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REGISTRATION & DISCLOSURE

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 20070078161-01**

**TO:** Department of Market Regulation  
Financial Industry Regulatory Authority ("FINRA")

**RE:** State Street Global Markets, LLC, Respondent  
Broker-Dealer  
CRD No. 30107

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, State Street Global Markets, LLC (the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

**BACKGROUND**

The firm has been a member of FINRA since June 11, 1992.

**RELEVANT DISCIPLINARY HISTORY**

- On June 4, 2004, an AWC was accepted in which the firm was censured and fined \$20,000 for, among other things, failing to timely accept or decline transactions in ACT.
- On November 22, 2005, an AWC was accepted in which the firm was censured and fined \$1,400,000 for, among other things, failing to report 14,073, or 89 percent, of its corporate bond transactions to the Trade Reporting and Compliance Engine ("TRACE") and TRACE related books and records violations.

## **SUMMARY**

In review no. 20070078161, the staff of the Department of Market Regulation (the "staff") reviewed the firm's compliance with NASD rules applicable to trade reporting to TRACE during the period from October 1, 2006 through December 31, 2006 (the "2006 TRACE review period").

In review no. 20070110912, the staff reviewed the firm's compliance with NASD rules applicable to trade reporting to TRACE during the period from July 1, 2007 through September 30, 2007 (the "2007 TRACE review period").

In review no. 20080123306, the staff reviewed the firm's compliance with NASD rules applicable to trade reporting during the period from May 1, 2007 through August 31, 2007 (the "trade reporting review period").

## **FACTS AND VIOLATIVE CONDUCT**

In connection with review no. 20070078161:

1. The firm failed to record the correct time of trade execution for 209 transactions in TRACE-eligible securities, which resulted in the following violations during the 2006 TRACE review period: (1) the firm failed to report to TRACE 209 transactions in TRACE-eligible securities within 15 minutes of the time of execution; (2) the firm failed to report to TRACE the correct time of trade execution for 209 transactions in TRACE-eligible securities; and (3) the firm failed to show the correct time of execution on the memorandum of 209 brokerage orders. The conduct described in this paragraph constitutes, respectively, a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110 and separate and distinct violations of NASD Rule 6230(a), NASD Rule 6230(c)(8), NASD Rule 3110, and SEC Rule 17a-3.

In connection with review no. 20070110912:

2. The firm failed to record the correct time of trade execution for 142 transactions in TRACE-eligible securities, which resulted in the following violations during the 2007 TRACE review period: (1) the firm failed to report to TRACE 142 transactions in TRACE-eligible securities within 15 minutes of the time of execution; (2) the firm failed to report to TRACE the correct time of trade execution for 142 transactions in TRACE-eligible securities; and (3) the firm failed to show the correct time of execution on the memorandum of 142 brokerage orders. The conduct described in this paragraph constitutes, respectively, a pattern or practice of late reporting without exceptional

circumstances in violation of NASD Rule 2110 and separate and distinct violations of NASD Rule 6230(a), NASD Rule 6230(c)(8), NASD Rule 3110, and SEC Rule 17a-3.

In connection with review no. 20080123306:

3. During the trade reporting review period, the firm failed to accept or decline in the NASD/Nasdaq Trade Reporting Facility<sup>1</sup> or OTC Reporting Facility 158 transactions in Reportable Securities within 20 minutes after execution, approximately 20 percent of all transactions that the firm had an obligation to accept or decline during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(b).

- B. The firm also consents to the imposition of the following sanctions:

A censure and a fine of \$27,500 (\$20,000 for the TRACE reporting and books and records violations and \$7,500 for the trade reporting violations).

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;

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<sup>1</sup> On July 30, 2007, the NASD/Nasdaq Trade Reporting Facility changed its name to the FINRA/Nasdaq Trade Reporting Facility.

- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

### **III.**

#### **OTHER MATTERS**

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
  - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
  - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
  - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and

4. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

6-17-09  
Date

Respondent

State Street Global Markets, LLC

By: [Signature]

Name: NICHOLAS BONN

Title: President

Reviewed by:

[Signature]  
Counsel for Respondent

Accepted by FINRA:

7/15/09  
Date

Signed on behalf of the  
Director of ODA, by delegated authority

[Signature]  
Thomas R. Gira  
Executive Vice President  
Department of Market Regulation

### Statement of Corrective Action

State Street Global Markets, LLC ("SSGM") submits the following Statement of Corrective Action taken as a result of the TRACE and ACT deficiencies referred to in the Transmittal of Letter of Acceptance, Waiver and Consent STAR No. 20070078161 (incl. 20070110912 and 20080123306) AWC. This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

SSGM takes its obligations to promptly report transactions under the TRACE and ACT rules very seriously and as detailed below has taken prompt, effective steps to address issues relating to the failure to report all such transactions.

#### I. TRACE Reporting – NASD Rules 6230 and 3110; SEC Rule 17a-3

With respect to TRACE reporting the firm has taken the following corrective actions:

1. On a daily basis fixed income personnel monitor trading activity and contra party reporting to ensure timely and accurate reporting. This includes follow up with contra brokers to advise them of the need for timely notification of executions or to discuss any discrepancies as needed. All transactions and daily blotters are reviewed to ensure the accuracy of order records and trade blotters;
2. Fixed income staff and supervisors meet with compliance staff at least monthly to review and compare internal reports against monthly reports of TRACE reporting performance provided by FINRA. One of the areas of focus is trades that are reflected as late relative to contra broker reporting times. As part of the regular fixed income meeting the overall level of late trade reports relative to contra broker reporting is reviewed and specific examples are culled from the report for further analysis. Documentation (where available) is reviewed at the meeting and the underlying cause(s) are also discussed;
3. SSGM has enhanced our Trade Order Management System by implementing the Varden Execution Management System (EMS), which has greatly reduced the number of discrepancies between our TRACE trade reports and execution times and those reported by our contra parties. The EMS also allows the fixed income personnel to better manage trade flow. The efficiencies achieved through the EMS are improving the accuracy and timeliness of transaction reports, which is evidenced by the downward trend in apparent late reports as noted on the FINRA Report Cards. On average the firm now exceeds peer averages in the number of late trades per month. SSGM retrained all relevant staff as to the required process, the TRACE reporting requirements, and the importance of ensuring compliance with trade reporting obligations;
4. SSGM will review applicable processes and written supervisory procedures to ensure that they are adequate and current with respect to the enhancements noted above.

## **II. Equity Trade Acceptance – NASD Rule 6130**

With respect to Equity Trade Acceptance the firm has taken the following corrective actions:

1. In order to improve efficiencies in this process State Street Global Markets has now increased the amount of individuals with access to ACT terminals and tasked them with the responsibility to constantly monitor for 20 minute acceptance messages within the NASD/Nasdaq Trade Reporting Facility ("TRF"). The trade is then reviewed and accepted if the trade information is accurate. There are currently up to three people with this responsibility;
2. State Street Global Markets has pursued Uniform Service Bureau/Executing Broker Agreements with the brokers utilized most frequently. Specifically agreements have been executed with Merrill Lynch, Knight Capital Markets, National Financial Services, and White Cap Trading. All of them were executing brokers utilized by State Street Global Markets during the review period. This will allow for more of the transactions to be reported in an automated process and should reduce the number of manual reviews that may lead to late submissions. State Street Global Markets will continue to identify market centers where an agreement could assist with compliance with NASD Marketplace Rule 6130(b).

State Street Global Markets fully understands the seriousness of complying with NASD Rules NASD Rules 6130, 6230, 3110, and SEC Rule 17a-3 regarding TRACE and ACT reporting and would like to emphasize that none of the conduct mentioned was ever intentional or reckless, there was no monetary gain by State Street Global Markets resulting from the TRACE and ACT transaction reporting at issue, and most importantly, there was absolutely no financial impact to any customers of SSGM. SSGM believes that the steps it has taken effectively address the issues in its reporting program.