SDCERS
San Diego City Employees' Retirement System

RECEIVED
FEB 13 2009
COUNCILMEMBER
DONNA FRYE

**David B. Wescoe**
*Administrator/CEO*

February 13, 2009

Councilmember Donna Frye
City of San Diego, Sixth District
City Administration Building
202 C Street
San Diego, CA 92101

Re: Your January 26, 2009 Memorandum concerning State Street Bank

Dear Councilmember Frye:

This letter responds to the additional concerns you had about SDCERS' relationship with State Street Bank and Trust Company ("State Street"). Your questions are set out below in bold and are followed by my responses.

**Question 1. How much does SDCERS have on deposit with State Street Bank?**

As of January 30, 2009, SDCERS total portfolio totaled $3.505 billion of which $2.722 billion was held in State Street custodial accounts. (State Street does not custody all of SDCERS' assets such as real estate properties.)

SDCERS maintains ownership of the assets held in State Street custodial accounts, and they are held in SDCERS' name. Therefore, they are not assets of State Street, not reflected on State Street's balance sheet and not subject to the claims of State Street's creditors.

**Question 2. Does State Street have sufficient capital available to ensure the safety of SDCERS' deposits with it?**

State Street qualifies as a "well-capitalized" bank under the Federal Reserve's capital requirements. As of December 31, 2008, State Street's Tier 1 Capital Ratio was 20.74%, well above the Federal Reserve's 6% guideline for "well-capitalized" banks, and the highest of any bank in State Street's peer group. State Street's capital position is monitored by a number of regulators, including the Federal Reserve and the FDIC. In addition, State Street is subject to federal and state banking laws, including supervision and examination by the Federal Reserve, the FDIC and the Massachusetts Commissioner of Banks.

**Question 3. What is SDCERS' potential exposure, given State Street's current condition, and what are the risks for SDCERS at this point?**

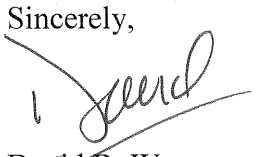
As mentioned above, State Street's "current condition" is a well-capitalized one.

Because: (1) SDCERS retains ownership of its securities, (2) SDCERS' assets are held in custodial accounts with State Street acting as custodian, and/or (3) SDCERS' assets are not reflected on State Street's balance sheet, I believe that SDCERS' potential exposure and risk is minimal.

Finally, enclosed for your information, is the testimony of Ronald E. Logue, State Street's Chairman and CEO, that he delivered to the House Financial Services Committee on February 11, 2009 that contains additional information about State Street.

I appreciate your interest in SDCERS. If you have any additional questions, please let me know.

Sincerely,



David B. Wescoe

Enclosure

Cc: Honorable Mayor Jerry Sanders
Honorable City Councilmembers
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst

STATE STREET.

**Statement of**

**Ronald E. Logue**

**Chairman and Chief Executive Officer**

**State Street Corporation**

**Before the**

**House Financial Services Committee**

**United States House of Representatives**

**February 11, 2009**

**Hearing on**

**"TARP Accountability: Use of Federal Assistance by the First TARP Recipients"**

Mr. Chairman, Ranking Member Bachus and members of the Committee, thank you for inviting me to testify today regarding the participation of State Street Corporation ("State Street") in the Treasury Department's Capital Purchase Program ("CPP").

State Street appreciates the extraordinary support that taxpayers have provided the financial services industry, and we are pleased to have the opportunity to describe our use of the taxpayers' investment.

The Committee's letter of invitation requested information about our understanding of the purpose of the CPP investment, our planned and actual use of CPP funds, our tracking of the use of CPP funds and our adoption of various conditions related to these funds, particularly for executive compensation. Our response to these questions, along with additional background on State Street and its role in the financial system, follows below.

**State Street's Role in the Financial System**

State Street provides investment servicing and investment management services to institutional investors, including pension funds, mutual funds, endowments, foundations and other collective investment pools. Unlike more traditional banks, we do not directly provide ordinary retail banking services, including mortgages, credit cards, or other consumer credit, nor do we engage in investment banking activities. Our loan activity primarily relates to the provision of credit and liquidity to our core customer base of institutional investors.

Our two lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other agency trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund operations outsourcing, performance, risk, and compliance analytics, investment research and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. Our core business, which can generally be described as "back-office" or "middle-office" in nature, generally results in a risk-profile lower than that of investment or commercial banks.

While our customer relationships are with institutional investors, our services indirectly benefit the millions of retirees, mutual fund investors and other individuals participating in these collective investments. Our role enables the investment process to run smoothly and as intended, ultimately allowing our customers' customers --- individual citizens with savings --- access to their investments when they need it.

With $12.04 trillion in assets under custody and $1.44 trillion in assets under management at December 31, 2008, State Street operates in 27 countries and more than 100 geographic markets worldwide and employs 28,275 individuals worldwide.

Even in last year's challenging environment, State Street was profitable in all four quarters of 2008. We achieved a 28% increase in revenues and a 25% gain in earnings per share versus strong financial results in 2007. We also expect to be profitable in 2009.

**Our Understanding of the Purpose of CPP investment**

State Street is one of the original nine banks invited by former Treasury Secretary Paulson to a meeting in Washington, DC on October 13, where we were each asked to participate in the CPP. I consulted with our Board of Directors, and we agreed to participate. As a result, on October 28th, we issued preferred stock and warrants to Treasury, in exchange for a $2 billion investment in State Street.

We believe we were asked to become one of the nine original CPP banks due to our unique and critical role in the financial markets. We are a large custodian and asset manager and provide services to an institutional investor customer base.

State Street is an important source of credit, liquidity and stability to the financial system. Much of the credit and liquidity we offer is provided on a temporary basis, to cover our customers' short-term trade settlement and redemption needs. We believe our use of the CPP investment should support these core functions of our business model.

**State Street's Use of the CPP Investment**

The Committee's invitation letter requests information regarding both our "planned use" of the CPP investment prior to receipt and our actual use of the CPP funds. Due to the circumstances of our involvement in the CPP described above --- we were unaware of the program until asked to participate --- we had no "planned use" prior to our acceptance of the funds. It was only after we committed to participate in the program at the October 13 Treasury meeting that we began developing plans to use the CPP investment consistent with the objectives of the Emergency Economic Stabilization Act ("EESA").

Even prior to the government's CPP investment, however, we have been an important source of stability for our customers throughout the recent market turmoil. For example, we significantly increased our provision of liquidity and credit to our core institutional investor customer base following the collapse of Lehman Brothers in September 2008.

State Street is using the $2 billion government investment to add to our ability to provide credit, liquidity and stability to the financial system.

Specifically, the government's $2 billion investment has strengthened our capital base, which, in turn, increases our lending capacity.

Following our commitment to participate in the CPP, I set a goal with our Asset and Liability Committee to deploy this additional capacity by increasing our credit and liquidity facilities to our customers by $2 billion. Since mid-October, we have approved more than $1.5 billion of these new facilities, and, given our strong pipeline, we expect to reach the $2 billion goal soon.

We hold additional capacity in reserve, so that our mutual fund and pension fund customers can borrow for their short-term liquidity needs as they arise, due to redemption requests, trade fails and other market-driven events. The level of utilization of this type of lending capacity fluctuates considerably in line with market volatility, fund flow activity and other factors. We saw, for example, substantial increases in demand for credit following the Lehman collapse, and we generally expect high levels of demand for credit during periods of market instability.

We have not used CPP funds for employee compensation, payment of dividends to investors, lobbying expenses, or acquisitions of other financial institutions.

**Accountability and Transparency**

We understand and agree with the Committee's focus on accountability and transparency in the use of CPP funds and have responded promptly and openly to all Treasury and Congressional requests for information.

Internally, we are tracking our use of CPP funds through our Asset and Liability Committee, which meets monthly.

We recently reported on our fourth quarter use of CPP funds through the new Treasury Department system, and will, of course, respond similarly to other applicable regulatory reporting systems which may be developed.

**Executive Compensation**

As noted above, State Street has not used CPP funds for employee compensation.

We have implemented all applicable EESA executive compensation restrictions and requirements, including those related to "clawbacks" of incentive compensation based on materially inaccurate information, limitations on "golden parachute" payments and limitations on the tax deductibility of senior executive compensation in excess of $500,000. In January, our Executive Compensation Committee met with our senior risk officers. This group reviewed incentive compensation arrangements of our senior executive officers to ensure such arrangements do not encourage unnecessary and excessive risk-taking, and authorized the inclusion in our proxy statement of the related required certification.

Additionally, in recognition of the unprecedented circumstances the industry is facing at this time, I am forgoing my incentive compensation for 2008, as are six other members of our leadership team. We are also taking a number of additional, related steps, including an across-the-board, company-wide salary freeze for 2009

and an approximately 50% reduction in incentive compensation for all officers, a group which includes all but our most junior employees.

**Conclusion**

The continued, unprecedented disruption in the financial markets has had a significant effect on our customers and the communities in which we do business, as well as on State Street, its shareholders and its employees. We believe that our use of the CPP funds follows the intent of Congress in enacting the EESA, is consistent with our agreement with Treasury and aligns with our business model and role in the financial markets.

We appreciate the consideration and efforts of Congress, together with Treasury, the Federal Reserve, the FDIC and other regulators, to restore stability to our financial markets, and we look forward to our continued participation in this effort.

Once again, thank you for inviting me to testify today. I would be pleased to answer any questions.