



State Street Trust Company
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September 28, 2021

Office of the Superintendent of Financial Institutions
255 Albert Street
12th Floor
Ottawa, Ontario
K1A 0H2

Via electronic submission: Consultations@osfi-bsif.gc.ca

Re: Prudential treatment of crypto asset exposures

Dear Sir/Madam:

State Street Corporation (“State Street”) welcomes the opportunity to comment on the consultative letter issued by the Office of the Superintendent of Financial Institutions (“OSFI”) regarding the development of a prudential framework for bank exposures to crypto-assets¹. As referenced in the OSFI letter, the Basel Committee on Banking Supervision (“Basel Committee”) recently issued a consultation paper that reflects the rapid growth of interest in crypto-assets within the financial industry and therefore the need to define a regulatory approach for these assets that helps promote responsible innovation within the banking sector, while also addressing potential new risks and their implications for financial stability². We appreciate and support OSFI and the Basel Committee’s efforts, and we agree that the development of a prudential framework for crypto-assets is likely to require an iterative process that is open to change over time as experience with the underlying technology and financial services industry use cases grow.

Headquartered in Boston, Massachusetts, State Street is a global custody bank which specializes in the provision of financial services to institutional investor clients. This includes investment servicing, investment management, data and analytics, and investment research and trading. With \$42.6 trillion in assets under custody and administration and \$3.9 trillion in assets under management, State Street operates in more than 100 geographic markets³. In Canada, State Street provides global custody and local financial services through its wholly-owned subsidiary, State Street Trust Company Canada, a Canadian federal trust company, as well as the Schedule III foreign bank branch of State Street Bank and Trust Company, and State Street Global Markets Canada Inc., which provides brokerage services.

¹ https://www.osfi-bsif.gc.ca/Eng/fi-if/in-ai/Pages/prucrypt.aspx?utm_campaign=prucrypt&utm_medium=email&utm_source=osfi-bsif&utm_content=letter

² <https://www.bis.org/bcbs/publ/d519.pdf>

³ As of June 30, 2021.

In addition, we offer investment management services through State Street Global Advisors, Ltd., a wholly-owned subsidiary, and front-to-back portfolio and risk management solutions through Charles River Development, both of which have offices in Toronto.

For reference, we have attached our response to the Basel Committee's consultation which offers a series of observations on the Basel Committee's approach to the prudential treatment of crypto-assets, followed by a set of recommendations regarding the capital treatment of such assets designed to both clarify and strengthen the intended approach. Our response, we believe, addresses several of the questions posed by OSFI, including how the proposed capital treatment for crypto assets interact with our business model. In addition, we provide below brief responses to each of the six questions posed by OSFI from our perspective as a global custody bank servicing institutional clients.

Please feel free to contact me at rbaillie@statestreet.com should you wish to discuss the contents of our letter in greater detail. We welcome the opportunity to further engage with OSFI on this topic, notably on matters regarding the custody and administration of crypto-assets, and we stand ready to provide whatever assistance may be appropriate.

Respectfully,

Robert J. Baillie

Enclosure

1. How would the proposed capital treatment for crypto assets in the BCBS consultation paper interact with your current or contemplated business models in this space?

As a global custody bank, our primary focus in the crypto-asset space is on the ability to support our client's safekeeping and asset administration needs. We believe that the potential implementation of an operational risk surcharge for Group 1 assets is unnecessary and would serve as a substantive deterrent to the development of custody services by banks. We also note that the implementation of a surcharge is inconsistent the design of the new standardized measurement approach for operational risk which was adopted by the Basel Committee in late-2017.

2. Are there further regulatory capital or other prudential perspectives, beyond those contemplated in the BCBS paper, which OSFI should consider in more detail with respect to indirect crypto asset exposures, such as through crypto asset Exchange Traded Funds (ETFs)?

As a global custody bank, we believe that we have an important role to play in the provision of safekeeping and asset administration services for crypto-assets. This includes the ability to support crypto-asset ETFs and other collective investment structures, such as stable-coin mechanisms, where appropriate operational processes and controls are essential.

3. Are there additional risks from hedging a cash-settled exposure with a direct exposure (and vice versa) that should be considered, such as basis, operational, or technology risks?

As a global custody bank, we anticipate only limited instances of direct exposure to a crypto-asset, such as inventory acquired to address an operational matter and certain client trading activities offered on an agency basis. Banks with extensive trading and capital markets operations are therefore likely better placed to provide insight on this matter.

4. Are there additional considerations relevant to non-bank FRFIs that OSFI should be mindful of when developing a prudential framework for crypto assets?

We are not well positioned to offer insight on this matter.

5. Can you identify any existing crypto assets that you believe should qualify for Group 1 treatment that do not based on the proposed classification conditions? What modifications to the classification conditions would be necessary to allow these crypto assets to qualify for Group 1 treatment?

We are concerned that the highly prescriptive requirements which apply to the designation of stable-coin mechanisms as Group 1 assets, such as the 10 basis point volatility restriction over a one year horizon, could inadvertently prevent otherwise appropriately structured stable-coin mechanisms from qualifying for treatment as Group 1 assets.

6. For Group 2 crypto assets, the BCBS consultation paper does not provide any recognition to the netting of long and short positions, while it notes there are additional risks to speculative short positions. Is this a prudent capital treatment with appropriate incentives?

Given the nature of our business model, we do not believe that we are best placed to offer insight on this particular matter.

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