

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016048614401**

TO: Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

RE: State Street Global Markets, LLC, Respondent
Member Firm
CRD No. 285852¹

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondent State Street Global Markets, LLC (CRD No. 285852) 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

In May, 2017, State Street Global Markets, LLC² reorganized its operations into two separate businesses: 1) State Street Global Advisors Fund Distributors, LLC, which retained CRD No. 30107 and provides distribution and marketing services with respect to various funds; and 2) a newly organized State Street Global Markets, LLC, CRD No. 285852, which is a broker-dealer engaging in a general securities business. The new State Street Global Markets became a FINRA member in March 2017, retained substantially all the assets and liabilities of the old State Street Global Markets, and is headquartered in Boston, Massachusetts. It employs approximately 97 registered persons in its headquarters and three branch locations.

¹ Formerly known in relevant part as CRD No. 30107.

² CRD No. 30107 and a FINRA member since June 1992.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA or any other self-regulatory organization.

OVERVIEW

Staff in Market Regulation's Trading and Financial Compliance Examinations section conducted a 2016 TFCE Cycle Examination of certain equity trading activity at State Street Global Markets, primarily for trade date February 9, 2016. The examination found that although State Street Global Markets reported its maker-taker model payment for order flow arrangements with its top routing venues, which included other broker-dealers and U.S. equity exchanges, it failed to specify certain material aspects (specifically, amounts per share or per order) with respect to those payment for order flow arrangements for various quarters between 2008 and 2016. Also, as described below, State Street Global Markets' supervisory system, including its written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with Rule 606 promulgated under the Securities Exchange Act of 1934. Accordingly, from October 2008 through September 2016, State Street Global Markets violated Rule 606, and FINRA Rules 3110³ and 2010.⁴

FACTS AND VIOLATIVE CONDUCT

SEC Rule 606

1. Rule 606 requires every broker or dealer to make publicly available each calendar quarter a report containing information on its routing of non-directed orders in national market system ("NMS") securities. Rule 606(a)(1)(iv) provides, in relevant part, that a broker's report must include "[a] discussion of the material aspects of the broker's or dealer's relationship with each venue identified pursuant to paragraph (a)(1)(ii) of this section, including a description of any arrangement for payment for order flow and any profit-sharing relationship and a description of any terms of such arrangements, written or oral, that may influence a broker's or dealer's routing decision."
2. From October 2008 through September 2016, in 22 non-consecutive quarters, while State Street Global Markets disclosed generally that it had payment for order flow arrangements with four venues to which it routed non-directed orders for execution, it failed to report the material aspects of those relationships. Specifically, State Street Global Markets failed to report the payment amounts per share or per order that it received from the four venues identified in its quarterly

³ NASD Rule 3010 for conduct prior to December 1, 2014.

⁴ NASD Rule 2110 for conduct prior to December 15, 2008.

reports published pursuant to Rule 606. State Street Global Markets believed, incorrectly, that Rule 606 did not require disclosure on a per share or per order basis of payments received.⁵

3. By virtue of the foregoing, Respondent violated Rule 606, FINRA Rule 2010 and NASD Rule 2110.

Supervision

4. FINRA Rule 3110(a) provides, “[e]ach member shall establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”
5. FINRA Rule 3110(b) provides, “[e]ach member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”
6. From October 2008 through September 2016, State Street Global Markets’ supervisory system, including its WSPs, were not reasonably designed to achieve compliance with Rule 606. Specifically, State Street Global Markets’ WSPs related to Rule 606 focused exclusively on the compilation and publication of the Rule 606 quarterly reports. The supervisory system lacked any procedures, written or otherwise, that required a review of the accuracy or completeness of the information provided in its quarterly Rule 606 reports, including a review of its payment-for-order-flow disclosures. As such, its supervisory system was not reasonably designed to review for the material aspects as required. State Street Global Markets has since updated its WSPs related to compliance with SEC Rule 606.
7. By virtue of the foregoing, Respondent violated FINRA Rules 3110(a) and (b) and 2010, and NASD Rules 3010(a) and (b) and 2110.

⁵ The SEC’s Rule 606 Adopting Release stated that a description of the material aspects of a payment for order flow arrangement “does not require an estimate of the aggregate dollar amount of payment for order flow[,]” but “would include a description of the terms of the arrangement, such as any amounts per share or per order that the broker receives.” *See Disclosure of Order Execution and Routing Practice*, Exchange Act Release No. 43590, 65 Fed. Reg. 75414, 75427 (Dec. 1, 2000). Furthermore, the term “payment for order flow” is “broadly defined in Exchange Act Rule 10b-10(d)(9) . . . [to include] ‘any monetary payment, service, property, or other benefit that results in remuneration, compensation, or consideration’ to a broker-dealer in return for the routing of orders...” *See* SEC Division of Market Regulation, Staff Legal Bulletin No. 13A (Frequently Asked Questions About SEC Rule [Rule 606]), Q. 13 (Oct. 16, 2001). The “definition would include, for example . . . direct monetary payments for orders (such as a market maker’s payments for marketable orders and an ECN’s payments for non-marketable limit orders)... *Id.*

B. Respondent also consents to the imposition of the following sanctions:

- Censure; and
- A fine of \$75,000 (\$50,000 for the Rule 606 violations and \$25,000 for the supervision violation).

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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 Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 Respondent, 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 it to submit it.

August 28, 2020

Date

State Street Global Markets, LLC
(CRD No. 285852)

By: Mark R. Trabucco

Print Name: Mark R. Trabucco

Title: Chief Compliance Officer

Reviewed by:

Melissa A. McKay
Melissa A. McKay, Esq.
Senior Vice President and Senior Managing Counsel
State Street Bank and Trust Company
One Lincoln Street
Boston, Massachusetts 02111
Counsel for Respondent

Accepted by FINRA:

September 3, 2020

Date

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

Kevin M. McGee
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