



29 April 2022

General Manager, Policy  
Policy and Advice  
Australian Prudential Regulation Authority

Via email: [PolicyDevelopment@apra.gov.au](mailto:PolicyDevelopment@apra.gov.au)

**Discussion Paper on strengthening crisis preparedness**

Dear Sir or Madam,

State Street Corporation (State Street) appreciates the opportunity to comment on the discussion paper issued by the Australian Prudential Regulation Authority (APRA) titled *Strengthening Crisis Preparedness* (the Discussion Paper) and the two related draft prudential standards regarding financial contingency planning and resolution planning which aim to ensure that regulated entities are well prepared for situations that may threaten their viability.

Headquartered in Boston, Massachusetts, State Street is a global custody bank which specialises in the provision of financial services to institutional investor clients. This includes investment servicing, investment management, data and analytics, investment research and trading. With USD 43.7 trillion in assets under custody and administration and USD 4.1 trillion in assets under management, State Street offers its clients the ability to transact and hold assets in more than 100 geographic markets<sup>1</sup>. State Street is organised as a United States (US) bank holding company and is one of eight US headquartered entities which have been designated as a global systemically important bank (G-SIB).

State Street's operations are conducted through several entities, primarily its wholly-owned Massachusetts state-chartered insured depository institution subsidiary, State Street Bank and Trust Company (SSBT). This includes in Australia, the Sydney Branch of SSBT, which is subject to regulation by APRA and provides investment research and trading services for institutional investor clients, such as foreign exchange sales, securities lending and portfolio solutions. Furthermore, we offer custodial services in the Australian market via State Street Australia Limited, which is subject to regulation by the Australian Securities and Investments Commission.

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<sup>1</sup> As of 31 December 2021

In this submission, we provide an overview of our global approach to resolution planning and emphasise our backing for greater proportionality in the prudential framework. Broadly speaking, we support the alignment of a single definition of a significant financial institution (SFI) across all prudential standards, and APRA's proposal to make public the list of SFIs. In addition, we encourage APRA to provide clarity on its intended review of critical functions for purposes of resolution planning.

### **State Street's approach to resolution planning**

State Street has adopted and operates an integrated approach to resolution planning on a firm-wide basis. As one of the eight US G-SIBs, we are subject to the most stringent requirements in relation to resolution planning under the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules issued therein by the Board of Governors of the Federal Reserve System and Federal Deposit Insurance Corporation. Our Single Point of Entry strategy, that has been in effect since 2017, provides a credible plan for our rapid and orderly resolution in the event of material financial distress or failure, and would substantially mitigate the impact that our failure would have on financial market stability generally and in the primary locations where State Street operates. We continually review our businesses, operations and legal entities to enhance our resolvability based on ongoing dialogue with the regulatory community and we make changes to our processes and structures to better support resolvability. A high-level overview of our resolution strategy and planning process is publicly available for review, with the last public filing published in July 2021<sup>2</sup>.

### **Proportionality and the concept of SFI in CPS 190 and CPS 900**

According to APRA, "In recent years, [it] has incorporated greater proportionality within its prudential framework by subjecting smaller and less complex entities to simpler requirements ... Under these prudential standards, entities determined to be significant financial institutions (SFIs) have been subject to higher requirements, compared to those entities that are not SFIs. SFIs are entities with assets above a certain size or entities determined as such by APRA, taking into account matters such as complexity and group membership"<sup>3</sup>.

Consistent with this approach, the concept of an SFI is also used to determine the applicability of the two proposed standards in the Discussion Paper:

- CSP 190 Contingency Planning - requires regulated entities to develop financial contingency plans, and the requirements differ depending on whether the entity is considered an SFI or a non-SFI.
- CPS 900 Resolution Planning – requires compliance from only SFIs and non-SFIs providing 'critical functions'.

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<sup>2</sup> <https://www.federalreserve.gov/supervisionreg/resolution-plans/state-street-3g-20210701.pdf>

<sup>3</sup> *Consultation on minor amendments to centralise the definition of a significant financial institution*, p.1, APRA (4 April 2022)

We commend APRA's efforts to develop an approach to CPS 190 and CPS 900 that aligns an entity's risk profile with the corresponding requirements; thereby allowing entities the flexibility to meet the intended requirements in a way that is appropriate to their particular business model and the risk they present to the financial system.

Regarding the definition of SFI, APRA recently initiated a separate consultation on amendments to rationalise the definition of an SFI<sup>4</sup>, proposing to (i) align the same definition across all prudential standards, and (ii) to make public the list of SFIs following the conclusion of the consultative process. We support these proposals and appreciate APRA's efforts to enhance transparency in the regulatory framework.

In terms of assessing the criticality of an entity's functions, we note that the Discussion Paper sets out a number of factors that APRA may consider, including: size, market share and the degree of readily available substitutes. We encourage APRA to provide more clarity on its intended approach, as well as information on the methodology and plans to conduct the review of critical functions.

### **CPS 190, CPS 900 and foreign branches of G-SIBs**

Consistent with APRA's emphasis on proportionality in prudential regulation, we note that local branches of foreign banks, especially branches of G-SIBs, merit special attention as they are not established as separate legal entities in Australia, and are already subject to comprehensive recovery and resolution planning mandates in their principal places of business (i.e. their 'home jurisdictions').

As such, when assessing the applicability of CPS 190 and CPS 900 for regulated foreign branches of G-SIBs, we strongly recommend that these entities should not be required to maintain a new set of contingency and resolution planning arrangements at the branch level as long as they can (i) demonstrate that the requirements in their respective home jurisdictions are materially equivalent to those set out in CPS 190 and CPS 900 and (ii) have been satisfactorily met at the consolidated group level. In addition to being consistent with APRA's emphasis on greater proportionality in the ruleset for banks, this approach will help avoid excessive compliance costs and undue regulatory burden.

### **Conclusion**

Thank you again for the opportunity to comment on the matters raised in the Consultative Document. State Street stands ready to work with APRA as it further considers the appropriate scope of its proposed rulemaking. We would be pleased to arrange a follow up meeting to offer more context on our global recovery and resolution process and to address any questions that APRA may have.

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<sup>4</sup> <https://www.apra.gov.au/consultation-on-minor-amendments-to-centralise-definition-of-a-significant-financial-institution>

Please feel free to contact Clare Belsten ([complianceaustralia@statestreet.com](mailto:complianceaustralia@statestreet.com)) should you wish to discuss the content of this submission in greater detail. We remain at your disposal for support and further assistance.

Sincerely,

A handwritten signature in blue ink, appearing to read "James Woodward", with a stylized flourish at the end.

James Woodward  
SSBT Sydney Branch Manager