

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10410 / September 7, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18158

In the Matter of

**STATE STREET BANK
AND TRUST COMPANY,**

Respondent.

**ORDER INSTITUTING CEASE-AND-DESIST
PROCEEDINGS PURSUANT TO SECTION 8A
OF THE SECURITIES ACT OF 1933, MAKING
FINDINGS, AND IMPOSING A CEASE-AND-
DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against State Street Bank and Trust Company (“State Street” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

From September 2009 through July 2015, State Street operated a U.S. treasuries trading platform called GovEx. During the period July 2010 through October 2010, State Street provided one GovEx subscriber (“Subscriber A”) with a “Last Look” trading functionality (“Last Look”) that gave this subscriber a short period of time in which to reject a match to a quote that it had submitted on GovEx. State Street displayed Subscriber A’s quotes on GovEx without disclosing to other subscribers that Subscriber A could use Last Look to reject matches on GovEx. Eventually, Subscriber A rejected 57 such matches. State Street did not inform the counterparties to those matches that their orders had been rejected using Last Look. During the months that State Street was in the process of developing the Last Look functionality on the trading platform, State Street represented to one subscriber that there was no Last Look on GovEx, but did not mention that Last Look was being developed. By this conduct, State Street violated Section 17(a)(2) of the Securities Act.

Respondent

1. **State Street Bank and Trust Company** is a Massachusetts trust company and a subsidiary of State Street Corporation. State Street is the principal banking subsidiary of State Street Corporation, providing asset servicing to the firm’s institutional clients, including custody, accounting, transition management, fund administration, and record keeping.² State Street has a principal place of business in Boston, Massachusetts. State Street operated GovEx, as a platform for trading U.S. treasury securities (a type of government security), from September 2009 through approximately July 22, 2015.

Background

The Launch of the GovEx Trading Platform

2. State Street began developing GovEx in late 2008. State Street developed GovEx as an electronic platform that would allow non-dealers to trade U.S. treasury securities. State Street intended for GovEx to compete with established automated platforms for trading U.S. treasury securities that did not permit non-dealers to participate.

3. State Street launched GovEx on September 17, 2009. GovEx subscribers traded U.S. treasury securities electronically on GovEx.

² State Street Corporation is a financial holding company organized under Massachusetts state law and headquartered in Boston, Massachusetts. Its common stock is listed on the New York Stock Exchange under the Symbol “STT,” and it has securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934. State Street Corporation files periodic and current reports with the Commission.

Last Look Trading Functionality

4. In order for GovEx to attract subscribers and become a successful trading platform, it was critical that State Street have subscribers who were willing to serve as liquidity providers. State Street offered incentives to certain subscribers so that they would engage in market making and provide liquidity on GovEx.

5. Subscriber A had been an active participant on one of State Street's other trading platforms and it also traded government securities. State Street invited Subscriber A to become a market maker on GovEx when it launched.

6. State Street and Subscriber A began discussing the creation of a trading tool for Subscriber A on GovEx that would include Last Look in April or May of 2009. State Street began developing that tool in July or August of 2009, and the initial development of the Last Look functionality was complete in November 2009. During the first half of 2010, State Street continued to refine the Last Look technology for use on GovEx.

7. Between July 2010 and October 2010, State Street provided Subscriber A with Last Look in a single market maker account on GovEx, in which Subscriber A streamed quotes (the "Last Look Account"). Last Look gave Subscriber A a short period of time in which to reject a match to a quote that it had submitted on GovEx. State Street provided Last Look to Subscriber A to mitigate its risk as a market maker with the hope that it would provide more liquidity on GovEx. State Street did not provide this trading functionality to any other GovEx subscriber.

8. From July 2010 through October 2010, State Street connected the Last Look Account to most of the other subscriber accounts that were trading at that time on GovEx. State Street did not inform the subscribers who held these accounts that they had been connected to an account that could reject matched quotes using Last Look. State Street displayed Subscriber A's quotes to the other GovEx subscribers without disclosing that Subscriber A could—and did—use Last Look to reject matches.

9. Between July 2010 and October 2010, Subscriber A rejected 57 of the 157 matches to quotes placed by the Last Look Account. These 57 matches each had a \$1 million face value, for a total combined notional value of \$57 million.

10. Five different GovEx subscribers were counterparties to the 57 rejected matches. State Street did not inform the five counterparties involved in these 57 matches that their orders had been rejected with the use of Last Look.

11. During the period that Last Look was under development from September 2009 through at least May 2010, State Street described GovEx in various marketing materials as "fair and transparent," "a new fair market structure," "facilitat[ing] natural buy side to buy side

crossing,” and/or “a level playing field” without also disclosing that Last Look was being developed.

12. From September 2009 through October 2010, State Street provided GovEx subscribers with Financial Information eXchange (“FIX”) specifications that contained a detailed description of the order handling procedures for GovEx.³ These specifications did not disclose the existence of Last Look.

13. During September 2009, after State Street had begun developing Last Look, in response to questions from a subscriber (“Subscriber B”) about the existence of Last Look functionality on GovEx, State Street represented on two occasions that there was no Last Look on GovEx, stating, among other things, that “no one on our feed should have Last Look. There is no Last Look functionality on GovEx.”

14. On May 5, 2010, when implementation of Last Look was approaching completion, State Street again represented to Subscriber B that there was “No streaming or last look of any kind on GovEx. Its [sic] only firm orders.”

15. Subscriber A used Last Look to reject matched quotes on GovEx between July 19, 2010 and late October 2010, after which it ceased using Last Look.

16. State Street discontinued GovEx’s operations on July 22, 2015.

Violations

17. As a result of the conduct described above, State Street violated Section 17(a)(2) of the Securities Act, which prohibits, directly or indirectly, in the offer or sale of securities, obtaining money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent’s Offer.

Accordingly, pursuant to Section 8A of the Securities Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

³ The FIX specification protocol is an electronic communication protocol for real-time exchange of information related to securities transactions and markets.

B. Respondent shall, within 15 days of the entry of this Order, pay a civil money penalty in the amount of \$3,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying State Street as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to:

Robert A. Cohen
Co-Chief, Market Abuse Unit
Division of Enforcement
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a

private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Brent J. Fields
Secretary