STATE STREET CORP
Form 424B5
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The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is notan offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 2, 2008

PRELIMINARY PROSPECTUS SUPPLEMENT
(To prospectus dated March 21, 2006)

Shares

State Street Corporation

Common Stock

We are offering shares of our common stock, par value $1.00 per share. Our common stock is listed on the New York Stock Exchange under the symbol "STT". On May 30, 2008, the last reported sale price of our common stock on the New York Stock Exchange was $72.02 per share.

Our common stock is not a deposit or other obligation of a bank and is not insured by the FDIC or any other government agency.

Your investment in our common stock involves risks. You should read "Risk Factors" beginning on page S-8 of this prospectus supplement so that you better understand those risks before buying common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed on the accuracy or adequacy of this prospectus supplement. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting fees	$	$
Proceeds, before expenses, to State Street Corporation	$	$

The underwriters have an option to purchase up to an additional shares of common stock within 30 days of the date of this prospectus supplement.

The underwriters expect to deliver the common stock in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on , 2008.

Goldman, Sachs & Co. **Morgan Stanley**

Credit Suisse **Lehman Brothers** **UBS Investment Bank**

The date of this prospectus supplement is , 2008.

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Prospectus Supplement

Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described under the heading "Where You Can Find More Information" on page S-37.

In this prospectus supplement, "State Street", "we", "our", "ours" and "us" refer to State Street Corporation, which is a financial holding company headquartered in Boston, Massachusetts, and its subsidiaries on a consolidated basis, unless the context otherwise requires. References to "State Street Bank" mean State Street Bank and Trust Company. If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

Currency amounts in this prospectus supplement are stated in U.S. dollars.

You should rely only on the information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus or information contained in a free writing prospectus that we authorize to be delivered to you. This prospectus supplement may be used only for the purpose for which it has been prepared. No one is authorized to give information other than that contained in this prospectus supplement and in the documents referred to in this prospectus supplement and which are made available to the public. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement or any document incorporated by reference is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our behalf or on behalf of the underwriters, to subscribe for and purchase, any of the securities and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference contain statements that are considered "forward-looking statements" within the meaning of United States securities laws. In addition, State Street and its management may make other written or oral communications from time to time that contain forward-looking statements. Forward-looking statements, including statements about industry trends, management's future expectations and other matters that do not relate strictly to historical facts, are based on assumptions by management, and are often identified by such forward-looking terminology as "expect", "look", "believe", "anticipate", "estimate", "seek", "may", "will", "trend", "target" and "goal", or similar statements or variations of such terms. Forward-looking statements may include, among other things, statements about State Street's confidence in its strategies and its expectations about financial performance, market growth, acquisitions and divestitures, new technologies, services and opportunities and earnings.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street Corporation and its subsidiaries, including State Street Bank.

Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based include, but are not limited to:

- our ability to integrate acquisitions into our business, including the acquisition of Investors Financial Services Corp., or Investors Financial;

- the level and volatility of interest rates, particularly in the United States, Europe and the Asia/Pacific region; the performance and volatility of securities, currency and other markets in the United States and internationally; and economic conditions and monetary and other governmental actions designed to address those conditions;

- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities, including asset-backed commercial paper, and the liquidity requirements of our customers;

- our ability to measure the fair value of securities in our investment securities portfolio, particularly given current market conditions for many of these securities;

- the credit quality and credit agency ratings of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss;

- our ability to attract non-interest bearing deposits and other low-cost funds;

- the possibility that changes in market conditions or asset performance may require any off-balance sheet activities, including our asset-backed commercial paper conduits, to be consolidated into our financial statements, requiring the recognition of associated losses, if any;

- the results of litigation and similar disputes and, in particular, the effect that current or potential litigation may have on our reputation and State Street Global Advisors', or SSgA's, reputation, and our ability to attract and retain customers; and the possibility that the ultimate costs of the legal exposure associated with certain of SSgA's actively managed fixed-income strategies may exceed or be below the level of the related reserve, in view of the uncertainties of the timing and outcome of litigation, and the amounts involved;

- the possibility of further developments of the nature that previously gave rise to the legal exposure associated with certain of SSgA's actively managed fixed-income and other investment strategies;

- the performance and demand for the products and services we offer;

- the competitive environment in which we operate;

- the enactment of legislation and changes in regulation and enforcement that impact us and our customers, as well as the effects of legal and regulatory proceedings, including litigation;

- our ability to continue to grow revenue, control expenses and attract the capital necessary to achieve our business goals and comply with regulatory requirements;

- our ability to manage systemic risks and control operating risks;

- our ability to obtain quality and timely services from third parties with which we contract;

- trends in the globalization of investment activity and the growth on a worldwide basis in financial assets;

- trends in governmental and corporate pension plans and savings rates;

- changes in accounting standards and practices, including changes in the interpretation of existing standards, that impact our consolidated financial statements; and

- changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that impact the amount of taxes due.

Therefore, actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed above, below and elsewhere in this prospectus supplement, the accompanying prospectus or in our other Securities and Exchange Commission, or SEC, filings. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date this prospectus supplement is filed with the SEC except to the extent required by law. State Street undertakes no obligation to revise the forward-looking statements contained in this prospectus supplement to reflect events after the date it is filed with the SEC. The factors discussed above and in the "Risk Factors" section, beginning on page S-8, are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results.

Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate State Street or our common stock. Any investor in State Street should consider all risks and uncertainties disclosed in our filings with the SEC described under the Section entitled "Where You Can Find More Information" on page S-37, all of which are accessible on the SEC's website at www.sec.gov.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. As a result, it does not contain all of the information that may be important to you or that you should consider before investing in our common stock. You should read this entire prospectus supplement and accompanying prospectus, including the "Risk Factors" section and the documents incorporated by reference, which are described under "Where You Can Find More Information" on page S-37.

State Street Corporation

State Street Corporation is a financial holding company organized under the laws of The Commonwealth of Massachusetts. Through our subsidiaries, we provide a full range of products and services for institutional investors worldwide.

We were organized in 1970 and conduct our business primarily through our principal bank subsidiary, State Street Bank. State Street Bank traces its beginnings to the founding of the Union Bank in 1792. The charter under which State Street Bank now operates was authorized by a special act of the Massachusetts Legislature in 1891, and its present name was adopted in 1960.

With $14.90 trillion of assets under custody and $1.96 trillion of assets under management at March 31, 2008, we are a leading specialist in meeting the needs of institutional investors worldwide. Our customers include mutual funds and other collective investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and other investment pools, and investment managers. Including the United States, we operate in 26 countries and more than 100 geographic markets worldwide.

Our common stock is listed on the New York Stock Exchange under the ticker symbol "STT". Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111, and our telephone number is (617) 786-3000.

Risk Factors

An investment in our common stock involves certain risks. You should carefully consider the risks described in the "Risk Factors" section beginning on page S-8 of this prospectus supplement, as well as other information included or incorporated by reference into the accompanying prospectus, including our consolidated financial statements and the notes thereto, before making an investment decision.

Selected Consolidated Financial Highlights

(Dollars in millions, except per share amounts or where otherwise noted)	Quarters Ended(1) March 31, 2008(2)	Quarters Ended(1) March 31, 2007	Years Ended December 31, 2007(6)	Years Ended December 31, 2006
Total fee revenue	**$ 1,961**	$ 1,370	**$ 6,633**	$ 5,186
Net interest revenue	**625**	325	**1,730**	1,110
Gains (Losses) related to investment securities, net	**(9)**	1	**(27)**	15
Total revenue	**2,577**	1,696	**8,336**	6,311
Salaries and employee benefits	**1,062**	739	**3,256**	2,652
Other operating expenses	**712**	474	**3,177**	1,888
Total operating expenses(3)(4)	**1,774**	1,213	**6,433**	4,540
Income tax expense	**273**	169	**642**	675
Income from continuing operations	**530**	314	**1,261**	1,096
Income from discontinued operations				10
Net income	**530**	314	**1,261**	1,106
Diluted earnings per share(5):				
From continuing operations	**1.35**	0.93	**3.45**	3.26
From discontinued operations				0.03
Net income	**1.35**	0.93	**3.45**	3.29
Cash dividends declared per share	**0.23**	0.21	**0.88**	0.80
Return on equity from continuing operations	**18.7%**	17.4%	**13.4%**	16.2%
Return on equity	**18.7%**	17.4%	**13.4%**	16.4%
Average shares outstanding (in thousands):				
Basic	**387,942**	334,036	**360,675**	331,350
Diluted	**393,647**	338,727	**365,488**	335,732
Assets under custody (in trillions)	**$ 14.90**	$ 12.33	**$ 15.30**	$ 11.85
Assets under management (in trillions)	**1.96**	1.85	**1.98**	1.75

(1) Information for the quarters ended March 31, 2008 and March 31, 2007 is unaudited.

(2) Quarter ended March 31, 2008 includes financial results of Investors Financial, which State Street acquired on July 2, 2007.

(3) Total operating expenses for the quarter ended March 31, 2008 and the year ended December 31, 2007 include merger and integration costs of $26 million and $198 million, respectively, recorded in connection with the acquisition of Investors Financial.

(4) Total operating expenses for the year ended December 31, 2007 include a net charge of $467 million, or $279 million after-tax, associated with certain active fixed-income strategies managed by State Street Global Advisors.

(5) Diluted earnings per share for the quarter ended March 31, 2008 and the year ended December 31, 2007 reflect the issuance of approximately 60.8 million shares on July 2, 2007 in connection with the completion of the acquisition of Investors Financial.

(6) Financial results for the year ended December 31, 2007 include results of Investors Financial for the quarters ended September 30 and December 31, 2007.

Pro Forma Capital Ratio Presentation

For illustrative purposes, the following table sets forth our specified capital ratios as of March 31, 2008, (1) as reported, (2) as adjusted to give effect to the receipt of $2.4 billion of net proceeds from this offering and (3) as adjusted to give effect to the receipt of $2.4 billion of net proceeds from this offering and to reflect the effects if we were to consolidate all assets and liabilities of the four third-party-owned, special-purpose, multi-seller asset-backed commercial paper programs that we administer, commonly referred to as "conduits", onto our consolidated balance sheet in accordance with Financial Accounting Standards Board Interpretation No. 46(R).

	As of March 31, 2008		
	As Reported	As Adjusted for Receipt of Net Proceeds(1)	As Adjusted for Receipt of Net Proceeds and Conduit Consolidation (1)(2)(3)
Tier 1 leverage ratio	**6.1%**	**7.8%**	**6.7%**
Tier 1 risk-based capital ratio	**12.4**	**16.0**	**13.8**
Total risk-based capital ratio	**13.8**	**17.4**	**15.2**
Tangible common equity to tangible assets (TCE/TA)	**2.9**	**4.6**	**3.0**

(1) Assumes $2.4 billion of net proceeds from this offering (after deducting estimated expenses and underwriting discounts and commissions).

(2) Assumes that all of the conduits, with total assets of approximately $28.3 billion as of March 31, 2008, are consolidated on March 31, 2008 and that the assets of the conduits are recorded at fair value with an assumed marginal tax rate of 40%. We have historically placed a high level of reliance on information obtained from third-party sources to measure fair values. Third-party sources use assumptions, judgments and estimates in determining securities values, and different third parties may provide different prices for securities. Moreover, depending upon, among other things, the measurement date of the security, the subsequent sale price of the security may be different from its recorded fair value. These differences may be significant especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction.

(3) The degree of impact of consolidation on our tier 1 leverage ratio would depend on how and when consolidation occurred, since this ratio is a function of our consolidated total average assets over an entire quarter.

A hypothetical increase or decrease in tangible shareholders' equity of $100 million would increase or decrease our reported capital ratios at March 31, 2008, all other factors remaining unchanged, as follows: (a) tier 1 leverage ratio by seven basis points, (b) tier 1 risk-based capital ratio by 15 basis points, (c) total risk-based capital ratio by 15 basis points and (d) TCE/TA by seven basis points. A hypothetical increase or decrease in total assets of $1.0 billion would decrease or increase our reported capital ratios at March 31, 2008, all other factors remaining unchanged, as follows: (a) tier 1 leverage ratio by four basis points, (b) tier 1 risk-based capital ratio by eight basis points, (c) total risk-based capital ratio by nine basis points and (d) TCE/TA by two basis points. In calculating the impact of an increase or decrease in assets on the capital ratios, we have assumed that the assets are risk-weighted based on the actual composite risk weighting at March 31, 2008.

The Offering

Common stock we are offering:	shares
Common stock outstanding after this offering:	shares(1)(2)
Underwriter's option to purchase additional shares:	shares
Use of proceeds:	We expect to receive net proceeds from this offering of approximately $2.4 billion (or approximately $2.8 billion if the underwriters exercise in full their option to purchase additional shares, after expenses and underwriting discounts). We intend to use the net proceeds from this offering for general corporate purposes.
New York Stock Exchange symbol:	"STT"

(1) The number of shares of our common stock outstanding immediately after the closing of this offering is based on 390,960,437 shares of our common stock outstanding as of May 30, 2008, including unvested restricted stock granted under our stock compensation plans.

(2) Unless otherwise indicated, the number of shares of common stock presented in this prospectus supplement assumes no exercise by the underwriters of their option to purchase additional shares and excludes 14,814,521 shares issuable upon exercise of options outstanding as of May 30, 2008 and 9,190,779 shares issuable pursuant to outstanding grants under stock award programs, other equity incentive plans and a stock purchase plan as of May 30, 2008.

RISK FACTORS

An investment in our common stock is subject to the risk factors described below. You should carefully consider the following risk factors and other information contained in this prospectus supplement, in the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus before deciding whether this investment is suited to your particular circumstances.

The risk factors below update the risk factors set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, particularly those (a) under the heading "Liquidity Risk", concerning accounts managed by SSgA that have the benefit of contractual arrangements with third-party financial institutions known as "wrap providers", (b) under the heading "Operational Risk", concerning the maintenance of confidential information; and (c) under the heading "Regulatory/Legal/Accounting/Tax Risk", concerning legal actions, regulatory matters and tax matters.

Risks Related to State Street

Business Conditions/Economic Risk

Our businesses are affected by global economic conditions, political uncertainties and volatility and other developments in the financial markets. Factors such as interest rates and commodities prices, regional and international rates of economic growth, inflation, political instability, the liquidity and volatility of fixed-income, equity, credit, currency, derivative and other financial markets, and investor confidence can significantly affect the financial markets in which we and our customers are engaged. Such factors have affected, and may further unfavorably affect, both regional and worldwide economic growth, creating adverse effects on many companies, including us, in ways that are not predictable or that we may fail to anticipate.

A significant market downturn may lead to a decline in the value of assets under management and custody, which could reduce our asset-based fee revenue and may adversely impact other transaction-based revenue, such as securities finance revenue, and the volume of transactions that we execute for our customers. This market downturn could be accompanied by a widening of credit spreads or credit deterioration, which could reduce the value of securities we hold in our investment portfolio. The assets held by our asset-backed commercial paper conduits can be similarly affected. In addition, lower market volatility, even in a generally rising market environment, may reduce trading volumes of our customers, and our ability to achieve attractive spreads, which could lead to lower trading revenues. Our revenues, particularly our trading revenues, may increase or decrease depending upon the extent of increases or decreases in cross-border investments made by our customers. The level of cross-border activity can be influenced by a number of factors, including geopolitical instabilities and customer mix. General market downturns would also likely lead to a decline in the volume of transactions we execute on behalf of our customers, decreasing our fee and revenue opportunities and reducing the level of assets under management and custody. Market performance and volatility may also influence the revenue that we receive from off-balance sheet activities.

In addition, revenues during a calendar year, driven by the products and services we provide, can fluctuate commensurate with the normal course of business activity of our customers and market conditions, and may provide volatility to our earnings from quarter to quarter.

In recent years, investment manager and hedge fund manager operations outsourcing and non-U.S. asset servicing have been areas of rapid growth in our business. If the demand for these types of services were to decline, we could see a slowdown in the growth rate of our revenue.

Strategic/Competition Risk

We expect the markets in which we operate to remain both highly competitive and global across all facets of our business, resulting in increases in both regional and global competitive risks. We have experienced, and anticipate that we will continue to experience, pricing pressure in many of our core businesses. Many of our businesses compete with other domestic and international banks and financial services companies, such as custody banks, investment advisors, broker/dealers, outsourcing companies and data processing companies. Many of our competitors, including our competitors in core services, have substantially greater capital resources. In some of our businesses, we are service providers to significant competitors. These competitors are in some instances significant customers, and the retention of these customers involves additional risks, such as the avoidance of actual or perceived conflicts of interest and the maintenance of high levels of service quality. The ability of a competitor to offer comparable or improved products or services at a lower price would likely negatively affect our ability to maintain or increase our profitability. Many of our core services are subject to contracts that have relatively short terms or may be terminated by our customer after a short notice period. In addition, pricing pressures as a result of the activities of competitors, customer pricing reviews, and rebids, as well as the introduction of new products, may result in a reduction in the prices we can charge for our products and services.

Our strategy for growth depends upon both attracting new customers and cross-selling additional products and services to our existing customer base. To the extent that we are not able to achieve these goals, we may not be able to attain our financial goals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented to offer such products while also managing associated risks. The introduction of new products and services can also entail significant time and resources. Regulatory and internal control requirements, capital requirements, competitive alternatives and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our customers. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business, as well as our results of operations and financial condition.

Our financial performance depends, in part, on our ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate our products or provide cost efficiencies, while avoiding increased related expenses. The risks we face include rapid technological change in the industry, our ability to access technical and other information from our customers, and the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices. Our proactive cross-selling of multiple products and services to our customers can exacerbate the negative financial effects associated with the risk of loss of any one customer. Developments in the securities processing industry, including shortened settlement cycles and straight-through processing, have required continued internal procedural enhancements and further technology investment.

Acquisitions of complementary businesses and technologies, development of strategic alliances and divestitures of portions of our business, in addition to fostering organic growth opportunities, are an active part of our overall business strategy to remain competitive. We may not be able to effectively assimilate services, technologies, key personnel or businesses of acquired companies into our business or service offerings, alliances may not be successful, and we may not achieve related revenue growth or cost savings. In addition, we may not be able to successfully manage the divestiture of identified businesses on satisfactory terms, if at all, and this would reduce anticipated benefits to earnings. Ongoing consolidation within the financial services industry could pose challenges in the markets we serve.

Acquisitions present risks that differ from the risks associated with our ongoing operations. Our financial results for 2008 and for the next few years may be significantly impacted by our ability to achieve the cost savings and other benefits that we anticipate as a result of the acquisition of Investors Financial in 2007, as well as our ability to retain its customer base and to successfully cross-sell our products and services to its customers. These cost savings and customer retention goals will be significantly influenced by our ability to convert former Investors Financial customers onto State Street systems in a timely manner and to maintain the level of customer service such customers received from Investors Financial. Future acquisitions may present similar integration, cost savings and customer retention challenges.

Intellectual property of an acquired business, such as Currenex, Inc., acquired in 2007, may be an important component of the value that we agree to pay for such a business; however, these types of acquisitions entail the risk that the acquired business does not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent upon licenses from third parties, that the acquired business infringes upon the intellectual property rights of others, or that the technology does not have the acceptance in the marketplace that we anticipated. Acquisitions of investment servicing businesses such as Investors Financial normally entail information technology systems conversions, which involve operational risks and may result in customer dissatisfaction and defection. Customers of businesses that we acquire, including, in the case of Investors Financial, its largest customer, are competitors of our non-custody businesses. The loss of some of these customers or a significant reduction in revenues generated from them, for competitive or other reasons, would adversely affect the benefits that we expect to achieve from the acquisition.

Our ability to acquire other entities that provide our core services to achieve greater economies of scale or to expand our product offering is dependent upon our financial resources and our ability to access the capital markets. Due to company-specific issues or lack of liquidity in the capital markets, our ability to continue to expand through acquisitions or to dispose of businesses that no longer are strategic to us may be adversely affected.

In connection with most acquisitions, before the acquisition can be completed, we must obtain various regulatory approvals or consents, which may include approvals of the Federal Reserve Board, the Massachusetts Commissioner of Banks and other domestic and foreign regulatory authorities. These regulatory authorities may impose conditions on the completion of the acquisition or require changes to its terms. Any such conditions, or any associated regulatory delays, could limit the benefits of the transaction.

With any acquisition, the integration of the operations and resources of the businesses could result in the loss of key employees, the disruption of our and the acquired company's ongoing businesses, or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the acquisition. Integration efforts may also divert management attention and resources. The acquisition and combination of a business with our operations may also expose us to risks from unknown or contingent liabilities with respect to which we may have no recourse against the seller. While we normally seek to mitigate that risk through pre-acquisition due diligence, increasingly acquisition transactions are competitive auctions in which we have limited time and access to information to evaluate the risks inherent in the business being acquired, and no or limited recourse against the seller if undisclosed liabilities are discovered after we enter into a definitive agreement.

We may not achieve the benefits we sought in an acquisition, or, if achieved, those benefits may be achieved later than we anticipated. Failure to achieve anticipated benefits from an acquisition could result in increased costs and lower revenues than expected of the combined company. In addition, if the financial performance associated with an acquisition falls short of expectations, it may result in impairment charges associated with the goodwill or other intangible assets recorded as part of the acquisition.

Liquidity Risk

The management of liquidity risk is critical to the management of our consolidated balance sheet and to our ability to service our customer base. In managing our consolidated balance sheet, our primary source of funding is customer deposits. These deposits are predominantly short-term, transaction-based deposits by institutional investors. Our ability to continue to attract these deposits, and other funding sources such as certificates of deposit and commercial paper, is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, our credit rating and the relative interest rates that we are prepared to pay for these liabilities.

In managing our consolidated balance sheet, we also depend on access to global capital markets to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Other sources of funding available to us, and upon which we rely as regular components of our liquidity risk management strategy, include inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve discount window, or comparable non-U.S. central banking sources. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of our corporate debt or equity purchasers, or a downgrade of any of our credit ratings, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Similarly, the failure to maintain acceptable credit ratings may preclude us from being competitive in certain products. General market disruptions, natural disasters or operational problems may affect either third parties or us, and can also have an adverse affect on our liquidity. We generally use our sources of funds to invest in a portfolio of investment securities and to maintain the liquidity necessary to extend credit to our customers. These funds are invested in a variety of assets ranging from short-term interest-bearing deposits with banks to longer-maturity investment securities. While we have historically maintained our investment portfolio at a relatively short duration with respect to interest-rate risk, the average maturity of the investment portfolio is significantly longer than the contractual maturity of our deposit base. In addition, as part of our custody business, we provide overdraft financing to our customers, and liquidity lines to third-party commercial paper conduits and mutual funds, as well as more traditional extensions of credit. The demand for credit is difficult to forecast and control, and may be at its peak at times of dislocation in the securities markets, potentially compounding liquidity issues.

In a period of financial disruption, or if negative developments occurred with respect to State Street, the availability and cost of our funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing our net interest revenue, or we may need to dispose of a portion of our investment portfolio, which, depending upon market conditions, could result in our realizing a loss or experiencing other adverse accounting consequences upon those dispositions. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated changes in the global securities markets or other State Street or market event-driven reductions in liquidity.

At March 31, 2008, including the effect of master netting agreements, approximately $78.28 billion of our consolidated total assets and approximately $9.10 billion of our consolidated total liabilities were carried at fair value. Of the total assets carried at fair value, approximately $68.01 billion consisted of investment securities available for sale, with the remainder primarily composed of derivative instruments. More than 90% of the available-for-sale securities and substantially all of the derivative instruments were categorized in level 2 of the valuation hierarchy (meaning that their fair value was determined by reference to quoted prices for similar assets or liabilities or other observable inputs), with the remaining amounts categorized in level 3 (meaning that their fair value was determined by reference to inputs that are unobservable in the market and therefore require a greater degree of management judgment). Excluding the effect of master netting agreements, the fair value of level 3 assets at March 31, 2008 was $6.97 billion, or 8.5% of total assets carried at fair value, and the fair value of level 3 liabilities was $656 million, or 5% of total liabilities carried at fair value. The determination of fair value for securities categorized in level 2 or 3 involves significant judgment due to the complexity of factors contributing to the valuation, many of which are not readily observable in the market. In addition, we have historically placed a high level of reliance on information obtained from third-party sources to measure fair values. Third-party sources also use assumptions, judgments and estimates in determining securities values, and different third parties may provide different prices for securities. Moreover, depending upon, among other things, the measurement date of the security, the subsequent sale price of the security may be different from its recorded fair value. These differences may be significant especially if the security is sold during a period of illiquidity or market disruption or as part of a large block of securities under a forced transaction. See note 9, "Fair Value Measurements", to the consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, which is incorporated by reference into this prospectus supplement, for a more detailed discussion of the criteria used to categorize securities in level 1, 2 or 3 of the valuation hierarchy.

As of March 31, 2008, in connection with management's measurements of fair value referenced above, there were $3.16 billion of pre-tax net unrealized losses associated with our investment securities portfolio. When the fair value of a security declines, management must assess whether that decline is "other-than-temporary". When the decline in fair value is deemed an "other-than-temporary" impairment, the amortized cost basis of the investment security is reduced to its then current fair value through a charge to earnings. The review of whether a decline in fair value is other-than-temporary considers numerous factors such as: adverse situations that might affect the ability to fully collect interest and principal; the credit quality and performance of any underlying collateral and guarantees; the length of time the amortized cost has exceeded the fair value and the severity of this impairment relative to the security's amortized cost basis; external credit ratings and current developments with respect to the security; management's intent and ability to hold the security until recovery in market value; management's assessment of current market conditions and future expectations; and current and expected future interest rates. Many of these factors involve significant judgment. If all or a significant portion of this unrealized loss were determined to be other-than-temporary impairment, we would recognize a material charge to earnings in the quarter during which such determination was made, our capital ratios would be adversely impacted and a rating agency might downgrade our credit rating or put us on credit watch. A downgrade or a significant reduction in our capital ratios might adversely impact our ability to access the capital markets or might increase our cost of capital.

In our business activities, we assume liquidity and interest-rate risk in managing longer-term assets or asset pools for third parties that are funded on a short-term basis, or where the customers participating in these products may have a right to the return of cash or assets on limited notice. These business activities include, among others, the unconsolidated asset-backed commercial paper conduits administered by our Structured Products group, securities finance collateral pools and money market and other short-term investment funds.

In the asset-backed commercial paper conduits, for example, pools of medium- and long-term financial instruments, principally mortgage- and other asset-backed securities, are financed through the issuance of short-term commercial paper. The conduits strive to maintain a positive margin between the rate of return on their longer-term assets and the short-term cost of funding. This mismatch in the maturity of the investment pools and funding creates risk if disruptions occur in the liquidity of the short-term debt or asset-backed securities markets, or if the cost of short-term borrowings exceeds the conduits' rate of return on their investment pools or purchased assets.

In connection with the administration of the activities of the asset-backed commercial paper conduits, we provide contractual back-up liquidity to the conduits if they cannot meet their liquidity needs through the issuance of commercial paper. In the event that maturing commercial paper cannot be placed by the conduits, we are required by contract to, among other things, provide liquidity to the conduits by purchasing portfolio assets from them. During the first quarter of 2008, pursuant to these contractual obligations, we were required to purchase $850 million of conduit assets. The securities were purchased at prices determined in accordance with existing contractual terms of the liquidity asset purchase agreement, and which exceeded their fair value. Accordingly, the securities were written down to fair value through a $12 million reduction of processing fees and other revenue in our consolidated statement of income. These purchases were funded from our general liquidity, and the assets were recorded on our consolidated balance sheet. We also provide liquidity by purchasing commercial paper or providing other extensions of credit to the conduits. As of April 30, 2008, we held on our consolidated balance sheet an aggregate of approximately $1.18 billion of commercial paper issued by the conduits, compared to $292 million as of March 31, 2008 and $2 million as of December 31, 2007. Our contractual arrangements with the conduits also require that we purchase conduit portfolio assets under other circumstances, such as a downgrade of our credit rating.

If circumstances change we may be required, under existing accounting standards, to consolidate some or all of the otherwise unconsolidated conduits onto our consolidated balance sheet. In the event State Street were to consolidate the conduits, there may be a significant charge reflecting the difference between the book value and the market value of each of the conduit's portfolios. For example, if changes in market conditions require us to update the assumptions in our expected loss model, we may be required to increase the amount of first-loss notes in order for the investors in the first-loss notes to continue to be considered the primary beneficiaries of the conduits. During the first quarter of 2008, some of the conduits issued additional first-loss notes totaling $20 million to third parties, increasing the total first-loss notes outstanding at March 31, 2008 to $52 million. In various circumstances, including if the conduits are not able to issue additional first-loss notes or take other actions, we may be determined to be the primary beneficiary of the conduits, and we would be required to consolidate the conduits' assets and liabilities onto our consolidated balance sheet. In addition, existing accounting standards may be changed or interpreted differently in the future in a manner that increases the risk of consolidation of the conduits.

Consolidation, or the purchase of the assets of the conduits pursuant to the contractual agreements described above, could affect the size of our consolidated balance sheet and related funding requirements, our financial and regulatory capital ratios and, if the conduit assets include unrealized losses, could require us to recognize those losses. As of March 31, 2008, these unrealized losses amount to $1.49 billion after-tax. Because of our contractual agreements to purchase assets from the conduits under specified conditions, we are also exposed to the credit risks in the conduits' portfolios subject to first-loss coverage. Conditions in the financial markets that might warrant consolidation of the conduits or the purchase of assets may also require us to recognize other-than-temporary impairment in our investment portfolio. The Financial Accounting Standard Board is considering changes to accounting standards related to off-balance sheet vehicles such as the conduits, and industry-wide revisions are under discussion that could require us to consolidate all of the conduits we administer into our financial statements in the future, possibly as early as January 1, 2009.

If consolidation of the conduits, purchase of the conduit assets pursuant to contractual arrangements or recognition of unrealized loss as other-than-temporary impairment were to occur, our capital ratios would be adversely affected. The degree of the adverse impact would depend upon many factors including our capital ratios at the time of such occurrence, the amount of loss realized and management actions, such as raising capital, that might mitigate the impact of a loss.

We also manage other assets that are funded in the short-term markets and invested in longer-term markets, including securities finance collateral pools and money market and other short-term investment funds. These businesses involve risks inherent in an arbitrage of funding and investment; however, in these businesses, we primarily act as agent and do not have the direct principal risk. For example, if a collateral pool or a money market fund that we manage were to have unexpected liquidity demands from investors in the pool that exceeded available liquidity, the investment pool could be required to sell assets to meet those redemption requirements. During periods of disruption in the credit markets, it may be difficult to sell the assets held by these pools at a reasonable price. In those circumstances, the financial loss accrues to the pools' investors and not to us.

The credit risks inherent in these portfolios are attributable to the investors in the investment pools and not to State Street. These investment pools may have significant exposure to individual credits. The incurrence of substantial losses in these pools, particularly in money market funds, could result in significant harm to our reputation and significantly and adversely affect the prospects of our associated business units. In some circumstances, we may seek to mitigate that risk by compensating the investment pools for all or a portion of such losses even though we are not contractually obligated to do so; however, that would potentially result in the recognition of significant losses or a greater use of capital than we have available and could in certain extreme situations require us to consolidate the investment pools onto our consolidated balance sheet.

SSgA manages certain accounts that have the benefit of contractual arrangements with third party financial institutions, which allow the accounts to issue and redeem units based upon the book value of the account's assets rather than their market value. The third-party financial institutions, known as "wrap providers", generally have an obligation to fund any shortfall in the account after all qualified participant withdrawals have been redeemed at a price based upon the assets' book value. As of April 30, 2008, these accounts had a total book value of $14.6 billion, of which $10.3 billion is subject to contractual wrap arrangements and $4.3 billion consists of cash and guaranteed investment contracts. Several financial institutions currently provide such contractual wrap arrangements. Securities representing 92.5% of the book value of the $10.3 billion wrapped portion of these accounts are rated "AA" or better as of April 30, 2008, and the average duration of the securities in the accounts was generally three years or less. Many of these accounts were significantly impacted by the volatility and lack of liquidity in the fixed-income securities markets beginning in the second half of 2007 and experienced a variance between market and book values greater than that experienced in more liquid markets. As contemplated when we established the reserve in connection with SSgA's active fixed-income strategies, we used $160 million of the reserve to decrease the difference between the market and book values of the wrapped portion of these accounts, and in part as a result of this action, the average market-to-book-value ratio of the wrapped portion of these accounts on January 31, 2008 increased to 96.77% from 93.43% on December 26, 2007.

The volatility and illiquidity in the fixed-income securities markets during 2008 continue to impact the assets held by these accounts and have further reduced their market values. As of April 30, 2008, the average market-to-book-value ratio on the wrapped portion of these accounts was approximately 94.1%. This deficiency, or a further deterioration in the market-to-book-value ratio, could lead one or more wrap providers to discontinue their relationship with us. Factors that could lead to further deterioration in the market-to-book-value ratio, or the crediting rate earned by the accounts, include a decline in market value of securities held or of fixed-income securities generally due to illiquidity, interest-rate or credit risk or net cash outflows due to redemptions by participants in the accounts. A wrap provider could attempt to minimize its exposure to further deterioration in market value of the portfolio under its contract. It could do so by exercising its contractual right to require the account to be managed within more restrictive investment guidelines. This election is known as "immunization". Following such an election, investments made with additional cash contributions from participants are excluded from the wrap provider's contractual obligations. We also have the contractual right to elect to immunize all or a portion of these accounts at any time, including following receipt of notice of a wrap provider's election to terminate its agreement that benefit the accounts. The right of the participating investors to redeem their units at a price based on book value would not be affected by termination by a wrap provider or immunization. However, immunization of all or part of an account may adversely impact cash flows with respect to the account, potentially resulting in significant account redemptions. Moreover, our ability to continue to offer an attractive crediting rate on these accounts, our reputation as a manager of these types of products in the defined contribution market and the amount of fees that we recognize from this portion of our business, would be adversely impacted.

One of our wrap providers has notified us of its election to terminate its relationship with us during the third quarter of 2008 as a result of its decision to exit the business of providing wrap contracts. We are seeking to replace this wrap provider, but there can be no assurance that we will be able to do so. There are a limited number of third-party financial institutions that currently offer these products, limiting the potential to find alternative wrap providers, and most accounts have investment guidelines requiring multiple wrap contracts. Moreover, one or more of our other wrap providers may seek to condition continuing to wrap our products on our taking action to further support the market value of the accounts' assets, although we are not contractually obligated to take such an action. If we support the market value of these accounts under any circumstances to mitigate the risks to our business, the cost to us could be material. Moreover, any action by us to support these accounts could result, depending on the nature and extent of such support, in the accounts being consolidated on our balance sheet for financial reporting purposes. If we were unable to replace one or more wrap providers that elect to terminate their arrangements with us, we may elect to immunize the portion of the accounts wrapped by the terminating wrap providers. Any action resulting in immunization of a part of an account could cause either the other wrap providers or us to elect immunization of the remainder of such account. In addition, a wrap provider may seek to eliminate or reduce its contractual obligations. Such an action could result in litigation with the defaulting wrap provider and the plans investing in the accounts. Any discontinuation of the contracts with our existing wrap providers, any inability to enter into new contracts with other wrap providers, any failure by a wrap provider to fund account shortfalls under its contract or any action by us or by a wrap provider to immunize all or a portion of the wrapped accounts would adversely affect our business.

Investment, operational and other decisions and actions, often made to achieve scale and other benefits, are implemented over multiple investment pools as applicable, increasing the opportunity for losses, even small losses, to have a significant effect. To mitigate these risks to the investment pools, we seek to prudently manage the duration and credit exposure of the pools, to satisfy large liquidity demands by the in-kind delivery of securities held by the pools and to closely monitor liquidity demand from investors; however, market conditions or increased defaults could result in our inability to effectively manage those risks. To some degree, all of our investment management pools hold potential risks to our reputation and business prospects if the asset pools that we manage have higher than anticipated redemption or other liquidity requirements and the pools incur losses to meet such demands.

Other parts of our business where we primarily act as agent, such as other investment management activities of SSgA and certain of our broker/dealer-related businesses, do not currently have significant liquidity requirements; however, as we develop new products in response to customer demand and to remain competitive in a dynamic marketplace, we could take on more principal risk in these businesses. Any increase in the extent to which these or other businesses assume principal positions would increase the risks associated with our liquidity management strategy.

The disruption in the global fixed-income securities markets beginning in the third quarter of 2007 has had a substantially greater impact upon liquidity and valuations in those markets than has historically been experienced. Because demand from investors for fixed-income products has markedly decreased and dealers have been less prepared to take principal exposures, funding sources, such as the commercial paper markets for conduits, have been less reliable and more expensive. At the same time, the ability of the markets to absorb the sale of certain types of fixed-income securities has been substantially impaired. These market conditions have made the management of our own and our customers' liquidity significantly more challenging. As discussed above, the risks to State