

BLACKROCK

January 10, 2011

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street
Washington, D.C. 20549-1090

RE: Release No. IC-29497; File No. 4-619

Dear Ms. Murphy:

This letter responds to the request of the Securities and Exchange Commission (the “Commission”) for comments on the Report of the President’s Working Group (“PWG”) on Financial Markets on Money Market Fund Options (the “Report”).¹ BlackRock appreciates the opportunity to respond to the request for comment and strongly supports the goals underlying the Report - reducing systemic risk while strengthening U.S. registered money market mutual funds (“MMFs”).

BlackRock is one of the world's leading asset management firms, managing approximately \$3.45 trillion on behalf of institutional and individual clients worldwide, including governments, pension funds and endowments. BlackRock and its predecessor companies have been involved in the management of money market funds since 1973, and today BlackRock is one of the largest cash management providers in the world, managing a total of \$406 billion in cash-equivalent fund assets, including \$218 billion in MMF assets as of September 30, 2010. BlackRock MMFs do not seek to offer the highest yield - our MMFs have grown because we have earned our clients’ trust through multiple interest rate cycles and a wide range of market events by making liquidity and safety of principal our highest priorities.

We wish to note that we are grateful for the thorough work the PWG, the Commission and the other agencies have undertaken in preparing the Report. Similarly, we and our clients are grateful for the work of the Commission and many other government agencies throughout the recent financial crisis. The actions of multiple agencies were essential in restoring confidence and order to the markets in a time of great uncertainty.

I. Introduction

MMFs play a unique role in the economy by providing short-term funding to commercial and municipal borrowers through purchases of commercial paper and other short-term debt. The flexibility to borrow through short-term debt markets is an important alternative to borrowing from banks for many commercial and governmental entities. In many cases,

¹ Investment Company Act Release No. 29497 (Nov. 3, 2010).

banks are not equipped nor inclined to provide comparable lending – particularly to other financial institutions.

MMFs also provide value in the form of liquidity and market-level yields to a broad array of institutional and retail investors. For many investors, this represents a favorable alternative to bank deposits or to the direct purchase of instruments in terms of both liquidity and diversification. In addition, tax-exempt MMFs provide a unique source of funding to municipalities and income to investors that bank deposits cannot replicate.

Before addressing the specific options in the Report, we believe it is important to consider not only the events that enveloped the financial markets over the past three years, but also the substantial strengthening of MMF regulation that has occurred as a result of actions taken by Congress, the Commission, and other agencies in the past year. In particular, we note that:

- The changes to Securities Exchange Commission Rule 2a-7 under the Investment Company Act of 1940 (“Rule 2a-7”) that went into effect earlier this year have enhanced the credit quality, diversification, and liquidity of MMFs. New requirements for portfolio stress-testing and disclosure of market valuations provide additional protections and transparency. Other rules adopted at the same time provide a MMF board of directors or trustees the ability to suspend redemptions from a fund if the board determines that the fund is about to break or has broken the \$1.00 NAV.
- The newly-created Financial Stability Oversight Council (“FSOC”) has the ability to provide proactive and more comprehensive monitoring of the financial markets - including the market for money market instruments. The FSOC is also able to coordinate action across agencies in the event of a crisis in a way that was previously lacking.
- There have been numerous efforts undertaken to strengthen the broader financial system, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States and the new international regulatory framework for banks known as “Basel III.” These actions should improve the safety of MMFs by reducing risk in the instruments issued by financial institutions and held by MMFs.

We agree that it is prudent to continue to review the regulation of this important asset class. However, care should be taken to ensure that any additional changes reduce systemic risk without greatly damaging MMFs’ important role as a source of value to investors and funding to the short-term capital markets.

II. Summary of BlackRock’s recommendations

In light of these considerations, and as further detailed below in response to the options presented in the Report, BlackRock recommends that the Commission:

- Further modify Rule 2a-7. For example, require MMFs to limit shareholder concentration by not permitting any shareholder to purchase a MMF's shares if, after such purchase, the shareholder would own more than 5% of the MMF's outstanding shares. Omnibus accounts and portals should be required to provide sufficient information about the underlying shareholders to verify that the rule is not violated or else be subject to the 5% limitation themselves.
- Use the new financial oversight structure to identify and manage potential problems proactively. Establish a regular dialogue between MMF managers, large commercial paper issuers, the Commission's Division of Investment Management and the FSOC to raise issues and concerns about the short-term credit markets. This dialogue would be comparable to the dialogue between the Treasury Department's Assistant Secretary for Financial Markets and various market makers and large bond investors. Over time, such regular communications would provide the FSOC with valuable insight into cash markets generally (i.e., not just MMFs).
- Adopt a new structural approach to the industry. We recommend a structure in which MMFs are managed by special purpose entities with charters limited to operating money market mutual funds. In effect, these entities would be regulated subsidiaries of each investment manager. They would be required to hold capital, the level of which would be determined based on a combination of the total assets under management and the composition of those assets. Importantly, these entities would have access to the Federal Reserve Discount Window (the "discount window") as a source of emergency liquidity. This structure could be an alternative to, or exist in conjunction with some form of the industry liquidity facility as discussed in section III, #2 below.

Please find below BlackRock's specific comments on the policy options discussed in the Report, as well as additional comments on the recommendations set forth above. For your convenience, we have organized our comments to coincide with their order in the Report.

III. Specific responses to the eight options in PWG Report

1. Floating Net Asset Values

Many investors specifically use MMFs because of their stable \$1.00 NAV feature. For them, floating the NAV negates the value of the product. Many retail investors use MMFs to facilitate day-to-day transactions, or as a convenient sweep vehicle within a larger account. Institutional investors principally use these products to manage their working capital. When asked, the vast majority of MMF investors have indicated an unwillingness to invest in floating NAV funds for these activities.

From a practical standpoint, a floating NAV fund generates taxable gains and losses with each subscription and redemption, creating a tax and accounting burden for the investors that use these funds. Burdening institutional or retail investors with the complexity of taxable recognition of small gains and/or losses will undermine the convenience achieved by the MMF structure. In addition, eliminating the stable NAV feature would force MMF

investors such as corporate treasurers, pensions and governments, to make changes to innumerable processing, accounting and operations systems that are designed around a stable NAV (even if those systems can handle a floating NAV on an exception basis today).

It is worth noting that over the past few years, several firms introduced “enhanced cash” and/or “low duration” funds as alternatives to money market funds. Collectively, these fluctuating NAV funds never achieved significant scale, performed poorly in the financial crisis, and were subject to redemption runs. Clearly investors do not consider these funds to be an alternative to MMFs.

Perhaps the greatest risk in floating the NAV on MMFs is the substantial contraction of a product with \$3 trillion of financial intermediary activity. As discussed above, both issuers and investors likely will look elsewhere. The logical benefactor will be banks who will become the primary intermediary providers of short-term credit to the U.S. financial markets while reaping a multi-trillion dollar deposit windfall with no requirement that those funds be directed to markets previously served by the MMF industry.

In short, if money market funds move to a floating NAV, we believe investors will move the bulk of their MMF assets to bank deposits, Treasury bills or direct purchases of commercial paper. It is our belief that banks have neither the infrastructure nor the profit incentive based on minimum leverage capital requirements to provide short-term funding to the economy in the way that money market funds do through the purchase of commercial paper and other short-term debt instruments. Additionally, most investors are not equipped to invest directly in commercial paper and would lose the protections of diversification that MMFs provide them. Floating the NAV could result in meaningful disruption for borrowers who currently depend on short-term capital markets and to the economic activity financed by those markets. In the absence of other funding alternatives, this could result in a long-term contraction of the capital markets available to these borrowers with a corresponding decrease in overall economic activity.

2. Private Emergency Liquidity Facilities for MMFs

The private sector has proposed the creation of a Liquidity Facility (“LF”) that could act as liquidity providers of last resort. As currently conceived, the LF would be industry-funded and would provide a fixed amount of buying capacity if a MMF could not generate liquidity for money-good assets.

We support the idea of an LF in that it could provide an incremental liquidity cushion for the industry. More importantly, it could provide for an orderly way for the industry to access the discount window in the case of a systemic crisis.

However, there are challenges inherent in “shared” capital that merit further consideration and study. First, it is difficult to ensure that an LF with finite purchasing capacity is fairly administered in a crisis such as the one we just experienced. This could lead to MMFs attempting to optimize the outcome for themselves, rather than working cooperatively to solve a systemic crisis. Shared capital also poses the danger of increased risk-taking by industry participants who believe that they have access to a large collective pool of capital.

As a result, we support the LF only to the extent that its capital levels are modest. As capital requirements are increased, the problems of shared capital become more pronounced and we begin to favor a solution like the Special Purpose Entity that we cover in #7 below. This solution is similar in concept to an LF, but envisions each MMF sponsor owning and controlling its own capital. We also recommend that fund sponsors be given the option of participating in an industry consortium or creating their own LF if they are at sufficient scale.

3. Mandatory Redemptions in Kind

Under rule 18f-1 of the Investment Company Act of 1940, MMFs are permitted to elect to make in-kind redemptions to shareholders above a minimum cash threshold when it is in the interest of the fund (and its remaining shareholders). We expect this option to be used rarely if at all as most shareholders do not want in-kind redemptions and many cannot receive and hold direct investments in money market assets. Some money market assets, such as repurchase agreements and Eurodollar time deposits, are OTC contracts and cannot be transferred to retail or to multiple investors. For these reasons it often is not possible to deliver a pro-rata slice of fund holdings to redeeming shareholders.

This approach also does nothing to satisfy the demand for liquidity that begins this chain of events and could make the situation worse if recipients of an in-kind redemption attempt to sell the assets immediately. Under the rules issued this past January, money market fund boards have the ability to suspend redemptions if a fund either breaks the dollar, or is about to break the dollar, goes into liquidation and notifies the SEC of its decision. Rather than mandating in-kind redemptions, we support the existing rules that already give MMFs the option to make in-kind redemptions or to suspend redemptions under extreme circumstances.

4. Insurance for MMFs

During the crisis, the U.S. Treasury put in place a Temporary Guarantee Program, an insurance program for investors who were MMF shareholders as of September 19, 2008. This program remained in effect for one year and played an important role in restoring investor confidence. As of the conclusion of the program, the government had collected \$1.2 billion in fees without paying any claims. Although the program accomplished its goals at no out-of-pocket cost to the taxpayer, we believe there are several issues that make the establishment of a permanent government-sponsored MMF insurance program problematic. These issues include the potential for encouraging excessive risk-taking by individual fund companies. In addition, a permanent government-sponsored insurance program could have unintended consequences by creating flows of capital into MMFs from insured bank deposits or into prime MMFs from government MMFs.

Private insurance has been made available in the past, but has been unsuccessful due to the cost to MMFs and their sponsors. Private MMF insurance products present the risk of being cancelled by insurers when it is most needed or of having claims disputed during a

crisis. Further, it is unlikely any private insurance program would be large enough to protect against systemic issues.

5. A Two-Tier System of MMFs, with Enhanced Protections for Stable NAV MMFs

In a sense, a two-tier system of MMFs is already an option today. Investors currently can choose between stable NAV MMFs and floating NAV short-term bond funds. Fund sponsors can currently create and offer floating NAV funds that invest in money market securities, so the absence of such funds suggests a lack of investor interest in such a product. In general, investors have expressed a strong preference for stable NAV products. Introducing a two-tier system, with both stable NAV and floating rate NAV funds investing in money market securities, is likely to cause confusion without addressing the issues.

The proposals adopted by the SEC in January 2010 tightened risk-limiting constraints on MMFs through liquidity requirements and more conservative investment standards. We believe that the addition of more extreme portfolio management constraints for MMFs designed to push investors into floating NAV MMFs could endanger the commercial viability of MMFs and instead push investors into alternatives to MMFs with negative consequences to issuers and investors similar to those discussed in #1 above.

6. A Two-Tier System of MMFs, with Stable NAV MMFs Reserved for Retail Investors

There has been substantial discussion around the behavior of “institutional” versus “retail” clients, and the possibility of creating funds with different characteristics for the two groups of investors. Realistically, many MMFs intermingle institutional and retail clients, and it would be unworkable to differentiate between the two types of investors. Fund complexes that use a structure in which there is a single portfolio with multiple share classes would find it difficult to define themselves as “retail” or “institutional.”

Further, retail investors increasingly act through institutional advisors who manage and invest their assets. For example, retail shareholders often invest in MMFs through institutional share classes, through 401(k) plans or broker or bank sweep accounts where there is one institutional decision-maker acting on behalf of many retail customers. A two-tier approach to MMFs based on a distinction between “retail” and “institutional” funds would be difficult to implement and may lead to gaming behavior by investors. For example, investors would have an incentive to appear to be a “retail” investor to qualify for stable NAV funds. For these reasons, we support the use of a single set of portfolio characteristics and liquidity requirements rather than a segregated or tiered approach.

It is worth noting that regardless of the decision regarding “institutional” and “retail” funds, under the new know-your-customer rules, managers will need additional disclosure about underlying clients from portals and other aggregators for the intent of the rule to be fully achieved.

7. Regulating Stable NAV MMFs as Special Purpose Banks

While BlackRock believes that the Special Purpose Bank option as described in the Report is not viable, we believe that an alternative structure described below could be a more workable solution which leaves the existing stable NAV MMF product in place with manageable capital costs and a workable regulatory structure. Our proposal would require the sponsor or investment manager, not the MMF itself, to be regulated as a special purpose entity (“SPE”) and to hold capital. We believe that this SPE structure, combined with access to liquidity through the Fed window, would address both idiosyncratic (i.e. limited to one or a few funds) and systemic risk while permitting the current Rule 2a-7 MMF structure to continue with its advantages for investors and the financial markets.

MMFs are currently pass-through vehicles in which interest earned, less fees and expenses, is passed through to investors. Under current FASB rules, the manager of a MMF cannot accrue a liability or record “capital/reserves” in retained earnings to cover future potential losses. Our proposal entails a new structural approach in which MMFs would be managed by a SPE with a charter limited to managing MMFs. This SPE would be a regulated subsidiary of the investment manager. This entity would be required to have capital, the level of which would be determined based on the total assets under management and the composition of those assets. This entity would have access to the Federal Reserve Discount Window as a source of emergency liquidity. In order to make this solution workable for the Federal Reserve, guidelines could determine a minimum size of such an SPE and permit consortia of SPEs to attain this minimum size. The MMFs’ existing mutual fund structures as well as their existing share-class structures would be unchanged.

This approach addresses both idiosyncratic risk and systemic risk. Individual investment management firms will effectively have capital at risk to address credit and some liquidity issues. Under this structure firms will have a strong incentive to manage their MMFs prudently as they will have direct financial “skin in the game” in addition to the substantial reputational risk that they already bear. The risk of systemic failure would be addressed by providing access to the discount window. In return for this access, in addition to regulation under the Investment Advisers Act of 1940 and the Investment Company Act of 1940 to which managers of MMFs already are subject, the special purpose entity would be subject to regulatory oversight by the Federal Reserve Board (“FRB”) and might be assessed an annual fee from the FRB. In the event of market deterioration or a credit event, the SPE would have capital to support the share value of the MMFs managed by the SPE. The manager would have some discretion, if needed to support a fund, to allocate the capital in the SPE among MMFs sponsored by the SPE. The rules establishing this structure would need to be structured in such a way to ensure that the MMFs sponsored by the SPE would not be consolidated on the books of the asset manager.

The required capital should be significantly lower than that required for a commercial bank, to reflect the special nature of these entities and the specific funds being offered. Unlike a traditional bank, Rule 2a-7 MMFs are limited to very high quality, very short maturity securities or other instruments pursuant to SEC Rule 2a-7. There would be no large maturity mis-match between “deposits and lending”, nor would the credit exposure be comparable to a traditional bank

We believe that the required capital levels should be calculated based on a risk-weighted asset approach. For example, we would expect that the capital charge for MMFs investing

in non-governmental securities would exceed the charge for those MMFs investing solely in Treasury securities. However, these risk weights would need to be appropriately scaled and calibrated to reflect the unique nature of MMF exposures, rather than simply “read across” from extant risk weights under the current Basel rules. Standardized risk weights, which do not recognize the special and specific nature of MMF exposures, would likely over-estimate the amount of capital required and potentially make it uneconomic for sponsors to remain in the MMF business.

The SPE should be required to achieve a minimum capital level within a specified timeframe. Given that sponsors are not currently required to hold capital against their MMFs, it is vitally important that any new capital requirement applicable to the SPE have a sufficiently long phase-in period; perhaps the capital could be accumulated through a fee payable to the SPE by the MMF.

We believe this approach creates an alignment of interests in addressing idiosyncratic risk and provides a practical solution to mitigating systemic risk. The risk the government faced in support of the industry was in dealing with market illiquidity. Once the FRB provided the industry with indirect access to the discount window (by putting the AMLF liquidity facility in place), money market funds quickly returned to normal operations. Importantly, the FRB did not incur any losses in making this liquidity available and MMFs were back providing a critical source of credit to the economy within a very short period of time.

We recognize that this proposal requires a number of legislative and regulatory changes. Depending on the definition of the SPE as a “bank” or a “non-bank”, the specific changes will differ. Likewise, the inclusion of an LF would require additional changes. We note that subjecting the SPE to all of the regulations imposed on a traditional bank which invests in long term assets and engages in lending, underwriting and other higher risk activities could make this solution unworkable, especially for those managers who only engage in investment management related activities.

8. Enhanced Constraints on “Unregulated MMF Substitutes”

The Report suggests changing or strengthening the regulation of other stable NAV cash fund products (referred to as “Unregulated MMF Substitutes”) to prevent or minimize client movement from MMFs to such products. The Report acknowledges that such stable NAV cash fund products are not, in fact, unregulated but rather are regulated under schemes other than Rule 2a-7 (e.g., state and Federal bank regulation, insurance regulation, and the regulations of non-U.S. jurisdictions such as the UK). The Report suggests that such other regulators implement changes to the regulation of products under their authority to coordinate with any changes to Rule 2a-7.

BlackRock, like many other sponsors of MMFs, manages non-Rule 2a-7 cash fund products for a variety of clients both in the U.S. and elsewhere. In our experience, these other cash fund products are typically used for clients and purposes that are different from and more narrow than those for which MMFs are used. As examples, they are often limited in scope to retirement assets, trust assets or other assets under the fiduciary control of intermediaries. In some securities lending applications, these funds’ assets can only be

moved by first terminating a broader asset management/lending relationship, which can only occur over time. As a result, these specialized uses expose these funds to different liquidity needs than MMFs. The principal regulators of these funds are more familiar with their uses and are in the best position to determine if these funds should be regulated differently or consistently with Rule 2a-7.

BlackRock agrees that there should be formal and informal information sharing among the Commission, Treasury, the Federal Reserve, and the FSOC, to increase transparency and help ensure that regulatory approaches between the 2a-7 and non-2a-7 worlds are appropriately coordinated. However, we caution that there is no simple “one-size fits all” structure that is perfect to cover MMFs uniformly with other types of cash funds that may be subject to different regulatory regimes in U.S. and non-U.S. jurisdictions.

* * * * *

In closing, we ask the PWG and the Commission to consider the significant impact these proposals would have on the MMF industry in light of the major changes already implemented or to be implemented. We believe that each of the eight options contained in the Report would have a significant impact on MMFs and their sponsors – an industry that has a strong record of meeting the capital preservation and liquidity needs of its shareholders while delivering market-based yields over its more than 35 year history. As with any major change in regulation, there is a risk of over-steering. We urge the PWG, the Commission and the other agencies to monitor the impact of the various changes that already have been made or which are already in process before taking further action such as imposing a fluctuating net asset value, requiring redemptions in-kind, or the creation of a private liquidity facility.

We thank the Commission for providing BlackRock the opportunity to comment on the Report, and we are eager to assist the Commission in any way we can to ensure that any reforms will benefit MMF investors, reduce systemic risk and not unintentionally damage the MMF industry as a whole.

Sincerely,

/s/ Simon Mendelson

/s/ Richard Hoerner

Simon Mendelson
Managing Director, BlackRock, Inc.

Richard Hoerner
Managing Director, BlackRock, Inc.

Co-Heads of Global Cash Management and Securities Lending

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
Barbara G. Novick, Vice Chairman, BlackRock, Inc.