May 25, 2012

Via e-mail: fsb@bis.org

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002, Basel
Switzerland

Interim Report of the FSB Workstream on Securities Lending and Repos

Dear Sir or Madam:

The Bank of New York Mellon Corporation, Northern Trust Corporation, and State Street Corporation appreciate the opportunity to comment on the "Interim Report of the FSB Workstream on Securities Lending and Repos" (the "Report") issued by the Financial Stability Board (the "FSB") on April 27, 2012.

Collectively, we service over $50 trillion of assets held globally under custody or administration, and we are leading providers of agent securities lending services.

We strongly support the joint comment letter filed by the Committee on Securities Lending of the Risk Management Association ("RMA"), the International Securities Lending Association ("ISLA") and the Pan Asian Securities Lending Association ("PASLA") with the FSB in response to the Report. Our comments today are intended to reinforce and supplement the points raised by the RMA, ISLA and PASLA.

We do not oppose the FSB's workstream to develop policy recommendations to strengthen the global regulation of securities lending, and have been pleased to participate directly in discussions with the FSB on these issues. We urge the FSB, however, to fully examine the existing regulatory structure applying to all segments of the securities lending markets --- beneficial owners/lenders, borrowers, and agent lenders --- and to focus any regulatory proposals on specific regulatory gaps, and avoid duplicative regulatory requirements.

Because the Report does not propose specific regulatory reforms, this letter discusses general matters raised in the Report that we believe are relevant to an ongoing dialogue between the industry and the FSB.

Benefits of Securities Lending

We strongly urge the FSB to fully acknowledge the important role securities lending plays in the functioning of global financial markets. In addition to providing increased investment returns to asset owners (such as pension funds, collective investments (*e.g.*, mutual funds), and insurance companies), securities lending plays an important part in ensuring that securities trades settle on time, and in facilitating market making and other trading activities. Any FSB recommendations for regulatory changes that do not recognize the important function of securities lending could unnecessarily and unintentionally damage global financial markets.

Transparency

We strongly support high standards for transparency and disclosure in relation to securities lending transactions. There have been significant advances in this area over the past decade, driven largely by the needs of market participants, but we believe regulators and the public would benefit from increased and globally consistent disclosures, particularly in relation to monitoring systemic risk.

Agent Lender Practices

We disagree with the implication in Section 5.5 that agent lending indemnification of borrower default raises financial stability concerns by reducing the incentive of beneficial owners to screen and monitor the securities borrower. In fact, these indemnifications rely on and reflect the rigorous credit screening and monitoring performed by agent lenders. While beneficial owners retain full transparency into lending transactions, agent lenders, typically custody banks, are better suited to providing these screening and monitoring services than all but the largest beneficial owners.

Cash Collateral Reinvestment

Reinvestment of cash collateral is an essential feature of many securities lending transactions. Cash collateral is generally invested in short-term, liquid assets, either through commingled funds or separate accounts, under investment guidelines established by the beneficial owner. Beneficial owners participating in agent lenders' programs are seeking increased investment returns commensurate with other money market products and not aggressive risk-taking. The great majority of cash collateral is currently reinvested in short-term money market eligible instruments and highly-rated repurchase agreements. Many beneficial owners are subject to regulatory oversight of cash collateral reinvestment, and agent lenders are typically banks under the supervision of relevant OECD regulators. We agree with the observation of market participants in the Report that "AIG's pre-crisis behavior was quite atypical of broader activity at the time." While the pre-crisis actions of certain market participants certainly warrant further regulatory examination, we would request that future regulatory actions be deliberate and related to actual pre-crises behavior. The agent lending market is already highly regulated and further reforms should be crafted in such a way as to not unintentionally capture legitimate and regulated securities lending practices.

Procyclicality and Other Potential Risks

While we acknowledge that possible procyclical impacts of securities lending may justify further study, it is premature to conclude that such potential procyclicality presents a systemic risk necessitating a global regulatory response.

The Report suggests the sharp decline in securities lent in the autumn of 2008, and therefore cash collateral reinvested in money markets was linked to declines in the equity markets. This view does not reflect numerous other changes that occurred at the same time, including the imposition of additional capital and leverage requirements on securities borrowers and short selling bans implemented in many jurisdictions, which addressed many of these concerns.

The Report also notes the potential impact of 'fire-sales' of collateral on market stability. While we agree that such sales can add to market turmoil, in the event of default, securities lenders are generally required to buy-in a greater amount of assets than will be liquidated. Going forward, it will be important for the FSB to examine and understand how securities lenders address potential risks.

Finally, justifiable concerns with respect to the procyclicality of margin levels should be addressed by creating greater flexibility and legal certainty with respect to the enforceability of contractual cross-principal and cross-product close out netting provisions.

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We appreciate having the opportunity to comment on the FSB Report. We look forward to further dialogues as the FSB develops regulatory approaches to securities lending later this year.

Please feel free to contact us with any questions.

Respectfully submitted,

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