Meeting Between Staff of the Federal Reserve Board, State Street Corporation (State Street), and The Bank of New York Mellon Corporation (BNYM) February 14, 2014

Participants:  Anna Lee Hewko, Thomas Boemio, Constance Horsley, Norah Barger, Juan Climent, Sviatlana Phelan, Justyna Milewski, and Mark Buresh (Federal Reserve Board)

Joe Barry, Simon Zornoza, John Slyconish, Sean Newth, and Glenn Horner (State Street)

Eli Peterson and Frank Austin (BNYM)

Summary:  Staff of the Federal Reserve Board participated in a conference call with representatives of State Street and BNYM to discuss the Board’s proposed supplementary leverage ratio rule, as well as agreements reached by the Basel Committee on Banking Supervision on the international leverage ratio that the Board and the other banking agencies may propose as amendments to the capital rules. The representatives of State Street and BNYM identified issues to consider in finalizing the proposed supplementary leverage ratio rule and potential future revisions to the Board’s regulatory capital rules, with an emphasis on the special characteristics of and appropriate level of capital for banking organizations with significant custodial business operations. State Street also provided the attached document, which provides additional detail on the topics discussed during the call.

Attachment
State Street/BNY-Mellon/Federal Reserve Board
10am February 14, 2014 --- by conference call

**Purpose:** Discuss custody bank views on the incorporation of changes in the Basel III leverage ratio into US rulemaking on the supplemental leverage ratio (SLR).

**Participants:**

*State Street*
- Joe Barry, SVP, Regulatory, Industry, and Government Affairs
- Simon Zornoza, SVP, Senior Regulatory Counsel
- John Slyconish, SVP and Assistant Treasurer
- Sean Newth, SVP, Accounting Policy
- Glenn Horner, VP, Securities Finance
- Rob McKeon, VP, Regulatory, Industry, and Government Affairs

*BNY-Mellon*
- Eli Peterson, Managing Director and Senior Managing Counsel
- Frank Austin, Managing Director

**Proposed Agenda**

1) *Key custody bank issues not addressed by the Basel Committee:*
   - a. Exclusion for national central bank placements
   - b. Risk calibration for custody banks in the US proposed framework
   - c. Support a tailored approach much like the tailored approach for G-SIB surcharges

2) *Basel Committee introduces national discretion to permit daily average vs. month-end averaging*
   - a. Custody banks suggest an optional “hybrid” approach;
     - i. Daily average for on-balance sheet assets
     - ii. Month-end average for off-balance sheet assets
     - iii. Month-end average for Tier 1 capital
   - b. Agree with the requirement regarding the consistent use of one approach

3) *Basel Committee incorporates standardized credit conversion factors (CCF) for certain off-balance exposures*
   - a. Support the standardized approach CCFs in the SLR
   - b. Committed lines of funding to ’40 Act and other similar funds is the key exposure for custody banks
   - c. Without the use of CCFs, a punitive 100% conversion factor would apply

4) *Securities Finance Transactions (SFT)*
   - a. Agency (SFT)
     - i. Custody banks agree with the Basel Committee approach – use of current exposure measure for indemnified agency transactions
     - ii. Suggest technical clarification on certain industry practices
       1. Use of omnibus accounts to hold segregated client collateral
       2. Ability to provide pre-determined income on securities placed on loan
   - b. Principal (SFT)
     - i. Support capital treatment aligned with net economic exposure.