STATE STREET GLOBAL ADVISORS | SSgA

State Street Financial Center
One Lincoln Street
Boston, MA 02111-2900

May 16, 2011

Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002
Basel, Switzerland
fsb@bis.org

Re: Note on Potential Financial Stability Issues from Exchange-Traded Funds

Dear Sir or Madam:

State Street Global Advisors[1] (SSgA) appreciates the opportunity to comment on the Financial Stability Board's note (the Note) concerning the potential financial stability issues relating to exchange traded funds (ETFs). SSgA does not believe that exchange traded funds (ETFs) pose unique systemic risks, but welcomes the important questions that have been raised and the call for increased disclosure, greater transparency and improved investor education. The increased scrutiny of ETFs is evidence of the industry's greatest opportunity and challenge – promoting a better understanding of the structures and safeguards that span a rapidly growing industry. SSgA, as a one of the largest ETF providers globally, welcomes the opportunity to engage in a dialogue with the Financial Stability Board on the topics raised in the Note or on any other matters relating to ETFs.

While ETFs are often portrayed as a new investment product, our family of SPDR ETFs has established a track record spanning nearly two decades. During this period of time, which encompasses several prominent market disruptions, SPDR ETFs have efficiently handled significant inflows and outflows and consistently delivered index-tracking performance. The impact ETFs have had in reshaping the way investors build and manage portfolios is a testament to the appeal of their core benefits, which include diversification, lower fees and expenses, liquidity, and transparency.

[1] State Street Global Advisors (SSgA) is a global leader in asset management and a division of State Street, one of the world's leading providers of financial services to institutional investors. Recognized as the industry pioneer, State Street created the first ETF in 1993 (SPDR S&P 500® – SPY) and today SPDR ETFs are a comprehensive family of ETFs spanning an array asset classes managed by SSgA in multiple jurisdictions around the world. To date, SPDR® ETFs across the globe are supported by the physical replication model.

On Synthetic ETFs

SSgA does not presently offer any synthetic ETFs, but recognizes that this structure may offer benefits to investors who are comfortable with the risk-return profile of these products - particularly as it relates to gaining access to asset classes that are not accessible through the physical replication model. SSgA recognizes that regulations will differ globally across the markets in which ETFs are offered, and we believe fund regulations in each relevant jurisdiction should treat ETFs consistently with other registered funds with respect to constraints and risk management procedures that target the use of financial derivative instruments.

On Securities Lending

Securities lending plays a major role in the efficient functioning of the securities markets worldwide and fund participation in securities lending programs can be a valuable part of efficient portfolio management. Many ETFs and other collective investments engage in securities lending programs, typically using a lending agent to lend a portion of securities in the portfolio to brokers, dealers, and other financial institutions in order to create additional income for fund shareholders. A well-managed securities lending program can provide this additional income, which can offset the expenses associated with managing the ETFs without creating inappropriate risk or liquidity concerns. For our SPDR ETFs, we have established safeguards and procedures designed to manage the risks associated with securities lending, such the requirement to post collateral in excess of the value of the borrowed securities, which provide a high degree of comfort that we are ably fulfilling our obligations to fund shareholders. In addition, we have developed procedures and safeguards to ensure that any lending of ETF shares does not create the possibility of over redemption, or other risks to shareholders.

On ETF Growth

ETFs in all markets are already subject to multiple levels of regulations relating to investment management, disclosure documents, listing and trading. As the industry expands, institutions, investment professionals, and retail investors have demanded a greater variety of ETFs to meet a broader range of objectives and risk tolerances, and ETF providers have responded by offering an increasingly diverse product line. This rapid expansion and wide variety of ETF structures and investments has made the ETF selection process more challenging. In an effort to help investors navigate the changing landscape and better evaluate ETFs, SSgA is committed to improving investor education, with respect to the investment merits of ETFs as well as their various structures. The concerns echoed in these recent reports underscore the need for all ETF providers to work toward ensuring that all investors fully understand the structure of their products.

SSgA is available to FSB for further discussion or clarification on some of the important questions that have been raised.

Sincerely,

James E. Ross
Global Head of Exchange Traded Funds
State Street Global Advisors