

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10411 / September 7, 2017

SECURITIES EXCHANGE ACT OF 1934
Release No. 81543 / September 7, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-18159

In the Matter of

**STATE STREET GLOBAL
MARKETS, LLC,
STATE STREET GLOBAL
ADVISORS FUNDS
DISTRIBUTORS, LLC,
and
STATE STREET BANK
AND TRUST COMPANY,**

Respondents.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933, AND SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT
OF 1934, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“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”), and Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against State Street Global Markets, LLC, State Street Global Advisors Funds Distributors, LLC and State Street Bank and Trust Company (collectively, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) 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, Respondents admit the Commission’s jurisdiction over them and the subject matter of these proceedings, and consent to the entry of this Order Instituting Administrative and Cease and Desist Proceedings, Pursuant to Section 8A

of the Securities Act of 1933, and Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease and Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offers, the Commission finds¹ that:

Summary

Respondents carried out a scheme to defraud six transition management customers from February 2010 to September 2011, by charging those customers hidden and unauthorized mark-ups and commissions beyond the fees, mark-ups, or commissions that the customers had agreed to pay on trading in U.S. and European securities.² Transition management is a service provided by some financial institutions to institutional customers that are undergoing a “transition,” such as changing investment advisers or investment strategies. The hidden mark-ups and commissions encompassed transitions carried out for six transition management customers, which were collectively overcharged by approximately \$20 million.

Through former employees, Respondents engaged in fraudulent acts and practices in furtherance of the scheme, including instructing traders to take mark-ups and commissions in certain transitions despite written instructions to the contrary and to generate fraudulent reports hiding the mark-ups and commissions.

When confronted by a customer that had detected some of the hidden mark-ups, Respondents’ former employee directed two former United Kingdom (U.K.)-based employees to make materially false and misleading statements to the customer in order to conceal the hidden mark-ups. Among other misrepresentations, they told the customer that the undisclosed mark-ups were “inadvertent commissions.”

Respondents

1. **State Street Global Markets, LLC** (CRD No. 285852) is a newly formed broker-dealer registered with the Commission since March 16, 2017. It is a wholly-owned subsidiary of State Street Corporation, a Massachusetts financial holding company with shares registered with the Commission under Section 12(b) of the Exchange Act. State Street Global Markets, LLC is headquartered in Boston, Massachusetts. State Street Global Markets, LLC provides U.S. trade execution services for transition management customers.

2. **State Street Global Advisors Funds Distributors, LLC** (CRD No. 30107) is a broker-dealer registered with the Commission since 1992 and is a wholly-owned subsidiary of

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

² The term “mark-ups” used here includes both mark-ups and mark-downs.

State Street Global Advisors, Inc., which is itself a wholly-owned investment management subsidiary of State Street Corporation. State Street Global Advisors Funds Distributors, LLC is headquartered in Boston, Massachusetts. State Street Global Advisors Funds Distributors, LLC provides distribution and marketing services to State Street Global Advisors, Inc. State Street Global Advisors Funds Distributors, LLC was given its current name in 2017 as part of a reorganization of State Street's U.S. registered broker-dealer, that also resulted in the formation of Respondent State Street Global Markets, LLC, described above. During the time of the events described herein, the services now provided by Respondents State Street Global Advisors Funds Distributors, LLC and State Street Global Markets, LLC were provided by a single predecessor U.S. broker-dealer entity, known at the time as **State Street Global Markets, LLC** (CRD No. 30107) (this predecessor entity, whose name has recently been transferred to the newly created Respondent broker-dealer described above, is hereinafter referred to as "**SSGM, LLC**"). SSGM, LLC generated revenues from trading for transition management customers. SSGM, LLC acted through Ross McLellan and U.S.-based traders whom McLellan directed to take undisclosed mark-ups and commissions.

3. **State Street Bank and Trust Company** is a Massachusetts trust company and a wholly-owned subsidiary of State Street Corporation. State Street Bank and Trust Company is the principal banking subsidiary of State Street Corporation, providing asset servicing to the firm's institutional clients and customers, including custody, accounting, transition management, fund administration, and recordkeeping. State Street Bank and Trust Company has a principal place of business in Boston, Massachusetts. State Street Bank and Trust Company employed Ross McLellan and U.S.-based traders whom McLellan directed to take undisclosed mark-ups and commissions.

Other Relevant Entities and Persons

4. **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 Exchange Act. State Street Corporation files periodic and current reports with the Commission. As of December 31, 2014, State Street Corporation had approximately \$28.19 trillion in assets under custody and administration, making it one of the largest custody banks in the world. State Street Portfolio Solutions Group ("Portfolio Solutions"), a global business line, provides trading, transition management, and interim/overlay services to owners and managers of asset portfolios through multiple subsidiaries of State Street Corporation. In the United States, Portfolio Solutions contracts with transition management customers through Respondent State Street Bank and Trust Company. In the Europe, Middle East, and Africa region, Portfolio Solutions contracts through State Street Bank Europe Limited ("State Street Bank Europe"). Portfolio Solutions directs trades through SSGM, LLC or State Street Global Markets International Limited ("State Street Global Markets International") depending on the country in which the underlying security is traded. (State Street Bank Europe and State Street Global Markets International are together, "State Street U.K.").

5. **State Street Bank Europe** is a U.K. company and an indirect subsidiary of State Street Bank and Trust Company. In the United Kingdom, State Street Bank Europe was the

contracting entity for the transition management business.

6. **State Street Global Markets International** is a U.K. company and a subsidiary of State Street Bank Europe. State Street Global Markets International executed non-U.S. trades as part of customer transitions.

7. **Ross I. McLellan (“McLellan”)**, age 44, is a resident of Hingham, Massachusetts. During the relevant period, he was an Executive Vice President of State Street Corporation, an Executive Vice President of State Street Bank and Trust Company, and Global Head of State Street Portfolio Solutions Group, which provided transition management services globally through Respondents and their affiliates, including State Street U.K. He was also President and Member of the Executive Management Group for SSGM, LLC, a broker-dealer registered with the Commission. McLellan was associated with SSGM, LLC from November 1997 to October 2011, when he was discharged by SSGM, LLC and State Street Bank and Trust Company in connection with his involvement in these events. McLellan supervised certain U.K.-based personnel who were employed by State Street U.K., affiliates of Respondents.

Background

A. Respondents’ Transition Management Business

8. Transition management is a service provided by some financial institutions to institutional customers that are undergoing a “transition.” Typically, transition management services are marketed to customers, such as pension funds or investment managers, that are changing fund managers or investment strategies and face large and complex changes to their portfolios of assets. Transition management services are marketed as a means to help reduce the cost of such “transitions,” which often require the execution of a large quantity of orders to buy and sell stocks (thus generating significant expenses for the customer).

9. During the time of the events described herein, SSGM, LLC and State Street Bank and Trust Company offered transition management services to customers that needed large portfolios of securities to be restructured, and to customers removing or replacing asset managers. While the transition management customers’ holdings were comprised of different types of investments, many customers required services that included the buying or selling of securities that traded in the United States, including equities (such as stock) and fixed income instruments (such as corporate or government bonds).

10. There is a wide range of business arrangements by which sellers of transition management services generate revenue and charge fees. Among other methods, certain transition management providers act as an “agent” for customers, and may charge commissions on trades of equities, mark-ups on fixed income instruments, and/or a project fee. Other transition management providers may trade as a “principal” with their customers and earn revenue based on the difference between the price they buy/sell a security in the market and the price as which they sell/buy the same security to the customer.

11. Portfolio Solutions, through SSGM, LLC and State Street Bank and Trust

Company and their affiliates, promoted to customers an agency transition management model, in which the interests of SSGM, LLC and State Street Bank and Trust Company would be more closely aligned with customers' interests compared to competitors using a principal model, which executed transitions for customers while also maintaining a proprietary trading book, *i.e.*, trading for their firm's own account.

12. Among other things, Portfolio Solutions' marketing materials emphasized that "State Street" was a founding signatory to the T-Charter, a best-practices code for transition managers. The T-Charter, entered into in or about 2007, sets forth a number of principles relating to disclosure and remuneration, and in particular states that the transition manager will not apply commissions or charges, adjust prices or apply a mark-up or mark-down other than as agreed with the customer in the contracting documentation and as disclosed in a disclosure document.

13. To earn revenue from transition management customers, the broker-dealer that executed a trade (either SSGM, LLC or State Street Global Markets International) would typically charge a disclosed commission when executing trades in equities and a disclosed mark-up when trading in fixed income. In limited instances, and depending on the contractual terms, a fixed project fee, rather than a commission or mark-up, was charged. In some instances, Portfolio Solutions also generated revenue on futures transactions in the form of a commission set forth in contracts. In addition, at times Respondent State Street Bank and Trust Company earned revenue in a principal capacity when, consistent with the contractual arrangements, it acted as a counterparty in transactions such as foreign exchange trading.

14. Transition management customers were typically informed of compensation and the charges for services by key contractual documents: the Transition Management Agreement ("TMA") (the governing master agreement for each transition management customer); the Periodic or Transition Notice (an Appendix that provided specific details of individual transitions for particular customers), or a separate letter agreement.

15. The commissions, mark-ups, and fees charged were a material consideration for customers in selecting a transition management provider. One of the reasons many customers seek transition management services in the first place is to ensure the transition is conducted at the lowest overall cost, which includes both performing the transition in a way that does not adversely impact market prices and limiting the transition management provider's commissions, mark-ups, and fees. SSGM, LLC and State Street Bank and Trust Company and their affiliates often won transition management business through a Request for Proposal process, in which service, experience, fees, and costs were considerations. Customers often selected the provider with the lowest overall cost, which indicates that commissions and mark-ups were material considerations.

B. The Overcharging Scheme

16. In 2010, new entrants into the transition management market and a decline in major transition projects impacted Portfolio Solutions' financial performance in the United Kingdom ("U.K.").

17. From February 2010 to September 2011, SSGM, LLC and State Street Bank and Trust Company, through McLellan and two former State Street employees in the U.K. whom McLellan supervised (“State Street U.K. Employee A” and “State Street U.K. Employee B”), schemed to generate additional revenue by charging hidden mark-ups or commissions to certain transition management customers. In multiple instances, McLellan, State Street U.K. Employee A, and State Street U.K. Employee B marked up the price at which certain equity and fixed income trades were executed or added a commission and did not disclose such mark-ups or commissions to the customers. McLellan, State Street U.K. Employee A, and State Street U.K. Employee B gave specific instructions to traders in the U.S. and U.K. aimed at keeping mark-ups and commissions hidden.

18. McLellan, State Street U.K. Employee A, and State Street U.K. Employee B deliberately selected certain types of transitions on which to charge hidden mark-ups and commissions. Among other things, they selected transitions that were larger than others because it was easier to hide the mark-ups and commissions amidst the large dollar amounts, and because these transitions were large enough that the mark-ups and commissions – even if small on a percentage basis – could generate substantial profits.

The First Middle East-Sovereign Wealth Fund Transition

19. In 2010, SSGM, LLC and State Street Bank and Trust Company and their affiliates performed fixed income transitions for a government body responsible for management and administration of assets of a country located in the Middle East Region (the “Middle East-Sovereign Wealth Fund”). The two transitions for the Middle East-Sovereign Wealth Fund involved transactions with a combined value of approximately \$6 billion. It was on these transitions that McLellan, State Street U.K. Employee A, and State Street U.K. Employee B caused SSGM, LLC and State Street Global Markets International to take hidden mark-ups for the first time.

20. In or about March 2010, the Middle East-Sovereign Wealth Fund selected State Street Bank Europe to manage the first of two transitions. This transition involved the termination of a fixed income portfolio of U.S. Treasury bills and required trading in European, U.S., and Canadian securities. State Street Bank Europe traded those securities through SSGM, LLC and State Street Global Markets International Limited.

21. Prior to awarding the first transition, there were negotiations between State Street Bank Europe and the Middle East-Sovereign Wealth Fund, during which State Street Bank Europe, on its behalf and on behalf of affiliates that would be involved in the transition, including SSGM, LLC and State Street Bank and Trust Company, agreed to undertake the transition for zero commission (and no fee) charged to the Middle Eastern Sovereign Wealth Fund’s side of trades.

22. During the negotiations, in February 2010, State Street U.K. Employee A advised the Middle East-Sovereign Wealth Fund via email that “we” preferred to charge a disclosed commission, but in this instance had arranged to receive compensation “from the

‘other side’ [meaning the counterparty for each individual security traded as selected in a competitive bid process] ... which will enable us to keep commissions for [the Middle East-Sovereign Wealth Fund] at zero.”

23. Further, State Street U.K. Employee A represented to the Middle East-Sovereign Wealth Fund that this would amount to “on average only a few” basis points of commission.

24. These representations to the Middle East-Sovereign Wealth Fund were false and misleading when made. State Street U.K. Employee A knew and intended that compensation would come not from the “*other side*,” but from the Middle East-Sovereign Wealth Fund itself. In addition, the source and calculation of revenue was not properly disclosed. Neither the draft Periodic Notice sent to the Middle East-Sovereign Wealth Fund nor the version executed by the Middle East-Sovereign Wealth Fund disclosed that the Middle East Sovereign Wealth Fund would be charged mark-ups on securities trades or how they would be calculated and collected, as required by the T-Charter.

25. On or about June 3, 2010, State Street U.K. Employee A advised State Street U.K. Employee B, on a telephone call which was automatically tape recorded pursuant to State Street Bank and Trust’s practices, that he had just spoken with McLellan about the first Sovereign Wealth Fund transition, and passed along McLellan’s suggestion that they should take one or two basis points of undisclosed mark-ups. Noting that McLellan’s proposed hidden charges would be easy to conceal, State Street U.K. Employee A commented: “[N]o one is going to [expletive] notice that ... It’s a rounding error[.]” State Street U.K. Employee A then told State Street U.K. Employee B that he had arranged for McLellan to be “on top of” the trading desk in the U.S. to make sure they effectuated the plan to take undisclosed mark-ups on trades. State Street U.K. Employee A emphasized this point again in an e-mail to McLellan, telling him: “Gonna have to be creative and need you involved on the [fixed income] trading desk in [the] U.S. to ensure they do as we want.”

26. Although McLellan was President of SSGM, LLC and Executive Vice President of State Street Bank and Trust Company, and he normally did not directly supervise the traders responsible for executing a transition, McLellan was closely involved in pricing on certain U.S. fixed income trades as part of the first Sovereign Wealth Fund transition. For example, between June 15, 2010 and June 18, 2010, McLellan communicated the customer-side prices for certain U.S.-issued bond trades to State Street U.K. Employee B, and then ensured that those prices were transmitted to SSGM, LLC’s trading desk in Boston by State Street U.K. Employee B.

27. Upon completion of the first transition, the post-trade analysis report provided to the Middle East-Sovereign Wealth Fund hid the mark-up within a broader category called bid-offer spread, and did not identify in a separate line the fixed income mark-up applied to the Middle East-Sovereign Wealth Fund’s fixed income trades in the United States, which amounted to \$2.7 million or the equivalent to 9 basis points.

The Second Middle East-Sovereign Wealth Fund Transition

28. In or about May of 2010, the Middle East-Sovereign Wealth Fund announced that it would be accepting bids for a second transition, which involved the restructuring of a U.S. Treasury bill portfolio valued at \$4 billion.

29. On May 12, 2010, State Street U.K. Employee A, in preparing the pitch for the second Sovereign Wealth Fund transition, told McLellan by e-mail that a competitor was bidding to perform the transition for a fee of 2 basis points” and “we need to find a way to charge a spread.” McLellan directed State Street U.K. Employee A to bid 1.75 basis points as a flat fee and told State Street U.K. Employee A: “We will make it work.”

30. As the e-mails exchanged by McLellan and State Street U.K. Employee A the following day made clear, McLellan intended to “make it work” by charging hidden mark-ups. In an e-mail exchange on May 13, 2010, McLellan and State Street U.K. Employee A debated the wording of the standard Transition Management Agreement at State Street, and then agreed to charge a fixed fee and zero commissions, “acting as riskless principal.”

31. Prior to bidding for the second Sovereign Wealth Fund transition, on August 29, 2010, State Street U.K. Employee A suggested to McLellan in an e-mail that they should “bid zero again” and McLellan replied: “Agree 100 percent.”

32. The draft Periodic Notice provided by State Street U.K. Employee A to the Middle East-Sovereign Wealth Fund stated the following: “Trades will not attract any commission and will be priced net. The manager may benefit from a bid-ask spread.” However, the Middle East-Sovereign Wealth Fund removed this language from the signed version and State Street Bank Europe, on its behalf and on behalf of affiliates that would be involved in the transition, including SSGM, LLC and State Street Bank and Trust Company, accepted the deletion.

33. On October 21, 2010, State Street U.K. Employee A e-mailed State Street U.K. Employee B to announce that they had won the second Sovereign Wealth Fund transition. When State Street U.K. Employee B asked about projected revenues, State Street U.K. Employee A responded: “Back up the truck. 6 or 7 or 8. Whatever you want.”

34. Shortly before the transition commenced, McLellan and State Street U.K. Employee A exchanged further emails about concealing the documents governing the transition from SSGM, LLC and State Street Bank and Trust Company’s legal department:

McLellan: “Did [legal] look at original agreement?”

State Street U.K. Employee A: “Absolutely not. Nor did they look at the periodic notice. This can of worms stays closed!”

State Street U.K. Employee A: “[By the way] - there is no way we can disclose our spread.”

McLellan: “Agreed.”

35. Shortly after the second transition for the Middle East-Sovereign Wealth Fund was awarded, McLellan again directed the trading strategies and suggested charging an 18 basis point mark-up on one trade in particular. In order to disguise the mark-ups which they expected to charge the Middle East-Sovereign Wealth Fund, the pre-trade estimate analysis report added a fictitious figure, which was labeled a “market impact” estimate.

36. This so-called “market impact” estimate of \$5 million was moved from the estimate of the bid-ask spread on instructions from McLellan and State Street U.K. Employee A. This presentation of the trading costs concealed the amount of the mark-up which McLellan, State Street U.K. Employee A, and State Street U.K. Employee B expected to charge the Middle East-Sovereign Wealth Fund.

37. The mark-ups charged to the Middle East Sovereign Wealth Fund were included in the market impact and bid-ask spread costs, instead of being separately listed, and thus obscured the amount charged. The total costs listed in the post-trade analysis report included \$4.7 million for market impact, which was misleading, since that number incorporated the earnings made from the hidden commissions which McLellan, State Street U.K. Employee A, and State Street U.K. Employee B had applied to the Middle East-Sovereign Wealth Fund’s trades.

38. In total, Portfolio Solutions, through SSGM, LLC and State Street Global Markets International, charged approximately \$9.7 million in hidden mark-ups for the two Middle East-Sovereign Wealth Fund transitions.

December 2010: Respondents Defraud An Irish-Government Agency

39. On or about December 23, 2010, State Street Bank Europe and certain of its affiliates, including SSGM, LLC and State Street Bank and Trust Company, were awarded a transition for a government agency that managed certain governmental assets and liabilities for the Republic of Ireland (the “Irish-Government Agency”). The transition involved both fixed income and equities trading (including U.S. trading). The transition was valued at approximately €4.7 billion (Euros) (approximately \$6.16 billion), and was carried out in three separate stages (or “tranches”).

40. As part of the scheme to defraud, McLellan, State Street U.K. Employee A, and State Street U.K. Employee B charged the Irish-Government Agency hidden commissions for the equity and hidden mark-ups for fixed income trades that were conducted as part of the transition.

41. In November of 2010, State Street U.K. Employee A e-mailed McLellan to stress the importance of winning the transition, exclaiming: “Gotta win this one! Any ideas how to get more revenue would be appreciated.” State Street U.K. Employee A then suggested to McLellan that they propose a 1 basis point fee with “no commissions, and then take a spread[.]”

42. McLellan supervised State Street U.K. Employee A, and advised him about how to structure the bid to win the Irish-Government Agency transition. Specifically, McLellan e-mailed State Street U.K. Employee A: “[A]gree with a zero commission bid.” State Street U.K. Employee A replied: “Great minds think alike. We have to charge [a] fee ... otherwise they get suspicious[.]” State Street U.K. Employee A later e-mailed State Street U.K. Employee B: “Fees: 1.25 [basis points]. No commissions. Just to clarify – 1.25 bps is the management fee. The extra quarter point makes it look like we actually thought about it and did the calculations.”

43. The Irish-Government Agency eventually agreed to pay a fixed fee of 1.65 basis points, as set out in the Transition Notice, and subsequently, the fixed fee was reduced to 1.25 basis points for the third tranche. Meanwhile, McLellan and State Street U.K. Employee A continued to refine their extraction of hidden fees from the Irish-Government Agency transition. Through e-mail communications in late December 2010, State Street U.K. Employee A and McLellan worked out the specifics of their plan to charge hidden trading fees to the Irish-Government Agency:

State Street U.K. Employee A: “Need to be very creative.”

McLellan: “We will.”

...

State Street U.K. Employee A: “Here’s what I think we should do with our new best friends [the Irish-Government Agency]: - 1.65bps for the privilege of working with us [...] - 10-12 bps out of FI [fixed income]– 3bps spread out of U.S. equity and global small cap – trade all global em (*sic*) mkt net through brokers . . .”

44. In addition to the disclosed fee, Portfolio Solutions, through SSGM, LLC and State Street Global Markets International, charged the Irish-Government Agency hidden commissions on the equity trades on both the first and third tranches, and charged hidden mark-ups on the fixed income trades across all three tranches.

45. To conceal the hidden commissions added to the Irish-Government Agency’s equity trades, the trades were booked through an average pricing trading account that was typically used for non-transition management business. By using this account, commissions were added to equity trades before booking out customer prices. These commissions were not visible in the reporting that went directly to the Irish-Government Agency, which received only net prices on a trade-by-trade basis.

46. Contrary to State Street Bank Europe’s agreement with the Irish-Government Agency, SSGM, LLC and State Street Global Markets International also applied mark-ups to fixed income trades. This directly contradicted written instructions to traders not to charge mark-ups for fixed income trades.

47. Under the terms of the contract, the Irish-Government Agency was charged a management fee for the transition totaling approximately \$1,634,085. It was also charged, through the fraudulent acts and practices described above, hidden mark-ups and commissions of approximately \$4.5 million.

February 2011: Respondents Defraud a U.K. Postal-Company

48. In early February 2011, a postal service company in the United Kingdom (the “U.K. Postal-Company”) solicited bids on a £1.3 billion (British Pounds) transition. The transition was fixed income only, and comprised of both European and U.S. trades. On February 3, 2011, State Street U.K. Employee A e-mailed McLellan, noting that the potential bid was “[c]onfidential but... gotta win that one!” In response, McLellan told State Street U.K. Employee A: “Thin to win.” This referred to these employees’ strategy of winning bids by proposing very low (“thin”) mark-ups and then adding hidden mark-ups after they won the business.

49. In February 2011, the U.K. Postal-Company awarded the transition to State Street Bank Europe and its affiliates, including SSGM, LLC and State Street Bank and Trust Company. The Transition Notice advised the U.K. Postal-Company that a fixed fee of 1.75 basis points “on the value of the portfolio” would be charged. The total agreed fee was \$922,107.

50. The U.K. Postal-Company specifically sought confirmation that the fixed fee was the “full and final transition fee including all buying and selling required.” State Street U.K. Employee A confirmed in writing that “the fee includes all trading required.” To enhance the impression that the deal was favorable to the Postal-Company, he added, “Don’t make me go this low every time though!”

51. State Street U.K. Employee A’s e-mail to the U.K. Postal-Company was false and misleading. In fact, the former employee intended to charge the U.K. Postal-Company hidden mark-ups on the transition. On February 21, 2011, McLellan praised State Street U.K. Employee A by e-mail for winning the bid with the U.K. Postal-Company, saying “Nice work.” State Street U.K. Employee A immediately replied to McLellan by saying: “I am thinking 1.5-2bpy [basis points]”.

52. McLellan gave explicit instructions to SSGM, LLC’s trading desk located in Boston to ensure that – as State Street U.K. Employee A proposed – mark-ups were charged on the U.K. Postal-Company transition trades, contrary to the express representations to the customer that there would be no such charges. This meant that McLellan had to override the internal written instructions that had been supplied to the trading desk, based on the agreement with the U.K. Postal-Company. In one such call, which was automatically tape recorded pursuant to SSGM, LLC’s practices, McLellan told a trader: “On the [transition...] that came in yesterday, you can actually take a basis point of yield on those.” As the conversation continued, McLellan directed the trader to disregard trading instructions not to charge any mark-ups:

Trader: Okay. One [basis point]? Got it.

McLellan: All right. I will catch up later.

Trader: I was just actually on a chat with [a State Street U.K. employee]. She was just telling me, don't charge any commissions, so I was just going to – I am going to take your word and just go with it.

McLellan: Yes, I just talked to [State Street U.K. Employee A].

Trader: Awesome. All right, I will do one [basis point].

McLellan: Thanks, bye. Thanks pal.

53. Beyond directing SSGM, LLC's trading desk to apply hidden mark-ups to U.S. trades, McLellan also instructed a U.S.-based trader to delete mark-ups on documentation sent to the U.K. Postal-Company. In a call recorded on March 23, 2011, McLellan spoke to the same trader in Boston, asking whether he was "backing out" the U.K. Postal-Company (meaning, deleting commissions from documentation). The trader confirmed that he was "doing it right now" as McLellan inquired about "corporate spreads" and confirmed that the transition was "hedged with futures." McLellan then instructed the trader: "All right. Stay with the BPS basis point of yield, then." The trader assured McLellan that he would delete any reference to mark-ups charged in the file for the U.K. Postal-Company transition – a file that would go first to State Street compliance, and then to the transition customer: "Yes, definitely. And I am zeroing out those commissions when I send over the file."

54. Similar to the instructions sent to SSGM, LLC's trading desk in the United States, the trading instructions sent to State Street Global Markets International's U.K. trading desk for the U.K. Postal-Company transition stated "*Comms: ZERO COMMS*" (which meant that no mark-up should be applied to the trades). This was consistent with the contractual documentation for the U.K. Postal-Company transition. In practice, however, an average mark-up of one basis point was applied to U.S. trades, and an average mark-up of two basis points was applied to European trades.

55. As with the Middle East-Sovereign Wealth Fund, the transition reports sent to the U.K. Postal-Company concealed mark-ups taken. Among other things, the initial pre-trade analysis report included an undisclosed commission of 1.75 basis points in the "bid-ask" spread line. This was reduced to 0.75 basis points in the final pre-trade analysis report sent to the U.K. Postal-Company.

56. The transition results reported to the U.K. Postal-Company were almost identical to the estimate in the pre-trade analysis report, but again, hidden within the "bid-ask" spread line was more than \$3 million in mark-ups.

Additional Instances of Overcharging

57. In addition to the transitions for the Middle East-Sovereign Wealth Fund, the Irish-Government Agency and the U.K. Postal-Company, State Street U.K. engaged in fraudulent acts and practices in several other large-scale transitions, including a March 2011 transition for a U.K.-based pension fund for an £850 million (British Pounds) (\$1.39 billion) bond portfolio, a June 2011 transition for a pension fund in the Netherlands, a €1.6 billion (Euros) portfolio (\$1.72 billion), and a May 2011 transition for a European telecommunications agency that involved a €1 billion (Euros) (\$1.44 billion) portfolio of global equities and fixed income investments.

58. State Street U.K. caused these customers to be charged approximately \$3 million in hidden mark-ups and commissions.

C. Discovery and Cover-up of the Overcharging Scheme

59. On June 21, 2011, the U.K. Postal-Company contacted State Street U.K. Employee A by e-mail, asking if the fee of 1.75 basis points (plus commissions for futures execution) was “the sole revenue for SSGM [State Street Global Markets] and/or any of its affiliates on this event.”

60. State Street U.K. Employee A replied by e-mail that the U.K. Postal Company was charged a fee of 1.75 basis points (plus commissions for futures execution), although he knew that undisclosed mark-ups had been taken on the fixed income trades. The U.K. Postal Company responded by noting that its own consultant, using publicly available bond pricing information in the U.S., had identified mark-ups on certain U.S. fixed income trades.

61. State Street U.K. Employee A initially sought to stave off further inquiry from the U.K. Postal-Company, replying by e-mail that it “*doesn't seem right,*” despite his knowledge that hidden mark-ups had been deliberately applied to the trades. However, the U.K. Postal-Company persisted in raising their concerns about the mark-ups on transition trades.

62. In or about June 2011, McLellan, State Street U.K. Employee A, and State Street U.K. Employee B participated in a meeting, during which McLellan explicitly proposed lying to the U.K. Postal-Company: that the undisclosed mark-ups were the result of a “fat finger mistake” (essentially a clerical or typing error) and that they only occurred on U.S.-based trades. As McLellan, State Street U.K. Employee A, and State Street U.K. Employee B well knew, they had intentionally taken hidden mark-ups on this transition, and those hidden mark-ups were not the result of any “fat finger mistake” or any kind of inadvertence. Nonetheless, State Street U.K. Employee A made the following misrepresentation to the U.K. Postal-Company:

“our trading desk in the US has erroneously applied commissions of 1 bp of yield to trades that should have gone through at zero commission.”

63. State Street U.K. Employee A also sent an e-mail to the U.K. Postal-Company, stating that the commissions taken on U.S. trades were a result of a “fat finger error.” As State

Street U.K. Employee A and McLellan knew, both of these statements were misrepresentations, since the mark-ups were taken intentionally.

64. McLellan proposed that a third party calculate the shortfall and refund owed to the U.K. Postal-Company as a result of the undisclosed mark-ups on U.S.-based fixed income trades. At the direction of McLellan, SSGM, LLC rebated the U.K. Postal-Company approximately \$1 million for the mark-ups that had been applied to the U.S. trades, again describing them in words suggested by McLellan: “inadvertent commissions.”

65. In order to avoid drawing attention from Respondent State Street Bank and Trust’s compliance or legal personnel, McLellan circumvented the usual processes and procedures to reimburse the U.K. Postal-Company without recording the repayment in SSGM, LLC and State Street Bank and Trust Company’s loss event tracking system.

66. While arranging to reimburse the U.K. Postal-Company, McLellan continued to conceal not only the fact that mark-ups on U.S. trades were taken intentionally, but also that Portfolio Solutions had deliberately caused hidden mark-ups to be taken on the U.K. Postal-Company’s European trades, resulting in additional revenue of approximately \$2 million to State Street Global Markets International.

67. After the fraud was discovered, SSGM, LLC and State Street Global Markets International contacted the six defrauded customers and voluntarily refunded all undisclosed mark-ups and commissions.

68. As a result of the conduct described above, Respondents willfully violated Sections 17(a)(1) and 17(a)(3) of the Securities Act, Section 10(b) of the Exchange Act and Rules 10b-5(a) and (c) thereunder which prohibit fraudulent conduct in the offer or sale of securities and in connection with the purchase or sale of securities.

69. As a result of the conduct described above, SSGM, LLC willfully violated Section 15(c)(1) of the Exchange Act, which prohibits fraudulent conduct by a broker-dealer in effecting, inducing, or attempting to induce any securities transaction.

IV.

Undertakings

Respondents have undertaken to:

A. Retain, at Respondents’ expense within 30 days of issuance of this Order, a qualified independent ethics and compliance consultant (the “Consultant”) with appropriate experience in designing and/or reviewing the effectiveness of organizational compliance and ethics programs, not unacceptable to the staff, to conduct an ethics and compliance program assessment focused on the components of the program delineated below. Taking into account Respondents’ remedial actions to date as well as those that are in progress, the Consultant will analyze whether the components of Respondents’ ethics and compliance program are having the

desired effects, assess whether the culture is supportive of ethical and compliant conduct and provide advice and recommendations to strengthen the program and enhance the culture of compliance. To the extent appropriate under the circumstances, the Consultant should coordinate with Respondents' personnel, including in-house counsel, compliance personnel, and internal auditors, on an ongoing basis. The Consultant may rely on the product of Respondents' internal processes, such as the results of studies, reviews, sampling and testing methodologies, audits, and analyses conducted by or on behalf of the Respondents, as well as the Respondents' internal resources (e.g., legal, compliance, finance and internal audit), which can assist the Consultant in carrying out the mandate through increased efficiencies and internal expertise, provided that the Consultant has confidence in the quality of those resources. The assessment is not intended to be a comprehensive review of all business lines, activities and markets, but instead shall use a risk-based approach, and thus, the Consultant is not expected to conduct a comprehensive review of all business lines, all business activities, or all markets. Respondents shall require the Consultant to consider, in making that risk-based assessment, the adequacy of controls in multiple markets and regions, including with respect to undisclosed and unauthorized compensation, fees, expenses, and/or other costs charged by Respondents in their transition management, foreign-exchange, and custody bank business lines. In discharging this undertaking, Respondents shall require the Consultant to:

1. review the creation, administration and implementation of the compliance and ethics program, including but not limited to reviewing key documents (e.g., business principles, Code of Conduct, policies and procedures, risk assessments, performance evaluation forms, relevant internal training materials and communications), conducting an assessment survey (or evaluating and, if appropriate, utilizing an assessment survey conducted by or on behalf of the Respondents) and interviewing relevant personnel;
2. review and evaluate Respondents' policies, practices, procedures, and controls concerning disclosure of compensation, fees, expenses, and/or other costs charged by Respondents related to securities transactions or the custody of securities or related to services provided to clients or customers concerning securities transactions or the custody of securities, including but not limited to written disclosures, advertising materials and other forms of communication with clients or customers and prospective clients or customers;
3. review and evaluate whether Respondents have policies, practices, procedures, and controls that are reasonably designed to provide accurate statements, invoices, and other information to its clients and customers;
4. review and evaluate whether Respondents' policies, practices, procedures, and financial and business controls are sufficient to provide reasonable assurances that Respondents are maintaining fair and accurate books, records and accounts, with particular emphasis on whether such controls are reasonably designed to address the integrity of Respondents' books and records given the global nature of Respondents' business;

5. review and evaluate whether Respondents' corporate culture is supportive of ethical and compliant conduct;

6. review and evaluate the structure and functioning of the compliance and ethics function;

7. review and evaluate whether there are proper resources, oversight and independence of the compliance and ethics function, including seniority of corporate executives responsible for implementation and oversight, reporting lines, autonomy and independence, compensation and rewards, consistent discipline, resources, and access to information and personnel. The review will include evaluation of the sufficiency of training and guidance, including regarding anti-retaliation and whistleblowing; and

8. report to the Commission staff and Respondents' Chief Legal Officer, General Counsel, and Chief Compliance and Ethics Officers, as described below, regarding the Consultant's findings and recommendations.

B. Provide the Consultant with complete access and resources to review key documents (e.g., business principles, Code of Conduct, policies and procedures, risk assessments, performance evaluation forms, relevant internal training materials and communications).

C. Provide a report to the Commission staff and Respondents' General Counsels and Chief Compliance Officers, as described below, regarding the Consultant's findings and recommendations;

D. Provide a copy of the engagement letter detailing the Consultant's responsibilities to John Dugan, Associate Director, Division of Enforcement, U.S. Securities and Exchange Commission, 33 Arch Street, 24th Floor, Boston, MA 02210;

E. Cooperate fully with the Consultant, including providing the Consultant with access to their files, books, records and personnel as reasonably requested for the above-described review except to the extent such files, books, or records are protected from disclosure by any applicable protection or privilege such as the attorney-client privilege or the attorney work product doctrine. To the extent that the Consultant believes that documents are being withheld unreasonably, Respondents shall work cooperatively with the Consultant to resolve the matter, and if they are unable to reach agreement, Respondents shall require the Consultant to promptly notify the Commission staff. To ensure the independence of the Consultant, Respondents shall not have the authority to terminate the Consultant without prior written approval of the Commission's staff and shall compensate the Consultant and persons engaged to assist the Consultant for services rendered pursuant to this Order at their reasonable and customary rates;

F. Require the Consultant to report to the Commission staff on his/her activities as the staff shall request;

G. Permit the Consultant to engage such assistance, clerical, legal or expert, as necessary and at reasonable cost, to carry out his/her activities, and the cost, if any, of such assistance shall be borne exclusively by Respondents;

H. Require, within 270 days of the date of the Consultant's engagement, that the Consultant complete the review and report to the Commission staff and Respondents' Chief Legal Officer, General Counsel and Chief Ethics and Compliance Officers concerning:

1. the scope and methodologies used by the Consultant in order to complete the review;
2. Respondents' compliance with the review;
3. the adequacy of Respondents' existing policies, practices and procedures regarding the matters assessed; and
4. the Consultant's recommendations, if necessary, regarding modification or supplementation of Respondents' policies, practices and procedures related to the matters assessed (the "Recommendations").

I. Within 150 days of Respondents' receipt of the Recommendations, Respondents shall adopt and implement all of the Recommendations. However, if Respondent consider any recommendation to be, in whole or in part, unduly burdensome or impractical, Respondents may submit in writing to the Consultant and the Commission staff (at the address set forth above), within 60 days of receiving the Recommendations, an alternative policy, practice or procedure designed to achieve the same objective or purpose. Respondents and the Consultant will then attempt in good faith to reach an agreement relating to each Recommendation that Respondents consider unduly burdensome or impractical and Respondents shall require the Consultant to reasonably evaluate any alternative policy, practice or procedure proposed by Respondents. Such discussion and evaluation shall conclude within 90 days after Respondents' receipt of the Recommendations, whether or not Respondents and the Consultant have reached an agreement. Within 14 days after the conclusion of the discussion and evaluation by Respondents and the Consultant, Respondents shall require that the Consultant inform Respondents and the Commission staff (at the address set forth above) of his/her final determination concerning any Recommendation that Respondents consider to be unduly burdensome or impractical. Respondents shall abide by the determinations of the Consultant and, within 45 days after final agreement between Respondents and the Consultant or final determination by the Consultant, whichever occurs first, Respondents shall adopt and implement all of the Recommendations that the Consultant deems appropriate;

J. Certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondents agree to provide such evidence. The certification and supporting material shall be submitted to John Dugan, Associate Director, Division of Enforcement, U.S. Securities and

Exchange Commission, 33 Arch Street, 24th Floor, Boston, MA 02210, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

K. Require the Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Consultant will not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of their present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Consultant in performance of his/her duties under this Order shall not, without prior written consent of the Commission staff enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

L. Certify in writing to the Commission staff (at the address set forth above), in the second year following the issuance of this Order, that Respondents have established and continue to maintain policies, practices and procedures consistent with the findings of this Order.

M. Respondents may apply to the Commission staff for an extension of the deadlines described above before their expiration, and upon a showing of good cause by Respondents, the Commission staff may, in its sole discretion, grant such extensions for whatever time period it deems appropriate.

V.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Section 8A of the Securities Act, and Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

- A. Respondents cease and desist from committing or causing any violations 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.
- B. State Street Global Markets, LLC and State Street Global Advisors Funds Distributors, LLC cease and desist from committing or causing any violations and any future violations of Section 15(c)(1) of the Exchange Act thereunder.
- C. State Street Global Markets, LLC and State Street Global Advisors Funds Distributors, LLC are censured.

- D. Respondents shall, within 10 days of the entry of this Order, on a joint and several basis, pay a civil money penalty in the amount of \$32.3 million 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) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents 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) Respondents 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 Bank and Trust Company, State Street Global Markets, LLC and State Street Global Advisors Funds Distributors, LLC as Respondents 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 John Dugan, Associate Director, Division of Enforcement, U.S. Securities and Exchange Commission, 33 Arch Street, 24th Floor, Boston, MA 02210.

- E. Respondents shall comply with the undertakings enumerated in Section IV above.

By the Commission.

Brent J. Fields
Secretary