

Federal Reserve Bank of Boston

To: Basel II ANPR Public File**Date:** June 14, 2004**From:** Patrick deFontnouvelle and
Victoria Garrity**Subject:** Meeting with State Street Corporation

Attendees: Representatives from State Street Corporation (SSC): Robert Kelliher, Jr., Global Investor Services Group, and Wendy LaVoie, Enterprise Risk Management. Federal Reserve Bank of Boston representatives: Patrick deFontnouvelle, Linda Barriga, and Victoria Garrity.

Purpose: To obtain information on competition in the custody business in connection with a study to assess the competitive impact of the Basel II Operational Risk capital charge.

Perspective: SSC is the world's largest global custodian with assets under custody of \$9.4 trillion. SSC is the holding company for State Street Bank & Trust Company, a state member bank. SSC is not a traditional bank holding company in that its primary business focuses on custody and asset management rather than lending.

Key Points Discussed:*(1) Costs of Basel II*

SSC views the costs of adopting the advanced approaches of Basel II as significant, particularly costs for human and technology resources. However, in their view, much of the efforts made for economic capital purposes can be leveraged for compliance with Basel II.

(2) Competitors

SSC views its competitors as banking institutions with significant custody operations such as Bank of New York, Citigroup, and JPMorgan Chase. Other competitors include Brown Brothers Harriman and technology-focused companies such as SEI and Bisys.

(3) Definition of Custody Activities

The business SSC acquired from Deutsche Bank (Global Securities Services) was custody-only. While SSC's existing business provided a bundled custody product as well as custody-only, it had been and continues to be more typical for SSC to provide custody and accounting services as a bundled product. In defining competition, custody and accounting could be viewed as two separate services, although many clients prefer to purchase them as a bundled product. Transfer agency activities can also be viewed as separate from custody. Nonbanks in this business line compete with SSC's joint venture with DST Systems, BFDS (Boston Financial Data Services), and they are not subject to bank capital requirements.

(4) Geography of the Custody Market

Competition in the custody market depends on which entities provide services in a given geographical area. For example, foreign banks are not significant competitors in the U.S. market, but European banks are significant competitors in Europe. Companies such as

Pictet & Cie and Julius Baer are significant competitors primarily in Switzerland. National Australia Group is a significant competitor in Australia, but is only focused on that market.

(5) *Products/Customer*

In SSC's investor presentations the company provides the number of products/customer for its top 100 and top 1,000 clients. While this data refers to all services provided by SSC, these statistics are representative of the products/customer in the securities services business.

(6) *Processing*

Aside from custody and asset management, State Street provides services through a joint venture with Citigroup called CitiStreet. CitiStreet provides retirement and benefit plan administration. In this arena, SSC competes with nonbanks.