TESTIMONY OF

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BEFORE THE UNITED STATES

SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

SUBCOMMITTEE ON SECURITIES, INSURANCE, AND INVESTMENT

HEARING ON

"THE TRI-PARTY REPO MARKET: REMAINING CHALLENGES"

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Senator Reed and Members of the Subcommittee on Securities, Insurance and Investment: Thank you for the opportunity to appear before you today. My name is Steven Meier and I am the Chief Investment Officer, Global Cash Management, for State Street Global Advisors ("SSgA"), the investment management business of State Street Corporation ("State Street").

The Committee has asked me to provide an investor's perspective on the tri-party repurchase market settlement mechanism, with a specific focus on the systemic risk reducing initiatives recommended by the Federal Reserve Bank of New York's Tri-Party Repo Infrastructure Reform Task Force. I hope my testimony will assist the Committee with its important work.

State Street had the privilege of participating in this Task Force to provide investor insight into the functioning of these arrangements and the benefits of such transactions for our clients. State Street agrees with the risk reducing initiatives put forward by the Task Force and is prepared to adjust our operating model in order to address the concerns raised by the Federal Reserve Bank of New York and others, including the Financial Stability Oversight Council in its most recent report.

Background and Experience

Let me begin with a brief description of my background and experience. I have more than twenty-eight years' experience in financial services, with a focus on traditional money markets, fixed income, global cash, and financing. Today, I am an Executive Vice President of State Street and Chief Investment Officer of the cash asset. I am a member of SSgA's Senior Management Group and Investment Committee. I have the responsibility of managing a team of nearly 40 investment professionals dedicated to cash and short-term asset strategies across seven currencies located in six investment sites around the world. Our clients include state and local governments, private pension funds, corporations, endowments, charitable trusts, foreign central banks, and sovereign wealth funds.

State Street is one of the world's leading providers of financial services to institutional investors with nearly $22 trillion in assets under custody and administration, and almost $2 trillion of assets under management. As of the end of June 2012, SSgA managed global cash and short-term assets and strategies of approximately $400 billion, of which over $300 billion is denominated in US dollars. Our cash and short-term investment activities in the US span a range of asset types, including US Treasury and government agency debt, municipal debt, unsecured bank and corporate obligations, asset-backed securities, and other similar instruments including repurchase agreements. In accordance with our client risk tolerance and return objectives, repurchase agreements are a key area of focus and a core competency at our firm.

Repurchase Agreement Transactions

In a typical repurchase transaction, an investor transacts directly with a bank or broker-dealer that is looking to borrow short-term funding collateralized with assets to secure the trade. In a tri-party repurchase transaction, a third party acts as an agent to facilitate trade settlement and collateralization. On behalf of the client assets that it manages, SSgA is an investor and provider of funding in a repurchase agreement transaction. SSgA's average total US dollar repurchase transaction volume outstanding consistently exceeds $100 billion, most of which settle and are collateralized through the tri-party mechanism. While these transactions involve counter-party credit risk, the collateralization of the trades provides diversification away from unsecured credit obligations and a generally favorable risk/return dynamic. The tri-party mechanism provides significant operational efficiencies and settlement risk reduction, while also delivering transaction scale and investment capacity. Without these benefits of scale and efficiency provided by this important settlement mechanism, our repurchase transaction investment activities would be a fraction of what they are today. A diminished capacity in this core money market asset would likely cause investors to raise their holdings of unsecured debt, with increased exposure to potential credit loss and asset price volatility.

Tri-party repurchase transactions provide asset managers an excellent alternative for maintaining core, low-risk daily portfolio liquidity, as well as an instrument to enhance returns through term repurchase transactions involving a broad range of collateral. Core portfolio liquidity is typically maintained through repurchase transactions collateralized with “traditional” forms of collateral including US Treasury Bills, Notes and Bonds, government agency obligations and government agency mortgage-backed securities. These core liquidity trades typically are executed for tenors of one to seven days. In comparison, portfolio yield enhancement is often achieved through repurchase transactions that are collateralized with “non-traditional” or “alternative” forms of collateral, including investment grade corporate bonds, money market instruments, municipal obligations, asset-backed securities, high yield bonds and equities. These yield enhancement trades are typically executed for periods ranging from one week to one year. SSgA has considerable resources committed to ongoing support of these transactions and managing the risks associated with them, including dedicated senior portfolio managers, specialized technology infrastructure, operational personnel, designated collateral analysts, legal expertise, risk managers, and senior management oversight. We actively review, assess, stress test, and manage repurchase transaction collateral daily.

Task Force Recommendations

The ongoing implementation of the Task Force recommendations has resulted in considerable progress toward reducing the system risk associated with these transactions. Through altering transaction processing timelines and protocols, the industry has been able to achieve real progress. However, there is still work to be done to eliminate these risks. Additional systems enhancements and trade processing efficiencies and timing disciplines are required to reach this objective and are in-process.

It should be noted, however, the industry has made significant progress in transaction risk mitigation through ongoing Task Force discussions and findings. Specifically, participants are now more aware of the need for counterparty default contingency planning, the requirement of knowing both your counterparty and your collateral, the benefits of maturity extension, required analysis and judgment concerning collateral suitability, the need for focus on detailed repurchase transaction collateral schedules and the benefits of dynamic margining. Enhanced awareness and transparency of these issues all contribute toward an informed marketplace and a consistent source of funding and investment returns. SSgA, on behalf of its clients, has a strong interest in ensuring that these important money market investment arrangements and supporting tri-party settlement mechanism continue to be a viable and vibrant aspect of the money and capital markets. I look forward to further industry progress on improving the efficient functioning of this key market mechanism.

Thank you again for the opportunity to be here today to speak on this subject. I would be pleased to answer the Committee’s questions.