UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9147 / September 30, 2010

SECURITIES EXCHANGE ACT OF 1934
Release No. 63018 / September 30, 2010

INVESTMENT ADVISERS ACT OF 1940
Release No. 3094 / September 30, 2010

INVESTMENT COMPANY ACT OF 1940
Release No. 29451 / September 30, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-14081

In the Matter of

JOHN P. FLANNERY, AND JAMES D. HOPKINS,

Respondents.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTION 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940

I.

The United States Securities and Exchange Commission (the "Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Section 203(f) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against John P. Flannery ("Flannery") and James D. Hopkins ("Hopkins") (collectively, "the Respondents").

II.

After an investigation, the Division of Enforcement alleges that:

A. SUMMARY

1. During the subprime mortgage crisis in 2007, State Street Bank and Trust Company ("State Street") and two of its employees, Hopkins and Flannery, engaged in a course of business and made material misrepresentations and omissions that misled investors about the extent of subprime mortgage-backed securities held in certain unregistered funds under State Street's management. The effect of this course of business and these misrepresentations was to cause the misled investors to continue to purchase or continue to hold their investments in these funds. As a result of State Street's and the Respondents' conduct, investors in State Street's funds lost hundreds of millions of dollars during the subprime market meltdown in mid-2007.

2. State Street offered investments in certain collective trust funds to institutional investors that were customers of State Street, including pension funds, employee retirement plans, and charities. These funds included two substantially identical funds – referred to together as the Limited Duration Bond Fund (the "Fund") – made available to different categories of investors. Other actively-managed bond funds and a commodity futures index fund managed by State Street ("the related funds") also invested in the Fund. State Street established the Fund in 2002 and State Street and Hopkins marketed the Fund by saying it utilized an "enhanced cash" investment strategy that was an alternative to a money market fund for certain types of investors. By 2007, however, the Fund was almost entirely invested in or exposed to subprime residential mortgage-backed securities and other subprime investments ("subprime investments"). Nonetheless, State Street and Hopkins continued to describe the Fund to prospective and current investors as having better sector diversification than a typical money market fund, while failing to disclose the extent of its exposure to subprime investments.

3. When the subprime market collapsed in mid-2007, many investors in the Fund and the related funds were unaware that the Fund had such significant exposure to subprime investments. In fact, the Fund's offering materials, such as quarterly fact sheets, presentations to current and prospective investors, and responses to investors' requests for proposal, all of which Hopkins was responsible for drafting or updating, contained misleading statements and/or omitted material information about the Fund's exposure to subprime investments and use of leverage. As a result, many investors either had no idea that the Fund held subprime investments and used leverage, or believed that the Fund had very modest exposure to subprime investments and used little or no leverage.

4. Beginning on July 26, State Street sent a series of shareholder communications concerning the effect of the turmoil in the subprime market on the Fund and the related funds that misled investors and continued State Street's and the Respondents' failure to disclose the Fund's concentration in subprime investments. Hopkins and Flannery played an instrumental role in drafting the misrepresentations in these investor communications. At the same time, State Street provided certain investors with accurate and more complete information about the Fund's subprime concentration. These other investors included clients of State Street's internal advisory groups, which provided advisory services to some of the investors in the Fund and the related funds. During 2007, State Street's advisory groups became aware, based on internal discussions and internally available information, that the Fund was concentrated in

subprime investments. Prior to July 26, 2007, at least one internal advisory group also learned that State Street was going to sell a significant amount of the Fund's distressed assets to meet significant anticipated redemptions. State Street's internal advisory groups, one of which reported directly to Flannery, subsequently decided to redeem or recommend redemption from the Fund and the related funds for their clients. State Street Corporation's pension plan was one of those clients. At the direction of Flannery and State Street's Investment Committee, State Street sold the Fund's most liquid holdings and used the cash it received from these sales to meet the redemption demands of these better informed investors, leaving the Fund with largely illiquid holdings.

5. By virtue of their conduct, the Respondents violated Section 17(a) of the Securities Act [15 U.S.C. §77(q)(a)], Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 [17 C.F.R. §§240.10b-5] promulgated thereunder.

B. RESPONDENTS

6. *John P. Flannery* is a resident of Scituate, Massachusetts. In 1996, Flannery joined State Street, a Massachusetts trust company based in Boston, Massachusetts that is a subsidiary of publicly-traded State Street Corporation. In January 2006, Flannery became State Street's chief investment officer of the Americas, a position he held until State Street terminated him in November 2007 as part of a purported restructuring of State Street's investment groups. In 2007, Flannery was a member of State Street's executive management group, the group that was responsible for the overall management of State Street.

7. *James D. Hopkins* is a resident of Wellesley, Massachusetts. Hopkins joined State Street in 1998. From approximately 2004 to 2007, Hopkins was the product engineer for the Fund and several related funds. In July 2008, State Street promoted Hopkins to head of product engineering for North America.

C. OTHER RELEVANT ENTITIES

8. *State Street*, a subsidiary of publicly-traded State Street Corporation, is a Massachusetts trust company and a bank that is a member of the Federal Reserve System. The principal place of business of State Street and State Street Corporation is Boston, Massachusetts. Because State Street is a bank, it relies on the exclusion from the definition of investment adviser contained in Section 202(a)(11) of the Investment Advisers Act of 1940. The unregistered collective trust funds State Street advises, such as the Fund and the related funds, similarly rely on the exclusion from the definition of investment company under Section 3(c)(11) of the Investment Company Act.

9. *SSgA Funds Management, Inc.* ("SSgA FM"), a subsidiary of State Street Corporation, is the registered adviser for funds registered pursuant to the Investment Company Act. During his tenure as chief investment officer, Flannery was associated with SSgA FM because SSgA FM's portfolio managers and their managers reported to Flannery. Also, during his tenure as a product engineer, Hopkins was associated with SSgA FM because he was the product engineer for certain registered funds advised by SSgA FM.

D. ALLEGATIONS

Background – The Limited Duration Bond Fund ("the Fund")

10. State Street established the Fund in February 2002 as an actively-managed fund targeting a return of one-half to three-quarters of one percent per year over the London Inter-Bank Offer Rate (LIBOR), the interest rate that banks charge each other for short-term loans. Like a mutual fund governed by the Investment Company Act, the Fund offered daily redemptions, and investors purchased or sold units of the Fund based on the Fund's daily net asset value. However, as a bank-managed collective trust fund, State Street only offered the Fund and the related funds to certain investors. According to the Fund's offering materials, the Fund's minimum credit quality was BBB, but its average credit quality was always AA or AA+. In mid-June 2007, the Fund had assets of approximately $3 billion.

11. Over the years, the Fund consistently achieved its target performance by heavily concentrating in bonds backed by first lien mortgages to subprime borrowers. The Fund's consistent outperformance of its benchmark and low volatility resulted in State Street's decision to permit its portfolio managers of the related funds to invest up to 25% of those funds' assets in the Fund so those funds could beat their benchmarks.

12. By 2006, as it became harder to achieve benchmark performance by investing in other segments of the bond market, State Street, under the direction of Flannery or those who reported to Flannery, had decided to concentrate an even greater percentage of the Fund in subprime investments. Then, in 2006 and early 2007, State Street magnified the Fund's exposure to subprime investments by increasing the Fund's use of reverse repurchases, credit default swaps, and total return swaps tied to the outperformance of subprime investments. All of these investments had the effect of leveraging the Fund, and, ultimately, exposed the Fund to more risk and volatility.

Hopkins' Misrepresentations Regarding Subprime Investments, Use of Derivatives, and Leverage in Offering Documents and Investor Communications in The First Half of 2007

13. In 2006 and 2007, as the product engineer responsible for the Fund and certain of the related funds, Hopkins was responsible for drafting and updating offering documents and other communications about the Fund and related funds for investors and prospective investors. These offering documents and other communications stated that the Fund was sector-diversified and was an enhanced cash portfolio (or slightly more aggressive than a money market fund). In fact, the Fund was concentrated in subprime bond investments and derivatives tied to subprime investments. For example, in 2006 and 2007, the Fund's quarterly fact sheet for prospective and current investors stated:

> The Limited Duration Bond Strategy utilizes an expanded universe of securities that goes beyond typical money markets including: Treasuries, agencies, collateralized mortgage obligations, adjustable rate mortgages, fixed rate mortgages, corporate bonds, asset backed securities, futures, options, and swaps… When compared to a typical 2 A-7 regulated money market portfolio, the Strategy has better sector diversification, higher average credit quality, and higher expected returns. The tradeoff is this fund purchases issues that are less liquid

> than money market instruments and these instruments will have more price volatility. This Strategy should not be used for daily liquidity. Returns to the Strategy are more volatile over short horizons than traditional cash alternatives and may not benefit the short-term investor.

In 2006 and 2007, this language misled investors into believing that the Fund had better sector diversification than a typical money market portfolio, when in reality by that time the Fund held primarily subprime investments.

14. In 2006 and 2007, Hopkins was the State Street product engineer responsible for the statements in the fact sheets quoted in the preceding paragraph. Furthermore, Hopkins knew by at least February 2007 that the Fund was concentrated in subprime investments and had an average credit quality that was lower than a money market fund. Hopkins also learned in the first half of 2007 that some investors and their State Street client service representatives believed that the Fund was sector diversified and not concentrated in subprime investments, but Hopkins never changed the quarterly fact sheets provided to investors as a marketing tool to correct these misrepresentations. Therefore, with regard to at least the Fund's 2007 fact sheets, Hopkins misled the Fund's investors and potential investors by causing State Street to send fact sheets to investors that contained statements concerning the Fund's sector diversification and average credit quality that Hopkins knew were false and misleading because, at the time, Hopkins knew the Fund was concentrated in subprime investments with lower average credit quality than a money market fund.

15. Also, in 2006 and 2007, many of State Street's investor presentations described the Fund's typical sector breakdown in a way that not only failed to disclose any exposure to subprime investments, but indicated a greater level of sector diversification than actually existed at the time. Hopkins was responsible for drafting or updating these presentations. In 2006 and 2007, Hopkins was also often responsible for presenting the information in these investor presentations directly to investors or their consultants. These presentations represented that the Fund's "typical" exposure to "ABS," or asset-backed securities, was 55%. However, throughout this time period, the Fund's investments were almost all subprime investments, and therefore the Fund's "typical" exposure to asset-backed securities was never 55%. Hopkins, in using this "typical" exposure slide in his presentations to investors and causing others at State Street to use the slide by drafting or failing to update the information on the slide to reflect accurate information, omitted these facts even though he knew the sector breakdown in his presentations was not the Fund's typical sector breakdown in 2006 or 2007.

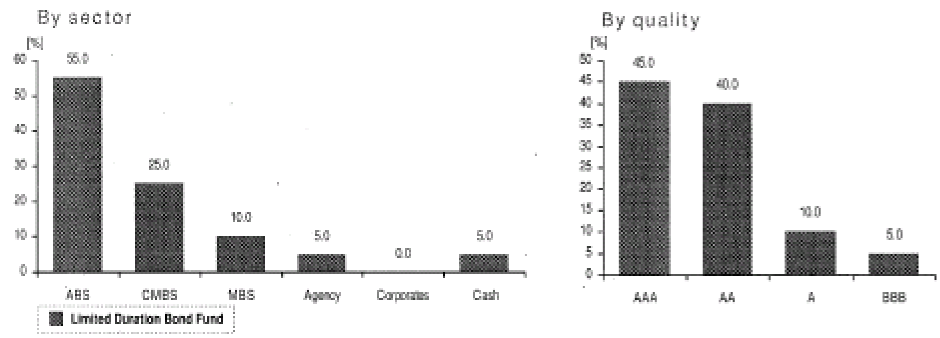
16. For example, in a presentation about the Fund that Hopkins made on or around May 8, 2007 to a hospital that was invested in a passive commodities strategy that invested its cash in the Fund, Hopkins used the following slide that he was responsible for drafting or updating:

Typical Portfolio Exposures and Characteristics — Limited Duration Bond Strategy

- Exposure to non-correlated fixed income asset classes
- High quality
- No interest rate risk

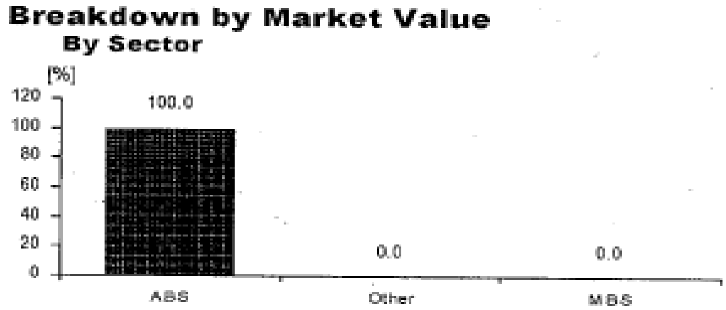
	Limited Duration Bond Fund
Average quality	AA
Modified adjusted duration	0.09 years
Yield over One Month LIBOR	50 bps
Average life	2.5 years

Breakdown by market value



17. When he used this chart on or around May 8, 2007, Hopkins knew it was false or misleading for several reasons. First, by May 8, Hopkins knew that the Fund was concentrated in subprime investments that were highly correlated with each other. That is, Hopkins knew that a rise or fall in the value of one of the Fund's subprime investments was coinciding with a rise or fall in the value of the Fund's other subprime investments. Second, by May 2007, Hopkins knew that the Fund's typical "ABS" exposure had long exceeded 55% because Hopkins knew State Street categorized all of the Fund's subprime investments as "ABS" and Hopkins also knew that the Fund had been, and continued to be, invested in virtually all subprime investments. Finally, as alleged in more detail below, by May 8, 2007, Hopkins knew that the Fund had significant exposure to derivatives tied to the performance of other subprime investments and that the Fund's exposure to these derivatives was not included in the sector exposure on this slide.

18. In the Fund fact sheets and investor presentations that did describe the Fund's actual market value sector exposure at a snapshot in time, Hopkins also misrepresented or caused State Street to misrepresent the Fund's exposure to subprime investments. Through July 2007, the fact sheets and investor presentations for the Fund and related funds that Hopkins used or was responsible for drafting and/or updating presented market value sector exposures for "ABS," "MBS" (mortgage-backed securities), etc. For example, the standard Fund presentation and Fund fact sheet that Hopkins used or was responsible for drafting and/or updating during the second quarter of 2007 reflected the following exposures in the Fund:



The fact sheets and investor presentations did not define these sector categories. As a result, many investors and State Street client service personnel believed that the Fund and the related funds had very little or no exposure to subprime investments when the subprime turmoil commenced in 2007 because these materials showed little or no "MBS" in the funds. However, even after Hopkins became aware in the second quarter of 2007 that some investors and State Street client service personnel mistakenly believed from the fact sheets, investor presentations, and other documents drafted by Hopkins that the Fund had very little or no exposure to subprime investments, Hopkins did not update the fact sheets or investor presentations to reflect that the Fund's "ABS" exposure was virtually all subprime investments.

19. In 2006 and 2007, the Fund fact sheets and investor presentations that Hopkins used or was responsible for drafting and/or updating also misrepresented the extent of the Fund's exposure to subprime investment risk, including the Fund's exposure to leveraged subprime investments. During this period, the Fund was leveraged through reverse repurchases on its subprime bonds and through derivative contracts derived from the performance of other subprime investments. The notional value of a derivative contract is the total value of the derivative contract's assets, and a small amount invested in a derivative contract often controls a much larger notional value. Therefore, where a portfolio of assets includes derivative investments, a description of a portfolio's notional value relative to its market value may be necessary to determine a portfolio's exposure to leverage.

20. Up until 2005, the Fund's fact sheets and investor presentations reflected the Fund's exposure to derivative positions in descriptions of the Fund's sector exposures by showing exposures in excess of 100% of the net assets of the Fund. In 2005, however, State Street changed these materials to describe the Fund's sector exposures by using a presentation based on only the market value of exposures. This form of reporting displayed exposures totaling 100% (see chart in paragraph 18) without also disclosing that, on a notional basis, the Fund's exposure to subprime investments often exceeded 100% because of the Fund's investment in various subprime derivatives. As a result of State Street's change in disclosure, the Fund fact sheets and investor presentations that Hopkins used or was responsible for drafting and/or updating failed to inform investors in its descriptions of the Fund's sector exposures that the Fund's investment performance was tied to subprime and that its use of leverage magnified its exposure to subprime.

21. In a standard investor presentation concerning the Fund, which Hopkins used in his presentations to investors and was responsible for drafting and/or updating in all such investor presentations about the Fund, Hopkins represented that one of the Fund's objectives was "[m]odest use of leverage to manage risk and enhance returns." However, in 2007, the Fund's use of

leverage often resulted in exposure to the subprime market in excess of 150% of the Fund's market value. This leverage exposed the Fund to significant risks and, by July 2007, the Fund's leveraged investments far exceeded the Fund's risk budget based on the expected volatility of the Fund and its benchmark. At the time he used these presentations and was responsible for drafting and/or updating the presentations, Hopkins was aware that this leverage exposed the Fund to significant risks. As a result of State Street's and Hopkins' representations regarding leverage, many of the Fund's investors and State Street's client service personnel did not know the Fund had leveraged positions that magnified the Fund's exposure to subprime investments until long after the funds began a precipitous decline in mid-2007.

22. After a brief period of subprime market turmoil in February 2007, Hopkins drafted an internal alert to State Street's client service personnel concerning the subprime market and the Fund. Hopkins and others adapted the internal alert into a nearly identical letter that State Street sent to some investors in the Fund and the related funds in early March 2007. At the time, Hopkins was aware that the Fund's investments were virtually all subprime. However, the internal alert and letter stated that the Fund's recent underperformance was caused by the Fund's "modest" position in the lowest rated tranche of the ABX index, which represented credit default swaps on 20 different subprime investments rated BBB: "One of the alpha drivers in State Street's active strategies has been taking modest exposure in the investment grade triple B asset-backed securities market, specifically the sub-prime home equity market." Hopkins reiterated this statement in an update State Street sent to certain investors in April. All of these communications omitted that, besides the Fund's relatively small position in the BBB rated ABX investment, the Fund was concentrated in subprime bonds and other subprime derivative investments. Similarly, in various presentations to investors from April to June 2007, Hopkins represented that State Street had reduced its exposure to the BBB rated ABX investment. Hopkins' presentations concerning the Fund continued to make this representation even after Hopkins learned on April 25 that State Street had recently doubled the size of this investment after reducing it earlier in the year.

23. As a result of these communications and other presentations Hopkins made to investors in the first half of 2007, many of State Street's client service personnel and investors in the Fund believed that the Fund's relatively small BBB rated subprime investment was the Fund's only subprime investment. Some of these investors and client service personnel expressed their misunderstanding to Hopkins, but Hopkins did nothing to correct his and State Street's earlier misrepresentations to investors. Instead, as described below, in July 2007, Hopkins sought to strengthen State Street's statements about its risk controls while omitting the fact that the Fund was materially underperforming because of its concentration in higher rated subprime investments, a fact that Hopkins was aware of and knew or should have known that many investors did not understand.

24. As State Street and Hopkins were telling some investors in the Spring of 2007 that the Fund had a relatively small exposure to one subprime derivative investment, Hopkins was privately making light of the Fund's precarious situation. On May 11, 2007, a State Street client service person forwarded Hopkins an email he sent to Delta Airlines with information concerning the Fund and wrote: "I am trying to sell [the Fund] to Delta airlines for their corporate cash program…if I am successful do I get some sort of 'Salesman of the Millennium' award?" Hopkins responded: "Isn't there some rule that states that you can't sell an investment to an entity that has recently come out of bankruptcy that might send it back into bankruptcy."

State Street's Internal Advisory Groups Caused Their Investors to Redeem the Fund

25. Beginning in mid-June 2007, as the market for the Fund's subprime investments was in crisis, the Fund began a precipitous decline in value. In late July 2007, State Street's internal advisory groups recommended to their clients that they withdraw from those funds while State Street continued encouraging others to stay invested and to continue to invest.

26. In late July 2007, three of State Street's internal advisory groups that oversaw client investments in actively-managed bond funds, decided that their clients should redeem their investments in the Fund and the related funds. One of the advisory group clients that redeemed was State Street Corporation's Defined Benefit Plan. The advisory groups decided to redeem based on their awareness of exposure to subprime investments and other problems with the Fund that had not been fully disclosed to other investors, such as State Street's need to sell a significant percentage of the Fund's subprime investments in an illiquid market in order to meet anticipated investor redemptions.

27. State Street's internal advisory groups were aware of the Fund's subprime concentration and other problems with the Fund that had not been disclosed to other investors because: 1) employees of two of the advisory groups were voting members on State Street's confidential Investment Committee that, under the direction of Flannery, issued directives to portfolio managers concerning subprime investments; 2) the advisory groups had regular access to the Fixed Income trading desk and portfolio managers (indeed, one of the advisory groups reported to Flannery); and 3) the advisory groups received Hopkins' internal use only subprime alerts, including an alert Hopkins sent on July 2 describing the Fund's June underperformance.

28. The clients in State Street's three advisory groups were invested in the Fund and 14 of the related funds. As of July 25, 2007, the clients in these internal advisory groups held approximately 20 percent of the shares in these funds. By early August 2007, because of State Street's actions, virtually all of the advisory groups' clients had redeemed out of the Fund and the related funds.

29. By at least July 27, Flannery was aware that the two largest advisory groups had decided to redeem or recommend redemption of the Fund. First, on July 26 or 27, a representative of one of the advisory groups called Flannery to tell him that the advisory group had decided to recommend that its clients redeem from the Fund effective August 1. Flannery responded that the advisory groups' clients could redeem for cash before August 1. Second, Flannery led a confidential discussion about subprime at an SSgA Investment Committee meeting on the morning of July 25. At the beginning of the discussion, the head of one of the advisory groups, who reported directly to Flannery, left the meeting after stating that, as the manager of funds that were invested in the Fund, he wanted to avoid any appearance of bias or impropriety. (A representative of the other advisory group that contacted Flannery on July 26 or 27 about its recommendation to redeem stayed at the meeting and listened to the subprime discussion led by Flannery.) After the Investment Committee meeting, the manager of this advisory group went to Flannery to discuss his decision to redeem. Flannery instructed the manager not to discuss his decision with him because he wanted to make sure the manager acted independently. A few days later, on August 1, Flannery received a document called "Frequently Asked Questions Sub-Prime/Active Fixed Income Issues" with a question and answer explicitly stating that the advisory group that reported to Flannery was "recommending a move to passive fixed income."

30. Between July 26 and August 1, as a result of the directions from the July 25 Investment Committee meeting, State Street raised almost $700 million in cash to meet anticipated investor redemption demands. Approximately 75 percent of this cash came from the sale of almost all of the Fund's highest rated AAA bonds, even though the Fund's AAA bonds were only 20 percent of the Fund's net asset value at the time of the July 25 Investment Committee meeting. During this same period, the Fund experienced significant redemptions, including redemptions from clients of State Street's internal advisory groups. Therefore, after State Street met the redemption demands of the Fund's more informed clients, average credit quality of the Fund's bonds decreased.

<u>Mid-2007 Communications About The Fund</u>

31. At the same time that State Street was preparing to redeem its internal advisory group clients' investments in the Fund and the related funds, State Street began sending a series of letters to all other investors in the Fund and the related funds that continued to mislead these investors by omitting material information about the Fund and the related funds, including information State Street had disclosed to its internal advisory groups. Hopkins and Flannery played an instrumental role in the misrepresentations in these letters, which had the effect of causing the misled investors to continue to purchase or continue to hold their investments in the Fund and the related funds. As Flannery observed in his Commission testimony: "when you hold illiquid positions in an illiquid market, it is generally not advantageous to telegraph that holdings, that view. I don't think most investment managers would be specific about that exposure."

32. On July 2, 2007, Hopkins circulated an internal communication to State Street's client service personnel describing how the subprime market situation had caused recent underperformance of the Fund's portfolio and stating that the cause of substantial underperformance in the month of June was exposure to the ABX subprime investment described above. By July 11, 2007, Hopkins and others were revising the internal communication into an investor letter. However, the letter was not finalized until July 26, 2007, and the final form of the letter was much less detailed than the internal alert.

33. State Street's July 26 five-paragraph letter to investors disclosed little more than the fact that recent events in the subprime market "are impacting performance in some of our active fixed income portfolios in which you are invested directly or indirectly." The letter omitted that: the Fund was concentrated in subprime bonds; the Fund's performance had been and could continue to be adversely affected because it was leveraged through other subprime investments; and State Street was planning to sell the Fund's highest rated assets to meet investor redemptions. The purpose of the letter was to update investors on how the subprime market was affecting their investments, and these facts were essential to that message. As for State Street's view of the subprime situation and what it would do in response to the situation, the letter stated:

> We believe that what has occurred in June, and thus far in July, has been more driven by liquidity and leverage issues than long term fundamentals… We have been seeking to reduce risk in those portfolios where we believe it is appropriate by taking advantage of liquidity in the market when it exists, and will continue to do so, while seeking to avoid putting undue pressure on asset valuations.

34. As described above, at the time State Street made this statement, it was selling the Fund's highest rated bonds to meet investor redemptions, resulting in a Fund that held bonds of lower average credit quality for investors who remained in the Fund after the anticipated redemptions. At a State Street Investment Committee meeting on July 25, where Flannery led a confidential discussion about subprime investments and the Fund, the committee voted unanimously to direct the portfolio managers of the Fund to sell assets to meet anticipated investor redemptions of 25-50% by month end. State Street sold the vast majority of the Fund's AAA rated securities on July 26. Then, to meet the early redemption demands of the more informed investors, including State Street's internal advisory group clients, State Street depleted the cash it raised from the sale of the AAA bonds at a much faster rate than it sold the Fund's lower rated bonds. Indeed, from the beginning, the purpose of the AAA bond sale on July 26 was to raise cash to meet the anticipated investor redemptions described by Flannery at the July 25 Investment Committee meeting. For example, an internal State Street chronology about the Fund prepared by the Fund's portfolio managers and circulated to Flannery and Hopkins on August 2 stated: "[The Fund's] sale in late July of approximately $1.6 billion on short AAA securities (to meet anticipated demands for liquidity) was done at an average spread …"

35. Hopkins knew or was reckless in not knowing that the July 26 letter omitted the material information that the Fund was concentrated in subprime. According to Hopkins, he knew by at least July 18 that the Fund was concentrated in AA and AAA rated subprime investments that were materially underperforming. Hopkins was also aware by this time that at least some investors and client service personnel believed that the Fund's only subprime exposure was the relatively small BBB rated subprime derivative investment that Hopkins highlighted earlier in the year in two letters and various investor presentations about the Fund. Nonetheless, on July 24, Hopkins commented on a draft of the July 26 letter that omitted to state that the Fund was concentrated in subprime investments or that the Fund's concentration in higher rated subprime investments was causing material underperformance of the Fund. In his comments, Hopkins suggested that the letter highlight that "we have in fact lessened our exposure to the subprime sector in many of these portfolios and we are continuing our analysis in terms of further risk reduction." Once again, Hopkins wanted to focus on what State Street had done with respect to the BBB rated ABX investment while omitting that the Fund's other subprime investments made up more than 90% of the Fund and were causing material underperformance. In suggesting this edit, which gave rise to the risk reduction language in the final version of the July 26 letter, Hopkins knowingly misled investors because he knew the purpose of the letter was to inform investors about the material causes of the Fund's underperformance, yet he omitted what he knew was causing that underperformance (a concentration in higher rated subprime investments) and chose instead to focus on State Street's modest efforts to reduce exposure to the Fund's lower rated subprime investments that were only a small percentage of the Fund. Therefore, in suggesting this edit, Hopkins was in a unique position to understand that many investors were unaware of what was driving the Fund's risks and underperformance, but he chose to ignore the factors driving underperformance in suggesting an edit to the letter that Hopkins knew would lull investors to stay in the Fund because they would remain uninformed about the Fund's subprime investment concentration and the significant risks of continuing to invest in the Fund.

36. In conjunction with the July 26 letter, State Street's Fixed Income group provided client service personnel with answers to Frequently Asked Questions (FAQs) concerning the subprime situation. On July 26, 2007, Flannery and certain other managers held a meeting with

State Street's entire client service group to discuss "our communication plan," including the July 26 letter and the "rules of the road and FAQs." Right after that meeting, State Street distributed the first set of FAQs to its client service personnel with the instruction that the FAQs were "to assist you with client/consultant questions" but were "for internal use only" and should only be used for oral discussions with investors. The FAQs were far more comprehensive than the July 26 letter, and enabled State Street's client service personnel to disclose material information to certain investors, including that the Fund was concentrated in subprime investments and that State Street's largest internal advisory group had decided to redeem out of the Fund and the related funds. Many investors who received information from the FAQs redeemed their investments shortly after receiving the information. In late July and early August, in response to requests from certain investors or their outside consultants, State Street also provided the Fund's holdings and disclosed the fact that State Street had decided to reprice some of the Fund's securities to reflect market prices that were lower than the vendor prices State Street had been using to arrive at the Fund's net asset value. All but one of these investors immediately sold their investments before the Fund experienced its most significant losses in August.

37. On August 2, 2007, State Street asked its client service personnel to send another form letter to all affected investors concerning the subprime situation and preliminary July performance returns. That letter did not disclose the information that State Street had provided to its internal advisory groups and certain other investors who requested the information. Also, in the August 2 letter, State Street again stated it had taken actions to reduce risk, including the sale of certain subprime bonds, while maintaining the Fund's average credit quality. However, State Street had sold almost all of the Fund's highest rated subprime bonds, and, upon meeting anticipated investor redemptions in late July and early August, the Fund's bonds were increasingly lower credit quality. Those investors who remained in the dark concerning the Fund's risks invested in or continued to hold their investment as the Fund became concentrated in lower-rated and largely illiquid subprime investments.

38. Flannery revised the August 2 letter to make it even more misleading concerning actions State Street had taken to reduce risk in the Fund. On August 1, Flannery revised the letter's risk reduction statements to reflect what State Street had already done (e.g., reduced exposure to certain swaps) to reduce risk as opposed to what State Street intended to do to reduce risk. When making the statement concerning what State Street had already done to reduce certain exposures (and omitting that those same actions increased the Fund's risks), Flannery was aware that these decisions were motivated to meet significant investor redemption demands, including advisory groups' clients' redemptions.

39. When he revised the August 2 letter, Flannery also knew that those investors who remained in the Fund held a fund with bonds of lower average credit quality because State Street sold the Fund's AAA rated bonds to meet redemption demands. On the morning of July 25, Flannery led a discussion at an SSgA Investment Committee meeting concerning the subprime situation. Draft minutes of the meeting reflect that Flannery stated that State Street needed to raise 30-40% liquidity in the Fund by the end of the month to meet redemptions that were estimated at 25-50% of the fund. The minutes also reflect that State Street decided to: 1) increase liquidity in the Fund by month end; 2) reduce AA exposure by 5% by the end of the week; and 3) seek to sell securities pro-rata to meet withdrawals. The Fund's portfolio manager attended the July 25 Investment Committee meeting and understood that the committee was directing him to sell

virtually all of the Fund's AAA rated bonds. The portfolio manager worked with State Street's head trader on July 26 to carry out the AAA sale, which many involved in the sale considered it to be one of the biggest bond sales State Street had ever done. As soon as the sale was complete, the head trader informed Flannery of that fact. Flannery's involvement in the Investment Committee's discussion, his awareness of the Fund's holdings, and his expertise concerning the market conditions for the Fund's assets put him in a unique position to understand that the Investment Committee's decision put investors who remained in the Fund at greater risk after the anticipated redemptions were satisfied.

40. On August 14, 2007, Flannery signed a letter concerning the subprime situation that State Street sent to investors in the Fund and the related funds. This letter represented that State Street believed investors should not redeem from the Fund and the related funds: "While we will continue to liquidate assets for our clients when they demand it, we believe that many judicious investors will hold the positions in anticipation of greater liquidity in the months to come." However, while advising investors to continue to hold their investments in the Fund and related funds, the letter omitted the information that the advisory groups and certain other investors who had decided to redeem had already learned, including the illiquid nature of the remaining investments in the Fund and that the Fund's exposure to subprime investments was actually magnified through the use of credit default swaps, total return swaps, and reverse repurchases tied to subprime investments. Just as this information was important for the advisory groups and certain other investors to make an informed investment decision, this information was necessary for the investors who were still invested in the Fund to decide whether to continue to hold their positions. Furthermore, the letter's statement that State Street believed judicious investors would continue to hold their investments omitted that, as Flannery was aware, State Street, through its internal advisory groups, had already recommended, that certain clients exit the funds. Therefore, Flannery misled investors by making a statement that State Street believed many judicious investors would hold their positions in the Fund while omitting that State Street's advisory groups, one of which even reported directly to Flannery, had decided not to hold their positions. This was misleading because the statement purported to convey State Street's view about whether a judicious investor should hold the Fund when the view of all of State Street's advisory groups directly contradicted that view. In addition, the August 14 letter omitted that State Street had already sold the Fund's most liquid investments and used the cash from those sales to meet investor redemptions. Therefore, even to the extent that Flannery or others at State Street believed on August 14 that judicious investors should hold their positions in the Fund and related funds, it was misleading to omit the basis for this belief that the Fund was now concentrated in only illiquid subprime investments because a judicious investor (i.e., investors in State Street's advisory groups) may have wanted to redeem from the Fund when the Fund still had cash from the AAA bond sales, but may no longer want to redeem when State Street would have to sell the Fund's illiquid holdings to meet the redemption request.

41. On August 7, a State Street attorney revised the quoted sentence from the August 14 letter from Flannery's initial draft of "our advice is to hold…" to "we believe that many judicious investors will hold…" Flannery never discussed with the attorney whether this sentence was appropriate in light of the decisions to redeem made by State Street's advisory groups. Instead, the attorney explained to Flannery that he suggested the edit because State Street was not normally in the position of giving investors advice when to buy or sell a State Street fund.

E. VIOLATIONS

42. As a result of the conduct described above, Hopkins and Flannery willfully violated Section 17(a)(2) and Section 17(a)(3) of the Securities Act in that, in the offer and sale of securities and by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, Hopkins and Flannery directly or indirectly have obtained money or property by making untrue statements of material fact and/or by omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. In addition, in violation of Section 17(a)(3) of the Securities Act, Hopkins and Flannery engaged in the transactions, practices, or courses of business described above that operated or would operate as a fraud or deceit upon the purchasers of such securities.

43. As a result of the conduct described above, other than the allegations described in paragraphs 40 and 41 concerning an August 14, 2007 letter to State Street's investors signed by Flannery, Hopkins and Flannery willfully violated Section 17(a)(1) of the Securities Act in that, in the offer and sale of securities and by the use of the means and instruments of transportation or communication in interstate commerce or by use of the mails, Hopkins and Flannery directly or indirectly employed devices, schemes and artifices to defraud.

44. As a result of the conduct described above, other than the allegations described in paragraphs 40 and 41 concerning an August 14, 2007 letter to State Street's investors signed by Flannery, Hopkins and Flannery willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate and in the public interest that administrative and cease-and-desist proceedings be instituted pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Section 203(f) of the Advisers Act and Section 9(b) of the Investment Company Act to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations;

B. Whether, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondents should be ordered to cease and desist from committing or causing violations of and any future violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

C. Whether, pursuant to Section 8A of the Securities Act, Section 21B(a) of the Exchange Act, Section 203(i) of the Adviser Act, and Section 9(d) of the Investment Company Act, to impose civil penalties as a result of Respondents' willful violations of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder; and

D. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Section 203(f) of the Advisers Act and Section 9(b) of the Investment Company Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall each file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If either of the Respondents fail to file the directed answer, or fails to appear at a hearing after being duly notified, that Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondents personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Section 203(f) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, on the Respondents and their legal agents.

The attached Order has been sent to the following parties and other persons entitled to notice:

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