State Street Paying Penalties to Settle Fraud Charges and Disclosure Failures

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Washington D.C., Sept. 7, 2017— The Securities and Exchange Commission today announced that State Street has agreed to pay more than $35 million to settle charges that it fraudulently charged secret markups for transition management services and separately omitted material information about the operation of its platform for trading U.S. Treasury securities.

An SEC order finds that State Street's scheme to overcharge transition management customers generated approximately $20 million in improper revenue for the firm. State Street used false trading statements, pre-trade estimates, and post-trade reports to misrepresent its compensation on various transactions, especially purchases and sales of bonds and other securities that trade outside large transparent markets. When one customer detected some hidden markups and confronted State Street employees, they falsely called it a "fat finger error" and "inadvertent commissions" in order to conceal the scheme.

"Agreeing to a fee arrangement and then secretly tucking in hidden, unauthorized markups is fraudulent mistreatment of customers," said Paul G. Levenson, Director of the SEC's Boston Regional Office that investigated the overcharges.

In a separate SEC order, the agency finds that State Street failed to inform subscribers to its government securities trading platform called GovEx that despite marketing the system as "fair and transparent" it provided one subscriber with a "Last Look" trading functionality that allowed a short period of time for the subscriber to reject a match to a submitted quote. The subscriber used Last Look to reject 57 matches that each had a $1 million face value. State Street did not inform the counterparties that their orders had been rejected with Last Look. While developing Last Look, State Street even told one subscriber that the platform did not have Last Look functionality at all.

"Firms that run trading platforms cannot mislead subscribers about their order handling operations," said Kathryn A. Pyszka, Associate Director of the SEC's Chicago Regional Office that investigated the GovEx-related disclosure failures.

State Street Bank and Trust Company agreed to pay a $3 million penalty without admitting or denying the findings that its GovEx-related disclosure failures violated Section 17(a)(2) of the Securities Act of 1933. The SEC's investigation was conducted by Jonathan I. Katz of the Chicago office and Marcus D. Fruchter of the Market Abuse Unit, and the case was supervised by Ms. Pyszka, Joseph G. Sansone, and Robert A. Cohen.

State Street Global Markets LLC, State Street Global Advisors Funds Distributors LLC, and State Street Bank and Trust Company agreed to pay a $32.3 million penalty to settle the fraud charges for the hidden transition services markups, which violated Sections 17(a)(1) and (3) of the Securities Act of 1933 as well as Section 15(c)(1) and Section 10(b) of the Securities Exchange Act of 1934 and Rules 10b-5(a) and (c). State Street Corporation and certain foreign subsidiaries previously agreed to pay separate penalties to U.S. criminal authorities and the United Kingdom's Financial Conduct Authority. The SEC's investigation was conducted by Eric Heining, Rory Alex, Rua Kelly, and Paul Block of the Boston office with assistance from examiner Mark Gera. The SEC appreciates the

assistance of the U.S. Attorney's Office for the District of Massachusetts, Fraud Section of the U.S. Department of Justice, Federal Bureau of Investigation, United Kingdom's Financial Conduct Authority, and City of London Police.

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Related Materials

- SEC Order - State Street overcharges
- SEC Order - State Street disclosure failures