STATE STREET GLOBAL ADVISORS

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James E. Ross
State Street Global Advisors
1 Iron Street
Boston, MA 02210
USA

T +1 617-664-2043
ssga.com

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Submitted via email: rule-comments@sec.gov

Re: Exchange-Traded Funds; Release Nos. 33-10515; IC-33140; File No. S7-15-18

Dear Mr. Fields:

State Street Global Advisors[1] appreciates the opportunity to submit additional comments on proposed rule 6c-11 (the "**Proposed ETF Rule**"), specifically on the relative merits of an exchange-traded product ("ETP") classification system, as suggested by the United States ("U.S.") Securities and Exchange Commission's ("SEC") Fixed Income Market Structure Advisory Committee ("**FIMSAC**") in its letter to the Commission on October 29th.

Recognized as an industry pioneer, State Street Corporation created the first United States listed exchange-traded fund ("ETF") in 1993 (SPDR S&P 500® - Ticker: SPY) and has remained on the forefront of responsible innovation as evidenced by the introduction of many ground-breaking products, including first-to-market launches with gold, international real estate, international fixed income, and sector ETFs. With over $2.5 trillion in assets under management,[2] State Street Global Advisors is the third-largest asset manager and the issuer of the SPDRs family of ETFs.

State Street Global Advisors' Recommendation on ETP Disclosure

State Street Global Advisors agrees with the FIMSAC that enhancing clarity for ETF investors is an important goal. We strongly believe increased, understandable, consistent disclosure of key investment features is critical for all investment products, including ETPs.

1 The views expressed in this letter are those of State Street Global Advisors as they pertain to ETFs in the United States, and are not necessarily the same views that State Street Global Advisors might espouse regarding the regulation and operation of exchange-traded funds in other jurisdictions.
2 As of December 31, 2018.

Before we can earnestly consider a classification system, we believe the first critical step in improving investors' understanding of ETFs and other ETPs is for industry and market participants to come together on a common understanding of the best means for providing information on ETPs to investors.

State Street Global Advisors believes that there are critical fund attributes of which investors should be aware, before deploying their capital in any investment vehicle:

- Investments / Risks - What the vehicle invests in and the attendant risks;
- Strategy – How the vehicle is managed (*e.g.,* active vs. index-based; market cap weighted or other);
- Transparency - How frequently the vehicle's underlying holdings are disclosed;
- Leverage - Whether the strategy employs leverage, and how any use of such leverage is disclosed;
- Liquidity - Any restrictions or conditions around the sale of the vehicle.

While there may eventually be a role for SEC rulemaking in this area, it is important to first reach consensus on how best to convey this information in a comparable, understandable format that supports investors' ability to effectively use ETPs to accomplish their investment objectives.

At this point, we urge the Commission to encourage a dialogue with ETF market participants on the most effective means to improve uniform disclosures for ETPs. State Street Global Advisors is already deeply involved in industry discussions on this topic, and would be pleased to participate in any SEC initiated industry forums on ETP disclosures.

Our View on the FIMSAC classification system proposal

As noted above, we believe new rulemaking on ETP disclosure, including the specific classification regime identified in the FIMSAC comment letter, is premature, and we urge the Commission to not embed the FIMSAC recommendations in the final ETF Rule.

In our view, a static classification system, as suggested by the FIMSAC, is not the only available option for improving investors' understanding of ETP investment options. While the proposed classification system might be perceived as being simple to understand, we are concerned by potential downsides.

One concern is the inability of such a system to evolve over time, as the ETF industry continues to grow. Another is the possibility of investors or market participants taking false comfort in the classification system, and not conducting the necessary due diligence to establish suitability. This could potentially drive investors to choose products simply based on the classification, not the desired risk profile of the investment options. We also believe that adding more three letter acronyms will be confusing to both investors and the marketplace.

Most importantly, while the proposed classification system provides some important information to investors, we are concerned the proposed system focuses exclusively on structural features of the ETP, rather than the product's full risk profile, potentially confusing investors seeking to use ETPs to obtain certain exposures, and making it more difficult to understand precisely what they are buying. Two examples of the potential for confusion under the proposed classification system are described in the Appendix to this letter.

Conclusion

State Street Global Advisors understands that the intention of FIMSAC's classification model is to create a scheme that would better "categorize the risks associated with different types of ETPs" and ensure that there is "clarity around the structure and risks of different types of ETPs."[3] We agree with this goal.

A classification system may well be one element of ETP disclosures, but we are concerned that training investors to understand a naming convention that does not fully disclose risk attributes, could frustrate, rather than achieve, this goal. As a result, we urge the Commission to not adopt the FIMSAC recommendations in the final ETF Rule, and instead encourage a full dialogue between ETF market participants around refining existing ETP disclosures, adding new elements as useful to investors, and developing an industry-led standard ETP disclosure approach beneficial to investors and all market participants.

State Street Global Advisors appreciates the opportunity to comment on the Proposed ETF Rule. Should you have any questions about this letter, please do not hesitate to contact me.

Sincerely,

James E. Ross
Executive Vice President and Chairman, Global SPDR Business
State Street Global Advisors

[3] SEC FIMSAC Letter, pg. 3

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Appendix ---
Examples of Potential Confusion from FIMSAC Proposed Classifications

Example #1

All of the three fixed-income ETFs in the chart below are considered 'Total Bond Market ETFs', and would be classified as 'ETFs' under FIMSAC's proposed classification model, in that all use bonds as the underlying security.

Ticker	FIMSAC Classification	Holdings	Portfolio Disclosure	Leverage (Y/N)	Actively Managed (Y/N)	Index Weighting Methodology
BND	ETF	Bonds	Monthly	N	N	Market Value
FIBR	ETF	Bonds & Futures	Daily	N	N	Multi-Factor
TOTL	ETF	Bonds	Daily	N	Y	N/A

Note: For illustrative purposes only

BND is a standard index fund from Vanguard, FIBR could be considered a smart-beta product from iShares, and TOTL is an actively-managed ETF from State Street, sub-advised by DoubleLine. The risk/return characteristics and the weightings of the underlying bond exposures will be different over a market cycle for investors, but all would be considered an ETF under FIMSAC's classification model. While we agree that all three are currently called ETFs, much more is going on beneath the surface of that definition. A classification model such as that proposed by FIMSAC is insufficient to ensure that investors will know what they are buying.

Example #2

Another simple example is comparing the results of the classification model for three products seeking to deliver some form of return pegged to returns of gold: GLD, DGL, and UGL. One fund holds the physical commodity, while the other two hold derivatives. One of them is also levered.

Under FIMSAC's proposed classification model, GLD and DGL would be classified as Exchange Traded Commodities ("ETCs"), since they include either "commodity futures" or "physical commodities". UGL would be classified as an Exchange Traded Instrument ("ETI") because it does not "track the full unlevered positive return of the underlying index or exposure over a specific period of time".[4]

[4] U.S. SEC Fixed Income Market Structure Advisory Committee. "Recommendation for an Exchange-Traded Product Classification Scheme". October 29 2018 *available at* [https://www.sec.gov/comments/s7-15-18/s71518-4587743-176289.pdf.](https://www.sec.gov/comments/s7-15-18/s71518-4587743-176289.pdf)

Ticker	FIMSAC Classification	Holdings	Portfolio Disclosure	Leverage (Y/N)	Actively Managed (Y/N)	Index Weighting Methodology
GLD	ETC	Physical commodity	Daily	N	N	Single Asset
DGL	ETC	Futures	Daily	N	N	Multi-Factor
UGL	ETI	Futures & Swaps	Daily	Y	N	Single Asset

Note: For illustrative purposes only

While the classification model might give an investor trained in the nomenclature pause to investigate what an ETI actually does, and how, we are concerned that too much could be missed by using a classification like ETC. The investment results of a commodity fund holding a physical commodity can differ materially from the investment results of a commodity fund that seeks its exposure to the same commodity via derivatives.