



STATE STREET

July 3, 2008

Via e-mail: rule-comments@sec.gov

Ms. Nancy Morris
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Exchange-Traded Funds, File No. S7-07-08

Dear Ms. Morris:

State Street Global Markets, LLC ("SSGM") appreciates the opportunity to comment on the Securities and Exchange Commission (the "Commission") proposal (the "Proposed Rule") to exempt exchange-traded funds ("ETFs") from certain provisions of the Investment Company Act of 1940, as amended (the "Act").

SSGM is a leading broker-dealer, providing equity and fixed income trading services and investment research to a largely institutional customer base. SSGM is a wholly owned subsidiary of State Street Corporation and an affiliate of State Street Global Advisors (SSgA), the asset management unit of State Street Corporation. SSgA, through SSgA Funds Management, Inc., sponsors and advises the SPDRs family of ETFs. SSGM currently acts as distributor for the SPDRs family of ETFs and consequently is an affiliated person of these funds. Due to the current absence of exemptive relief from the Act, SSGM is unable to engage in in-kind transactions in connection with the creation and redemption of creation units with these funds and, therefore, is prohibited from functioning as an Authorized Participant.

SSGM fully supports the comments filed in response to the Proposed Rule by SSgA Funds Management, Inc.¹ We offer our comments today as a supplement to their comments and in response to the specific question posed by the Commission regarding the extension of the proposed relief from Sections 17(a)(1) and (a)(2) of the Act for in-kind transactions in connection with the creation and redemption of creation units to affiliated persons other than those covered by the Proposed Rule.

SSGM appreciates the importance of protecting fund shareholders from practices that may be detrimental to fund shareholders. We agree with the Commission, however, that permitting in-kind transactions between an ETF and its affiliated persons, provided that such affiliates are not treated differently than non-affiliates, creates no risk that an affiliate will effect a transaction detrimental to other ETF shareholders. In this respect, we believe the conclusions of the Commission related to first and second tier affiliates based solely on ownership of shares of an ETF (the "Ownership Affiliates") apply equally to other types of affiliates, including broker-dealers that are affiliated with an advisor to the ETF. Accordingly, for the reasons noted below, SSGM

¹ State Street Global Advisors Comment Letter to the Commission dated May 19, 2008.

strongly urges the Commission to expand the proposed relief to all affiliates of an ETF, including broker-dealers affiliated with the advisor of an ETF.

First, as with Ownership Affiliates, so long as all Authorized Participants, whether an affiliated broker-dealer or otherwise, seeking to engage in transactions with an ETF are not treated differently, there is no ability for either the ETF or its affiliated broker-dealer to influence pricing of an ETF through the creation or redemption process. The deposit and delivery of basket assets is a mechanical process, with a minimum of discretion. In addition, numerous other securities laws and regulations address potential manipulative practices and misuse of non-public information, and both registered advisors and broker-dealers maintain policies and procedures to address these issues, regardless of their ability to engage in in-kind transactions between affiliates. Given the importance of the arbitrage function in the ETF marketplace, SSGM believes increasing the potential number of Authorized Participants will benefit ETF shareholders, through increased competition and strengthening of the arbitrage mechanism. In addition, in arrangements where the broker-dealer is functioning as an agent for its customers on a riskless principal basis -- and not in proprietary trading -- any potential concern regarding potential conflicts of interest is further reduced.

Second, extending the proposed relief to other affiliates would increase the ability of SSGM to service its institutional customers in a more efficient manner. Under current rules, SSGM can execute in-kind creation and redemption transactions on behalf of its institutional clients for all ETFs except for those advised by its affiliate. For its affiliate's funds, SSGM is required to direct customers to an unaffiliated broker-dealer. It is costly and inefficient to require these customers to establish separate broker-dealer relationships solely for the purpose of engaging in creation and redemption transactions which benefit the market as a whole. Many of the institutional clients of SSGM that engage in these transactions do so for multiple ETFs sponsored by different fund companies, and it is particularly inconvenient for them to have to use different broker-dealers for nearly identical transactions, some of which occur simultaneously and which may hedge one another. SSGM also believes that requiring the use of multiple broker-dealers forces unnecessary transfers of assets between broker-dealers and introduces additional costs, delays, reconciliation requirements and the potential for errors and missed market opportunities.

Overall, as noted above, SSGM believes extending the proposed relief to all affiliates will improve the marketplace for ETFs, provide lower costs and higher levels of service to institutional investors and create no risk to ETF shareholders. We urge the Commission to amend the Proposed Rule to provide such relief.

Once again, thank you for the opportunity to comment on this proposal. If you have any questions, please feel free to contact me at 617-664-2160.

Sincerely,



R. Bryan Woodard
Chief Legal Officer
State Street Global Markets, LLC