Additionally, [redacted] liquidity projection was dependent on the following assumptions that require additional support: (A) [redacted] and (B) [redacted]. Further, STT did not link its estimate of the liquidity needed to fund its material entities in resolution to the firm's governance playbooks or to informing the board of directors of when it might need to take resolution-related actions.

To address this deficiency, in the 2016 Submission, STT must provide an enhanced model and process for estimating the minimum liquidity needed to fund material entities in resolution to ensure that material entities could continue (A) operating consistent with regulatory requirements, market expectations, and STT's post-failure strategy and (B) supporting the provision of PCS services to clients. The 2016 Submission should include a description of the model and process enhancements and their impacts on the estimation of the liquidity needed to

execute the firm's strategy in resolution. Such enhancements should include greater detail on the estimation of the minimum operating liquidity, especially for non-PCS activities, required by each material entity. In addition, given the modest size of the firm's projected buffer to cover peak needs (i.e., $[redacted]), the estimate of the peak daily funding needs of each material entity throughout the entire stabilization period should capture potential peak needs from a [redacted]. The estimate of the minimum operating liquidity need should not only capture net settlement obligations, but also capture non-PCS working capital needs and any other conservative buffers needed to ensure that material entities can operate without disruption throughout the resolution period.

The estimate of the minimum liquidity needed to fund material entities in resolution relative to the firm's available liquidity should be used to inform the board of directors of when the parent company may need to file for bankruptcy.

III. Shortcomings

STT must address the shortcoming identified in this letter in its 2017 Plan. If the Agencies jointly decide that this matter is not satisfactorily addressed in the 2017 Plan, the Agencies may determine jointly that the 2017 Plan is not credible or would not facilitate an orderly resolution under the U.S. Bankruptcy Code.

GOVERNANCE MECHANISMS

Playbooks and Triggers: In the 2015 Communication, the Agencies directed STT to identify the governance mechanisms in place or in development that would ensure execution of the required board actions at the appropriate time (as anticipated under STT's preferred strategy), to include pre-action triggers and existing agreements for such actions. Such governance mechanisms are critical to STT's resolution strategy because the 2015 Plan relied upon, among

other things, the timely downstreaming of significant financial resources from STT to SSBT and timely filing for bankruptcy, as indicated by the 2015 Plan's failure to recapitalize SSBT to well-capitalized positions at all times during the resolution period.

While a project plan is established, governance playbooks have not been fully developed. Preliminary drafts of the governance playbooks that were provided in the 2015 Plan identified actions across the stages STT would need to consider through the resolution period, but lacked specific triggers to certain stages, e.g., runway and resolution weekend, for escalating information to STT's senior management and board to consider actions associated with that stage. Additionally, the 2015 Plan did not include triggers to inject capital and liquidity into material entities as contemplated under the firm's SPOE strategy. Nor did the 2015 Plan include triggers that directly connect the liquidity and capital needed to execute the SPOE strategy with the decision to file for bankruptcy.

To address this shortcoming, the 2017 Plan should finalize the board playbooks submitted in the 2015 Plan. The finalized playbooks must include clearly identified triggers linked to specific actions for:

(A) the escalation of information to senior management and the board(s) to potentially take the corresponding actions at each stage of distress post-recovery leading eventually to the decision to file for bankruptcy;

(B) successful recapitalization of subsidiaries prior to bankruptcy and funding such entities during the parent company's bankruptcy to the extent the preferred strategy relies on such actions or support; and

(C) timely execution of a bankruptcy filing and related pre-filing actions.[6]

These triggers should be based, at a minimum, on capital, liquidity, and market metrics, and should incorporate STT's methodologies for forecasting the liquidity and capital needed to operate following a bankruptcy filing.

The FDIC considers this shortcoming regarding governance mechanisms to be a deficiency in the 2015 Plan.

Pre-bankruptcy Parent Support: As noted, the 2015 Plan presented an Asset Restriction Agreement and stated that a capital contribution agreement is being considered. The Agencies identified a shortcoming in the 2015 Plan regarding STT's limited analysis of the range of potential legal challenges that could adversely affect STT's approach to providing capital and liquidity to the subsidiaries prior to bankruptcy (Support).

To address this shortcoming, the 2017 Plan should further develop a detailed legal analysis of the potential state law and bankruptcy law challenges and mitigants to the planned provision of Support. Specifically, the analysis should identify any potential legal obstacles and explain how STT would seek to ensure that Support would be provided as planned.

The 2017 Plan also should include the mitigant(s) to potential challenges to the planned Support that STT considers most effective. In identifying appropriate mitigants, STT should consider the effectiveness of mitigants other than, or in addition to, a contractually binding mechanism, such as pre-positioning of financial resources in material entities and the creation of an intermediate holding company.

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[6] Key pre-filing actions include the preparation of any emergency motion required to be decided on the first day of the firm's bankruptcy.

The governance playbooks included in the 2017 Plan should incorporate any developments from STT's further analysis of potential legal challenges regarding Support, including any Support approach(es) STT has implemented.

IV. Conclusion

If you have any questions about the information communicated in this letter, please contact the Agencies.

Very truly yours,

(Signed)

Robert deV. Frierson
Secretary of the Board
Board of Governors of the
Federal Reserve System

Very truly yours,

(Signed)

Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation