

## U.S. SECURITIES AND EXCHANGE COMMISSION

### Litigation Release No. 21408 / February 4, 2010

#### ***Securities and Exchange Commission v. State Street Bank and Trust Company, No. 1:10-CV-10172 (District of Massachusetts, filed February 4, 2010)***

#### **SEC Charges State Street for Misleading Investors About Subprime Mortgage Investments**

The Securities and Exchange Commission ("Commission") today filed a settled civil action charging Massachusetts-based State Street Bank and Trust Company ("State Street") with securities law violations for misleading investors during the subprime mortgage crisis in 2007 about the extent of subprime mortgage-backed securities held in certain funds under its management, and then selectively disclosing more complete information about subprime investments to certain investors. Investors in the funds lost over \$60 million during the subprime market meltdown in mid-2007. State Street has already paid back over \$300 million to harmed investors, and has agreed to pay over \$300 million more to settle the SEC's action, all of which will be returned to investors.

The Commission's complaint alleges that State Street established the Limited Duration Bond Fund ("the Fund") in 2002 and marketed it as 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 subprime residential mortgage-backed securities and derivatives that magnified its exposure to subprime securities. The SEC alleged that State Street 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 the Fund's concentration in subprime investments.

According to the complaint, beginning in July 2007, State Street sent investors a series of misleading communications concerning the effect of the turmoil in the subprime market on the Fund and other State Street funds that invested in the Fund. At the same time, State Street provided certain investors with more complete information about the Fund's subprime concentration and other problems with the Fund. 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. According to the Commission's complaint, State Street's internal advisory groups subsequently decided to recommend that all their clients redeem from the Fund and the related funds. The pension plan of State Street's publicly-traded parent company (State Street Corporation) was one of those clients. The SEC alleged that State Street sold the Fund's most liquid holdings and used the cash it received from these sales to meet the redemption demands of better informed investors, leaving the Fund and its remaining investors with largely illiquid holdings.

Without admitting or denying the allegations of the complaint, State Street consented to the entry of a final judgment ordering it to pay a civil penalty of \$50 million, disgorgement of \$7,331,020, and \$1,019,161 in prejudgment interest. These amounts will be paid into a Fair Fund and for the benefit of harmed investors, together with an additional amount of \$255,240,472 that State Street has agreed to pay to compensate harmed investors. State Street also gets credit for having already paid over \$340 million to some harmed investors through settlements of private actions, resulting in total compensation to injured investors of \$663,191,540.

Additionally, State Street agreed to retain an Independent Compliance Consultant to conduct a comprehensive review of the company's disclosures, compliance and other policies and procedures for its pooled investment strategies.

The Commission today also instituted related cease-and-desist proceedings against State Street concerning the same conduct. In connection with these proceedings, State Street agreed to an order requiring it to cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) and 17(a)(3) the Securities Act of 1933. For further information, please see Securities Act Release No. [33-09197](#) (February 4, 2010).

The Commission acknowledges the assistance of the Secretary of the Commonwealth of Massachusetts and the Massachusetts Securities Division, and the Massachusetts Attorney General's Office, each of whom filed related actions against State Street.

The Commission's investigation is ongoing.

**See Also:** [SEC Complaint](#)

<http://www.sec.gov/litigation/litreleases/2010/lr21408.htm>

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