BLACKROCK

November 1, 2013

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Submitted via internet: http://www.sec.gov/divisions/investment/comments-ofr-asset-management-study.shtml

RE: Feedback on OFR Study on Asset Management and Financial Stability

Dear Ms. Murphy:

In 2012, the Financial Stability Oversight Council (the "FSOC") asked the Office of Financial Research (the "OFR") to analyze asset management firms to consider what threats, if any, exist to U.S. financial stability from these companies and whether such potential threats can be mitigated by subjecting asset managers to prudential standards and supervision by the Board of Governors of the Federal Reserve System (hereinafter the "Board"), or whether these potential threats are better addressed through other regulatory measures.[1] BlackRock, Inc. (together with its affiliates, "BlackRock")[2] is pleased to have the opportunity to review and comment on the resulting OFR Study on Asset Management and Financial Stability (the "OFR Study")[3] and to provide our views on the issues raised.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")[4] established the FSOC to bring together the principal financial regulators in the United States for the purpose of identifying systemic risks to financial stability, particularly those that could arise from the failure of a large, interconnected financial institution. While the FSOC has a broad statutory mandate, the enhanced supervision and prudential standards specifically outlined in the Dodd-Frank Act and detailed in the Board's proposed prudential rule[5] are focused on preventing the failure of a financial institution with a large balance sheet that is a direct participant and counterparty in the financial markets. As we will outline below, asset managers

---

[1] *See* Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21,637, 21,644 (Apr. 11, 2012). The Dodd-Frank Wall Street Reform and Consumer Protection Act established the OFR within the Treasury Department to improve the quality of financial data available to policymakers and to facilitate more robust and sophisticated analysis of the financial system. *About Us,* DEPARTMENT OF THE TREASURY, OFFICE OF FINANCIAL RESEARCH, http://www.treasury.gov/initiatives/ofr/about/Pages/default.aspx (last visited Oct. 28, 2013).
[2] BlackRock is one of the world's leading asset management firms, managing approximately $4.01 trillion (as of September 30, 2013) on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurance companies and other financial institutions, as well as individuals around the world.
[3] Office of Financial Research, *Asset Management and Financial Stability* 10, September 2013, http://www.treasury.gov/initiatives/ofr/research/Documents/OFR_AMFS_FINAL.pdf.
[4] Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L. No. 111-203, 124 Stat. 1376 (2010).
[5] Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies, 77 Fed. Reg. 594 (proposed Jan. 5, 2012).

are not direct participants in U.S. financial markets in any material way, and their balance sheets are negligible in comparison to institutions such as banks and insurance companies. While asset management firms are often measured by the size of their assets under management ("AUM"), it is easily forgotten that AUM represents client assets, not firm assets, obscuring the fact that at the firm level, asset managers have no impact on systemic risk.

An express mandate of the FSOC is to remove expectations that any financial institution is "too big to fail" and will receive the benefit of government support.[6] There is no such expectation in the marketplace with respect to asset management firms, because the resolution of an asset management firm would not require government support. Indeed, asset management firms do not "fail" in this sense, because they have no balance sheet activities to support. Portfolio gains and losses accrue to investors, who may take their assets elsewhere with little market disruption if managers fail to perform. This may cause certain asset management firms to go out of business or be acquired over time, but this is not of systemic concern. Similarly, counterparties recognize that they are transacting with an investor (either a fund or separate account) and look only to the credit and ability to perform of that investor, not that of the asset manager. No additional prudential regulation is necessary to eliminate a "too big to fail" expectation with respect to asset managers, because the expectation simply does not exist.

SUMMARY

We agree with the OFR's observation that the "activities [of asset managers] differ in important ways from commercial banking and insurance activities."[7] In fact, the agent model noted in the OFR Study is a key reason why asset managers do not pose a systemic risk at the company level in the way that banks do. While we do not believe asset management firms are systemically important at the company level, we do agree that certain risks associated with some investment products and practices should be addressed by policymakers. However, we respectfully disagree with certain key aspects of the OFR Study with respect to the existence of risks posed by certain other products and practices. In our view, a number of the OFR Study's conclusions are based on incorrect facts and in some cases on supposition. In addition, we believe that the OFR Study did not establish that there is any evidence to link the size of the asset manager to the risks posed by those products and practices which we agree present potential risk. For this reason, we believe these risks should be identified and that solutions should be applied consistently across market participants, regardless of which regulator has supervisory jurisdiction, and regardless of which financial institution – large or small – sponsors or undertakes the activity or practice.

Indeed, all of these potential risks can be addressed through the existing statutory authority of the FSOC member agencies. The FSOC should take an active role in harmonizing solutions across regulators and in implementing these solutions across all market participants using the regulatory and oversight powers available to the FSOC member agencies.[8] In essence, the FSOC April 2012 release[9] was prescient in suggesting that rather than subjecting asset

---

[6] Dodd-Frank Act § 112(a)(1)(B), 12 U.S.C. § 5322(a)(1)(B).
[7] OFR Study, pg. 1.
[8] Among its other responsibilities, the FSOC is to "facilitate information sharing and coordination among the member agencies and other Federal and State agencies regarding domestic financial services policy development, rulemaking, examinations, reporting requirements, and enforcement actions . . . " and to "make recommendations to primary financial regulatory agencies to apply new or heightened standards and safeguards for financial activities or practices that could create or increase risks of significant liquidity, credit, or other problems spreading among bank holding companies, nonbank financial companies, and United States financial markets . . . . " Dodd-Frank Act § 112(a)(2)(E), (K), 12 U.S.C. § 5322(a)(2)(E), (K).
[9] *See* Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21,637 (Apr. 11, 2012) (to be codified at 12 C.F.R. pt. 1310).

management firms to supervision by the Board, the risks associated with managing assets may be better addressed through other regulatory measures.

In summary, as we will discuss in greater detail below, we strongly believe:

- Asset managers are not direct participants in the capital markets. They do not act as lenders or counterparties, and accordingly they have very small balance sheets, particularly when compared to other financial institutions like banks and insurance companies. Therefore, asset management firms present no systemic risk at the company level.

- Asset managers act as agents for their clients, investing in accordance with client guidelines. Clients regularly replace asset managers that do not perform, and asset managers occasionally go out of business, particularly when they manage one asset class or strategy. However, this creates no systemic impact because the assets are held by custodians on behalf of clients, not by the asset manager itself, and transitioning management of accounts between asset managers is common and straightforward.

- Larger asset management firms present less systemic risk than smaller firms. Large asset managers are less likely to go out of business, because they have more diverse businesses that can withstand changing markets and investor preferences. Larger firms also have dedicated risk management departments and sophisticated technology to monitor and evaluate portfolio risk on behalf of clients.

- Certain asset management products and practices highlighted in the OFR Study may present risks, but these products and practices are undertaken by numerous asset managers and market participants large and small. Examples of products include commingled investment vehicles; practices include performance fees, securities lending and fund leverage. The products and practices cited in the OFR Study are already subject to extensive regulation.

- To the extent the FSOC has concerns about a specific product or practice, they should identify such risks and make recommendations to seek to harmonize rules across regulators. BlackRock has been a vocal advocate of balanced reform at the product level, and will continue to work with regulators to find regulatory solutions that increase transparency, protect investors, and facilitate responsible growth of capital markets, while preserving consumer choice, balancing the benefits versus the costs, and maintaining a level playing field across similar products.[10]

[10] *Thinking About Public Policy*, BLACKROCK, http://www.blackrock.com/corporate/en-us/news-and-insights/public-policy (last visited Oct. 28, 2013).

BACKGROUND ON ASSET MANAGEMENT

What is asset management?

The OFR Study identifies some, but not all, of the key aspects of asset management and some, but not all, of the key statistics concerning the industry. In considering asset managers and the various investment products and practices discussed by the OFR, we believe the FSOC member agencies would benefit from an overview of the asset management business, which we discuss below.

Asset management is portfolio management and the required trading of securities to achieve a specific investment objective for the benefit of investors such as pension funds, insurance companies, corporations, charities, educational establishments and individuals. In the United States alone, there are more than 500 managers, each with over $5 billion in AUM[11] and there are over 7,500[12] mutual funds in existence, which represents significant diversity of investment thought processes and execution strategies.

An asset manager acts as an *agent* on behalf of its clients, meaning it transacts for its investor clients, not for itself. The asset manager is hired by institutional investors directly or by the trustees of collective investment vehicles such as mutual funds and exchange-traded funds ("ETFs"), in each case entering into an investment management agreement that establishes the relationship between the asset manager and the client. The investment strategy and the investment guidelines to be followed by the asset manager are set out in the investment management agreement or are established by the offering or constituent documents that establish the fund. The clients' assets are held by a custodian, not the asset manager.[13]

Asset managers are *fiduciaries* to their clients. In the United States, this duty arises under three principal statutes: the Investment Advisers Act of 1940 (the "Advisers Act"),[14] as interpreted by the Supreme Court,[15] the National Bank Act (when exercising trust powers)[16] and the Employee Retirement Income Security Act of 1974 ("ERISA")(when managing pension plan assets).[17] BlackRock, along with all other U.S. registered investment advisers and those exercising trust powers or managing ERISA plan assets, are required by law to act in the best interests of their clients. At BlackRock, this obligation to our clients is the foundation of our mission and values as an organization.[18]

Asset managers are extensively regulated

Asset managers are subject to comprehensive federal regulation that requires managers to establish and maintain comprehensive risk management and compliance policies and procedures regarding the management of client accounts, and to keep and make available to regulators extensive records regarding their operations and transactions on behalf of clients. In the U.S., the Securities and Exchange Commission (the "SEC") is the primary regulator of asset

---

[11] Source: Simfund December 2012.
[12] Investment Company Institute, *ICI 2013 Investment Company Fact Book*. http://www.icifactbook.org/pdf/13_fb_table61.pdf.
[13] While some asset managers use affiliated custodians, the custodians have direct obligations to the client to hold and safekeep assets.
[14] 54 Stat. 847 (1940) (codified as amended at 15 U.S.C. §§ 8ob-1 *et seq.*).
[15] *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180 (1963).
[16] 13 Stat. 99 (1864) (as amended and codified in scattered sections of the U.S. code).
[17] Pub. L. 93-406, 88 Stat. 829 (1974).
[18] *What We Stand For: BlackRock's Mission, Values, and Principles*, BLACKROCK, http://www.blackrock.com/corporate/en-us/about-us/mission-values-principles (last visited Oct. 28, 2013).

managers that are registered as investment advisers. Asset managers that operate as trust banks or through bank trust departments are overseen by the Office of the Comptroller of the Currency (the "OCC") if federally chartered, and by state banking authorities if state-chartered.[19] In the U.S., many asset managers are also subject to regulation by the Department of Labor under ERISA if providing services to or managing assets for certain pension plans, and by the Commodity Futures Trading Commission (the "CFTC") if they invest client funds in commodities or certain derivative instruments. Additionally, the Dodd-Frank Act introduced a host of new rules that provide for enhanced reporting, oversight and transparency for trading in financial instruments and for financial institutions, including asset managers.

Asset managers are also subject to comparable regulation across the globe. In the EU, the management of separate accounts is comprehensively regulated under the EU Markets in Financial Instruments Directive, and the management of pooled funds is regulated under the Directive for Undertakings for Collective Investment in Transferable Securities ("UCITS"), which governs retail mutual funds, the Insurance Mediation Directive, which covers funds structured as unit-linked insurance vehicles, and the Alternative Investment Fund Managers Directive ("AIFMD") which covers all other investment funds managed by European asset managers.[20] In some cases EU legislation may be supplemented by additional national requirements. Supervision of consistent implementation of EU legislation by national member states is undertaken by the European Securities and Markets Authority ("ESMA"), which has the power to issue binding technical standards as well as additional guidelines. In the Asia-Pacific region, regulatory agencies overseeing asset managers include, among others, the Financial Services Agency in Japan, the Securities and Futures Commission in Hong Kong, and the Australian Prudential Regulatory Authority and the Australian Securities and Investments Commission in Australia. Similar regulatory regimes exist in Canada, Latin America and elsewhere.

As a general matter, these regulators and regulatory regimes, either by specific regulation or through regulatory interaction, require asset managers to appoint chief compliance officers with sufficient authority and independence to assure a robust compliance environment. It is also increasingly common for regulators to require that asset managers have risk management processes and procedures in place that include the appointment of chief risk officers.[21] These risk officers are charged with overseeing the investment and credit risks to which clients are exposed and the operational risks of the asset manager itself.

Asset management is highly diversified

Asset management is highly diversified both as an industry and within most large asset management firms. There are more than 25 asset managers with $500 billion or more in AUM, and there are over 500 asset managers with at least $5 billion in AUM. Even amongst the top

---

[19] Asset management activities of state-chartered banks are also subject to examination and oversight by the Board (if the bank is a member of the Federal Reserve System) and/or the FDIC (if the bank is a non-member FDIC insured institution).

[20] Asset management firms themselves are individually authorized and supervised by national competent authorities such as the Financial Conduct Authority or Prudential Regulatory Authority in the UK, the German Federal Financial Supervisory Authority, the French Autorité des Marchés, the Central Bank of Ireland and the Luxembourg Commission de Surveillance du Secteur Financier. Legislation equivalent to that in the EU exists in Switzerland and Swiss managers are subject to authorization and supervision by the Swiss Financial Market Supervisory Authority.

[21] For example, with respect to asset managers that operate as trust banks, while there is not yet a specific bank regulatory requirement for managers that act through trust banks to appoint a Chief Risk Officers, there is an expectation that banks will have a senior officer charged with supervising the banks' risk management function and reporting to the board. Board of Governors of the Federal Reserve, SR Letter 08-8/CA letter 08-11, *Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles* (Oct. 16, 2008).

twenty firms listed in the OFR Study and included as Exhibit A, the largest five managers represent less than half of the aggregate AUM of the group.[22]

The total AUM of an asset management firm does not tell the whole story, because the AUM of different managers could be invested in completely different ways. An asset manager typically runs a number of diverse and relatively uncorrelated investment strategies for numerous clients.[23] For example, BlackRock offers over 100 investment processes, representing over 100 independent assessments of investment risk-taking, many of which include several sub-strategies. Each process is owned by a portfolio manager who has a fiduciary obligation to his or her specific clients, regardless of what other portfolio managers at BlackRock are doing. Many of the other top twenty managers listed in the OFR Study have businesses that are also diversified across asset classes, investment strategies, types of clients, and geographies.[24] The largest managers, including BlackRock, have a significant percentage of their clients' assets invested in long-only passive strategies.[25] Under the OFR's own analysis, long-only strategies appear to present minimal risk from a systemic perspective, and passive strategies present even less potential for systemic risk.

Asset management differs from banking

As noted in the OFR Study, asset managers are significantly different from banks and other financial services companies. In general, asset managers are much less susceptible to financial distress than banks, and regardless, the consequence of their distress is highly unlikely to adversely impact the broader economy. The primary reason for this is that asset managers are, at their core, simply service providers who earn fees, not market risk takers for their own accounts. We set out below some of the fundamentally important differences between banking and asset management which are relevant to understanding asset management firms and how they fit into the financial ecosystem.

- *Asset managers are not direct market participants, and do not have access to government funds or guarantees*

Asset managers act on behalf of clients, not themselves. Asset managers do not act as lenders or otherwise provide credit to individuals or corporations, nor do they perform clearance, custody or related functions. Unlike banks, thrifts and federal credit unions, asset managers do not have government insured or guaranteed deposits. Nor do standalone asset managers have access to the Federal Reserve discount window. Asset managers do not generally provide financial assistance to other parties, nor do they generally have contractual undertakings or guarantees to provide capital to funds they advise. In addition, asset managers do not act as

---

[22] Even for BlackRock with AUM of USD $4 trillion, this represents only 2.4% of invested assets globally, excluding non-securitized assets on bank balance sheets and real estate assets on insurance company balance sheet. McKinsey & Company, *The Hunt for Elusive Growth: Asset Management in 2012*, June 2012, http://www.mckinsey.de/sites/mck_files/files/global_am.pdf.

[23] In order to meet the needs of different types of clients domiciled in various regulatory jurisdictions, asset managers offer such strategies through multiple products such as U.S. and non-U.S. mutual funds, private funds, collective investment trusts and separate accounts. These legal vehicles reflect the regulatory complexity in which asset managers operate today.

[24] It is worth noting that there are a growing number managers specializing in alternative investment products, which in some cases have greater AUM in alternatives than the large, diversified managers. We provided information about these managers in Exhibit B. In the next section, we discuss investment practices that may warrant additional study. Given the concentrated use of some of these investment practices within alternative investment products, it would be important that any new rules or regulations focus on the investment products and investment practices rather than on any individual large asset managers.

[25] Pensions & Investments, *Money Manager Data*, as of December 31, 2012. Sixty-five percent of BlackRock's long-term AUM is in passive strategies.

counterparties in derivatives, financing or securities transactions, and they do not cross-hold debt or equity with their or other funds or other institutions. While they enter into many such trades as an agent, those trades are between the asset manager's clients and other counterparties.

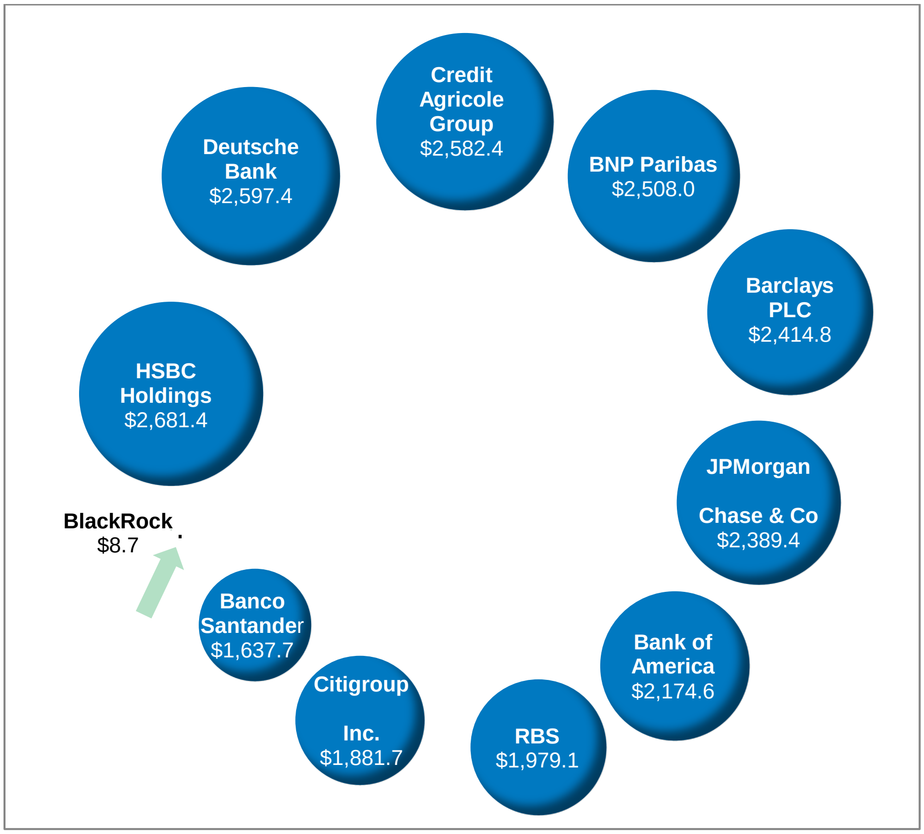
- *An asset manager's balance sheet is generally small and relatively uncomplicated*

Because asset management firms are not direct market participants, and generally do not invest for their own account, they do not assume high levels of balance sheet risk. The balance sheet of an asset management firm generally comprises working capital, an investment portfolio related to seed and co-investment capital, property, premises and equipment, thereby requiring a modest amount of capital. An asset manager's balance sheet is very small compared with that of a bank and its balance sheet generally is not leveraged.

Because the business of asset management is not capital intensive, asset managers do not routinely use short-term debt instruments to fund their operations and thus, unlike banks and broker-dealers, asset managers are not dependent on continued liquidity from short-term markets. The chart below highlights the immense size differential in balance sheet assets when comparing BlackRock with various U.S. and European banks.

Largest U.S. & European Banks and BlackRock by Balance Sheet Assets[26]

US$ Billions



- *End-investors primarily bear the risk of adverse market movements, not the asset manager*

Investors that hire asset managers or invest in funds understand and accept that they are exposed to the risk of their assets falling in value. While asset managers strive to generate positive performance for clients, asset price deterioration in a given fund or client account has little direct impact on the asset manager. Of course, because asset managers normally charge fees based on the size of their AUM, reduced AUM due to market movements or client withdrawals can result in reduced revenue. However, as noted below, larger asset managers generally have strong cash flow from diversified investment management revenue sources representing various asset classes (e.g., equity vs. fixed income) and investment strategies (active vs. passive). In addition, revenue reductions can be substantially offset through adjustments in the manager's operational expenditure, headcount and variable employee compensation in order to maintain positive net income.

---

[26] *http://www.relbanks.com/worlds-top-banks/assets as of 31 March 2013*. As defined in BlackRock's Second Quarter 2013 Form 10-Q (the "Q2 BlackRock Form 10-Q") (See BlackRock, Inc., Form 10-Q, June 30, 2013, from *http://www.blackrock.com/corporate/en-us/investor-relations/financial-information#*), the BlackRock figure represents total assets, as adjusted, excluding intangible assets and goodwill, as of June 30, 2013. Due to various accounting rules, the balance sheets of asset managers sometimes include assets that have equal and offsetting liabilities or noncontrolling interests that generally do not have an impact on stockholders' equity. At June 30, 2013, BlackRock's total assets, as adjusted and excluding intangible assets and goodwill, were $8.7 billion, which compares to BlackRock's GAAP total assets of $193.7 billion (still significantly smaller than the largest bank balance sheets). We recognize that banks may also have offsetting assets and liabilities and/or intangible assets and goodwill on their balance sheet, which are not reflected here.

RISKS IDENTIFIED IN THE OFR STUDY

The OFR Study cites four key risk factors that the OFR believes make the asset management industry vulnerable to shocks, and identifies other specific risks within these categories. Some of the risks identified in the OFR Study are specific to a particular investment product; others are specific to a particular investment practice. Many of these risks apply to *all* investors, not just investors that retain asset management firms to manage their assets. Importantly, most of these risks are not correlated to the total AUM of an asset manager or other investors. Seeking to address these risks through the regulation of large asset managers would miss a significant portion of each relevant market and potentially create a false sense of security that adequate oversight had been attained.

As stated previously, we would strongly encourage a review of the existing regulation of the specific investment products and investment practices thought to potentially pose systemic risk to determine whether "lessons learned" from the financial crisis are adequately reflected in current practices and regulations. Only then, if substantial gaps remain, should they be addressed by FSOC member agencies.[27] We note that each agency currently has adequate statutory authority to address risks related to the products and practices cited by the OFR Study.

We address these risk factors in the order they were addressed in the OFR Study. In each case, we assess the issue and suggest regulatory responses that may be appropriate to the issues raised. In assessing these issues and the need for regulatory response, policymakers should consider the benefits of commercial and regulatory change that have been implemented to investment products and investment practices since 2008, as well as giving consideration to the cumulative impact of reforms on the capital markets and on end-investors.

Reaching for yield and herding behaviors

Competitive pressures

The OFR Study specifically cites concerns about asset managers taking outsized risks either in response to competitive pressures or as a way to maximize performance fees. Regulated products, such as U.S. registered mutual funds, are subject to significant limitations on their ability to take risks due to limitations on the use of leverage and derivatives, which we discuss below. Furthermore, as described at the beginning of this letter, every asset management relationship is defined by an investment management agreement and investment guidelines specific to the mandate. A manager is constrained by these regulatory and contractual arrangements and cannot take additional risks without violating their obligations and exposing themselves to liability risk and loss of the mandate to another asset manager.

As noted in the OFR Study, large asset management firms undertake comprehensive risk management and oversight to ensure that all accounts are being managed within such contractual guidelines and in accordance with applicable regulatory requirements. At BlackRock, our independent risk management department, Risk and Quantitative Analysis ("RQA"), continuously strives to improve our investment management processes across all asset classes, and enhance performance and operational excellence. In partnership with the investment teams, the 215 member RQA group utilizes our extensive analytical systems, and

[27] Over the past few years, BlackRock has written extensively on several of these issues, providing educational materials and, in some cases, calling for globally harmonized regulation. Please refer to BlackRock's Public Policy website for copies of the educational white papers and comment letters BlackRock has produced: http://www.blackrock.com/corporate/en-us/news-and-insights/public-policy.

both proprietary and third-party data, to identify, measure and manage a wide range of risks, including investment, market, liquidity, counterparty and operational risk. RQA seeks to ensure these risks are deliberate, diversified and appropriately scaled, and coordinates the standards for firm-wide performance measurement. These activities are expensive to fund and greatly benefit from the economies of scale achieved at BlackRock.

Today's asset management clients – including both institutional investors and the mutual fund trustees that represent retail products – demand robust risk management. In our experience, institutional investors undertake extensive diligence on a manager's risk management infrastructure, and will not invest with a particular manager unless they are satisfied with their findings.[28] Firms that cannot provide sophisticated risk management and oversight will find it exceedingly difficult to attract assets and grow their AUM in today's competitive asset management industry.

With respect to fee arrangements, we understand that performance fee arrangements have the potential to create conflicts of interest, which is why such fee arrangements are already subject to extensive regulation under both the Advisers Act and ERISA.[29] Congress identified this concern during the course of the initial drafting of the Advisers Act in 1940, and chose to significantly limit the ability of registered investment advisers to receive performance fees.[30] Registered mutual funds are prohibited from charging traditional performance fees to their investors,[31] and registered advisers may only receive performance fees from the most sophisticated clients.[32] Finally, ERISA mandates specific requirements for performance fees offered to pension clients, including a requirement that they be based on an independent valuation.[33] These restrictions have served to effectively regulate the use of performance fees for many years, and other than appropriate adjustments to financial thresholds we see no reason to change them now or further regulate their use through prudential regulation of asset managers.

Furthermore, in our experience, institutional clients sometimes prefer performance-based fees over basis point fees calculated on client AUM. These clients recognize that performance fees align the interests of the asset manager with its client, and create additional incentives to drive strong performance. These are sophisticated institutions that enjoy exercising choice on this subject.

Given these existing regulatory and market constraints, there is arguably limited if any abuse taking place. To the extent that that this perception changes, it is a micro-prudential matter

---

[28] The Alternative Investment Management Association's published industry-standard Due Diligence Questionnaires, for example, include questions about the risk management infrastructure of managers. *Industry-standard DDQs*, ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION, http://www.aima.org/en/test_section/tk-sections-in-education/sound-practices/Industry-standard-ddqs.cfm (last visited Oct. 28, 2013).

[29] The OCC regulations governing asset management activities require that performance fees comply with "applicable law"—often this will be ERISA, but may also be similar state laws that require fiduciaries to appropriately manage conflicts. 12 C.F.R. § 9.18(b)(9)(i).

[30] Investment Advisers Act § 205(a)(1), 54 Stat. 852 (1940).

[31] Mutual funds can charge "fulcrum fees," a type of fee arrangement that increases *and decreases proportionally* based on the performance of the fund. As a result, performance fee arrangements for mutual funds are uncommon.

[32] Performance fees can only be received from a "qualified client," which is defined as an individual with at least $1,000,000 under management with the adviser or a net worth of over $2,000,000, excluding the value of the individual's primary residence. These amounts were recently increased pursuant to requirements of the Dodd-Frank Act to adjust the dollar amount tests for inflation.

[33] Advisory Opinion 1999-16A (Dep't of Labor Dec. 9, 1999); Advisory Opinion 1989-28A (Dep't of Labor Sept. 25, 1989), Advisory Opinion 1986-21A (Dep't of Labor Aug. 29, 1986); Advisory Opinion 1986-20A (Dep't of Labor Aug. 29, 1986).

rather than a macro-prudential issue. If micro-prudential concerns continue to exist, they should be addressed directly. It is difficult to see how performance fees contribute to systemic risk.

Herding

The OFR Study specifically cited concerns about asset managers crowding into popular asset classes or individual securities on behalf of client accounts. If this issue presents systemic risk, it is an issue for investors broadly, not just for asset management firms. As highlighted in the table attached as Exhibit C, the top 25 global investors control assets from $296 billion to $1.4 trillion each.[34] These highly sophisticated investors include sovereign wealth funds, insurance companies and pension plans, most of which manage some if not all of their assets internally, not through an asset manager. Any regulation of "herding behavior" would need to factor in a broad range of end-investors in addition to asset management firms.

The OFR Study refers to "collective action problems and other broader behavioral issues that can contribute to asset price bubbles or other market cycles."[35] It speculates about how asset managers may exhibit dysfunctional behavior that would facilitate "herding." However, it seemingly ignored perhaps the most important dimension of herding, investor flows, that results from the collective decisions made by millions of individual investors and institutional investors when they choose to allocate investment capital across various investment strategies. Whether it is genuinely "bubble-inducing" behavior, chasing currently in vogue strategies or a well-determined rational reallocation of capital, the key driver of any "herding" is the behavior of the end-investors, not their agents. Money flows in and out of investment strategies. While we will touch on some of the purported points about asset managers' behavior, we strongly believe that the demands of end-investors and the potential for there to be correlation amongst them totally dominates whatever second-order impact might be inferred of asset manager "herding." The literature cited by the OFR speaks more to some commonality across mutual fund managers than it does to anything approaching systemic interest. Investors, not asset managers, determine the vast amount of flows in the capital markets.

Moreover, if the goal is to regulate herding behavior, the underlying economic drivers of such behavior would need to be addressed. For instance, if regulatory practices place an incentive to end-investors to own higher yielding investments, they will pursue those types of investments based on attempting to maximize their outcomes regardless of whether or not the investment is managed directly in-house or outsourced through an asset manager. Similarly, momentum as a factor in the valuation of securities has been observed empirically by many studies. Investors seeking alpha in the markets will therefore have a view on the relative attractiveness of momentum at a given point in time. For markets to clear, investors will be both buyers and sellers of momentum (i.e, value vs. growth investing). This dynamic necessarily changes through time but it is not specific to whether an end-investor chooses to manage their own money or outsource the process to an asset manager.

On occasion, due to market conditions or events, certain strategies can experience volatility in performance which can cause investors to seek redemptions or require the manager to re-position the strategy to limit further losses. Multiple asset managers may be following the same strategy so each could experience redemptions or seek to reposition at roughly the same time. Examples would include MBS-related strategies in the U.S. in the mid-1990s when the Federal Reserve raised interest rates sharply over a short period of time, or the turbulence in quantitative equity strategies in summer of 2007. The actions of end-investors and asset

---

[34] Source: aiCIO. *aiGlobal 500,* http://ai-cio.com/aiGlobal500.aspx?id=3100.
[35] Office of Financial Research, *Asset Management and Financial Stability* 10, September 2013, http://www.treasury.gov/initiatives/ofr/research/Documents/OFR_AMFS_FINAL.pdf.

managers in these circumstances may contribute to a short-term increase in the volatility of securities used in the strategy, but it is exceedingly difficult if not impossible to distinguish between rational price shocks that arise due to important new information resulting in a rapid change in prices versus an "irrational" movement. In either case, the market stabilizes at a new value level – a positive indicator of functioning markets. Even if concentration of trades across managers were capable of creating systemic risk, in order to 'manage' this risk, regulators would have to restrict investors from selecting a particular strategy the regulator deemed to be too concentrated, and then restrict the same investors from withdrawing from that strategy in times of market stress. Yet again, this is a case where if a reform is required, it should take place in changes to the market structure, whether that be in the creation of "circuit breakers" on exchanges or rules governing the degree and price of liquidity that can be offered to end-investors in already regulated pooled vehicles.

Exchange Traded Funds (ETFs)

In considering whether ETFs present systemic risk, it is helpful to understand the unique aspects of their structure and operation. As noted in the OFR Study, an ETF is an investment vehicle that combines key features of traditional mutual funds and individual stocks. Like index mutual funds, most ETFs represent diversified portfolios of securities that track specific indices. Like stocks, they can be bought and sold (long or short) on an exchange throughout the trading day. In addition to trading flexibility, key ETF benefits include instant portfolio diversification, tax efficiency, and transparency of cost and holdings.[36]

While ETF trading occurs on an exchange like stocks, the process by which their shares are created is significantly different. Unless a traditional public company decides to issue more shares, the supply of shares of an individual stock trading in the marketplace is fixed. When demand increases for shares of an ETF, however, authorized participants (each, an "AP") have the ability to create additional shares.

Most ETFs use an "in-kind" transfer mechanism in which APs create ETF units in the primary market by delivering a basket of securities to the ETF equal to the current holdings of the ETF in return for a large block of ETF shares, which are then available for trading in the secondary market. The redemption process works in reverse. This ETF creation and redemption process helps keep ETF supply and demand in continual balance and provides a "hidden" layer of liquidity not evident by looking at ETF trading volumes alone.

In the OFR Study, the FSOC asserted with no supporting evidence that ETFs may "transmit or amplify financial shocks originating elsewhere." If this were true, it would also be true of other investment vehicles. ETFs are not immune from the laws of supply and demand, so that when investors decide en masse to reduce exposure to an asset class, that will lead to selling of ETFs tied to that asset class (just as it does to other commingled vehicles tied to that asset class). Unlike ETFs, open-end funds that allow investors to redeem for cash "transmit" any supply-demand imbalance directly – every redemption has to be funded by selling assets into the already stressed market. In contrast, ETFs transmit any supply-demand imbalance indirectly –

[36] Over the past few years, ETFs have continued to gain market acceptance by a wide range of investors, which has resulted in significant growth of the product. In the U.S., ETF assets were $1.5 trillion as of December 31, 2012, compared to non-ETF index assets of $6.2 trillion and mutual fund assets of $10.2 trillion. Source: Simfund, BlackRock, Bank for International Settlements, The World Bank.

that is, with the in-kind redemption mechanism.[37] They do not make the imbalance go away, but they introduce a "speed bump" that slows it down.

As noted, ETFs generally redeem in-kind to large financial intermediaries who can make decisions about whether to dispose of the assets in a declining market or hold them until prices recover. In addition, because ETF shares are typically the most liquid asset in a suddenly illiquid market, they often decline more rapidly than underlying asset prices. What this means is that the ETF shares represent the most efficient place for price discovery to occur. Eventually, an arbitrage opportunity is created between the ETF shares and the underlying assets which, in turn, tends to stabilize the ETF share price until it reconverges with the related asset price. In other words, ETFs facilitate price discovery in a stressed market, which minimizes the transactions in the underlying asset and permits a more orderly price discovery process than might otherwise occur. At some level, ETFs do "transmit" financial shocks originating elsewhere – that's price discovery – but they also act as a shock absorber rather than an "amplifier." ETFs serve a valuable role in that they allow investors to express their views by trading in the ETF shares rather than the underlying holdings of the ETF and provide an additional source of liquidity for investors seeking to obtain specific exposures.

The beneficial impacts of ETFs during times of financial market stress were in full view in the recent period of fixed income market volatility. After May 22, 2013, when Federal Reserve announcements first sparked concerns in the markets about rising interest rates, many investors decided to sell a wide range of global financial assets. Many of these investors turned to ETFs to execute their investment views. Even where the underlying markets were thinly traded (like some types of bonds) or closed during New York trading hours (as with many international equities), ETFs enabled investors to move quickly and efficiently. Markets around the world saw surges in trading. The secondary market for ETFs surged even more. In June, ETF volume soared to about 34% of all U.S. exchange volume (according to the NYSE), versus a more typical 25%. In BlackRock's own ETFs, we saw record trading volumes for some of our iShares ETFs. Our high-yield U.S. bond ETF (HYG) exceeded $1 billion in daily trading for the first time, and our largest emerging market equity fund (EEM) traded $5.6 billion in one day. In each case, investors used ETFs to trade efficiently and at the most current market prices, without disruption to the underlying fixed income and equity markets.

ETFs present a clear example of an investment product that should be regulated directly as a product. Indeed, ETFs are currently subject to extensive regulation by the SEC in the United States and by securities regulators across the globe.[38] Global policymakers have also focused their attention on ETFs. Between April and September of 2011, regulatory reports on ETFs were published by the International Monetary Fund, the Bank for International Settlements, the Financial Stability Board ("FSB"), the Bank of England Financial Policy Committee, the European Securities and Markets Authority, and the European Systemic Risk Board.[39] We

---

[37] ETF share sales do not necessarily result in immediate sales of underlying assets. Instead, in-kind redemptions by ETFs enable APs to thoughtfully evaluate whether to dispose of assets in a declining market or to retain those assets until more favorable conditions prevail.
[38] Some U.S. ETFs are also subject to regulation by the CFTC.
[39] *See* International Monetary Fund, *Global Financial Stability Report: Durable Financial Stability: Getting There from Here*, April 2011, http://www.imf.org/external/pubs/ft/gfsr/2011/01/pdf/text.pdf; Srichander Ramaswamy, *Market Structure and Systemic Risks of Exchange-Traded Funds*, BANK FOR INTERNATIONAL SETTLEMENTS, April 2011; Financial Stability Board, *Potential Financial Stability Issues Arising from Recent Trends in Exchange-Traded Funds (ETFs)*, Apr. 12, 2011; Bank of England, *Financial Stability Report,* No. 29, June 2011; European Securities and Markets Authority, *Guidelines on ETFs and Other UCITS Issues* 25, July 2012; European Systemic Risk Board response to the European Securities and Markets Authority Discussion Paper: *ESMA's policy orientations and guidelines for UCITS exchange-traded funds and structured UCITS*, Sept. 21, 2011. It should be noted that, while these 2011 reports tended to focus on ETFs, it was generally acknowledged in latter consultations and reports that

support effective regulation of ETFs across all industry participants, and we have publicly advocated for reforms when issues have been identified. As a major participant in the ETF marketplace, we have been concerned about the need for clear labeling of products as well as the need to establish clear standards for disclosures and for managing the risks associated with ETFs. We have published a number of papers, have testified before the U.S. Congress and have met with the European Commission, ESMA and other European regulators on ETFs.[40] Please see Exhibit D for a summary of our five key reform recommendations.[41]

As a product that is just over 20 years old (as compared to traditional mutual funds, which are over 80 years old), ETFs and the important role they play in the price discovery process are not well understood. Because a number of myths (including myths related to systemic risk) about ETFs have emerged which reflect a need for increased education on the product for both regulators and investors, we urge the FSOC to continue to seek a greater understanding of ETFs.[42] We encourage the FSOC to read our detailed discussion of these issues and to seek additional input from ETF managers and investors as they consider the systemic importance of ETFs and the appropriate regulatory response.

Retail Alternatives

Another specific point raised in the OFR Study is the development of registered funds that employ alternative investment strategies. The study postulates, without any supporting evidence, that investors do not understand the risks in these funds and they will rush to redeem in a period of stress. We note that this is a relatively small product category of approximately $378 billion as of August 2013 (as compared to total assets in non-money market mutual funds of over $10 trillion)[43] which makes it unlikely to present systemic risks even if the scenario presented were to occur. In addition, unlike some of the investment practice issues raised in the study which span across investment vehicles, this issue sits squarely with the SEC as an SEC-regulated product. If the FSOC were to determine that these funds raise systemic risk issues, the appropriate regulatory measure would be for the SEC to review their rules on leverage limits, liquidity requirements, Board powers, and other relevant requirements to reflect any special risks presented by retail alternative funds. This may be an example of where systemic concerns need to be incorporated into existing regulatory practices. The total AUM of an asset manager has no particular relevance to this issue.

Redemption Risk

The OFR Study contains a useful but incomplete discussion of redemption risk in collective investment vehicles and the tools and strategies utilized by the managers of those vehicles to

---

many of the issues identified in the earlier reports were applicable more broadly (either to index-tracking funds generally or, in the case of the EU, to UCITS generally).

[40] *See Market Microstructure: Examination of Exchange-Traded Funds (ETFS): Hearing Before the Subcomm. on Sec., Ins., and Inv. of the S. Comm. on Banking, Hous., & Urban Affairs*, 112th Cong. (2011) (statement of Noel Archard, Managing Dir., BlackRock I-Shares); BlackRock, *Understanding the "Flash Crash": What Happened, Why ETFs Were Affected, and How to Reduce the Risk of Another*, *ViewPoint* Nov. 2010 http://www.blackrock.com/corporate/en-us/literature/whitepaper/understanding-the-flash-crash-nov-2010.pdf; BlackRock, *Revisiting the Flash Crash: A Year Has Passed, What Has Changed?*, *ViewPoint* May 2011 http://www.blackrock.com/corporate/en-us/literature/whitepaper/viewpoint-revisiting-the-flash-crash-may-2011.pdf.

[41] BlackRock, *ETFs: A Call for Greater Transparency and Consistent Regulation*, *ViewPoint* Oct. 2011, https://www.blackrock.com/corporate/en-us/literature/whitepaper/transparency-and-consistent-regulation-oct-2011.pdf.

[42] In response to this need for education, in June, 2013, BlackRock published a report entitled, *Exchange Traded Products: Overview, Benefits and Myths*, June 2013, https://www.blackrock.com/corporate/en-us/literature/whitepaper/viewpoint-etps-overview-benefits-myths-062013.pdf.

[43] Source: Simfund, as of August 2013.

satisfy redemption requests, including in times of stress. The fundamental benefit of pooled vehicles is collective investment, which allows investors to receive cost-effective diversified exposures they may not be able to achieve investing alone. This benefit comes with the risk that the actions of one investor in a pooled vehicle can impact another investor. Fund investors understand this risk, and as acknowledged in the OFR Study, investment managers have extensive experience managing it.

Importantly, these risks exist at the product level, and we believe they should continue to be regulated at the product level. Collective investment vehicles include U.S. registered mutual funds, UCITS, ETFs, collective investment trusts, and private funds. The liquidity profiles and investor bases of these vehicles vary dramatically and many are regulated by different authorities. In addition, each of these vehicles has different uses and potentially presents different issues. For example, open-end funds redeem shares using market closing prices at the end of each trading day, whereas private funds may require advance notification of redemption requests as much as several months before the actual redemption date. In some cases, redemptions may be made "in-kind" without any sale of securities for cash, significantly limiting market impact.

Funds regularly liquidate or experience high volumes of redemptions with little market impact, and the actual behavior of investors is based on a large number of factors. Often redemptions and subscriptions are reactions to broader market events and are generally unrelated to a specific asset manager. For example, in 2013, the market has seen record redemptions from registered bond funds, including traditional bond funds, municipal bond funds, high yield funds, and emerging market funds, in each case without additional market impact. As highlighted in the table below, significant assets were redeemed from registered bond funds. Traditional bond funds[44] experienced net outflows of approximately $51 billion in 2013, with $46 billion of these net outflows occurring in the third quarter. Within this category, one large bond fund experienced net outflows of $29 billion in 2013, with over $20 billion of these net outflows occurring in the third quarter. Redemptions from these types of traditional bond funds spiked in response to interest rates rising on expectations that the Federal Reserve would start to unwind QE3 by scaling back its monthly bond purchases.[45]

Net Flows for Registered Mutual Funds in 2013
$ millions

Fund Strategy (Morningstar Classification)	YTD 2013 (as of Sept. 30 2013)	3Q 2013
Intermediate-Term Bond	-51,252	-45,774
Municipal Bond	-30,546	-24,330
Emerging Markets Bond	2,280	-2,992
High Yield Bond	-4,088	5,076
Short-Term Bond	19,163	5,508

Source: Simfund. As of September 30, 2013.

[44] Represents net outflows in Intermediate-Term Bond funds as classified by Morningstar.
[45] Source: Simfund, as of September 30, 2013.

Likewise, municipal bond funds experienced significant outflows due to concerns about credit quality. The Detroit bankruptcy coupled with uncertainty in Puerto Rico drove these investor decisions. While registered mutual funds that invest in this asset class have experienced record outflows,[46] no individual funds or their managers have exhibited signs of distress and there has been no systemic market impact.

Much has been written and said about "run risk" specific to money market funds. As noted elsewhere in this letter, the SEC has already strengthened many aspects of money market fund regulation with the reforms implemented in 2010,[47] and the SEC is actively considering additional structural reforms to address the "run risk" that is described in the OFR Study. On June 5, 2013, the SEC voted to release proposed rules for this structural reform.[48]

The OFR Study suggests that *all* collective investment vehicles present varying degrees of run risk. While we agree that funds may experience increased redemptions in periods of high volatility, we do not believe that redemptions necessarily create systemic risk. If the FSOC were to determine otherwise, the appropriate regulatory measure would be for FSOC member agencies to tailor regulatory solutions for specific types of investment vehicles and specific investment strategies. For example, the SEC already has requirements for the maintenance of no less than 85% of a registered open-end fund's assets in liquid securities and allows for redemptions in kind pursuant to Rule 18f-1 of the Investment Company Act ("1940 Act"). The SEC, as it has most recently done in the context of the money market reform proposal, could use the rulemaking process to grant mutual funds and/or their Boards the ability to suspend redemptions temporarily, to put a fund into liquidation or to enhance the redemption fee provisions of Rule 22c-2 of the 1940 Act. In the case of larger market emergencies or disruptions, the SEC has the ability to suspend redemptions for funds regulated under the1940 Act. Depending on the assessment of risk, the SEC could add measures to selective fund strategies or could promulgate new rules that apply to all registered mutual funds.[49]

---

[46] Source: Simfund.

[47] Money Market Fund Reform, 75 Fed. Reg. 10060 (Mar. 4, 2010) (Release No. IC-29132; File Nos. S7-11-09, S7-20-09).

[48] Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36,834 (June 19, 2013) (Release No. 33-9408, IA-3616; IC-30551; File No. S7-03-13). BlackRock has made constructive proposals on potential solutions for "stopping a run" in a series of *ViewPoints* and comment letters over the past four years, and we welcome the opportunity to continue our dialogue with the SEC and other regulators to bring this important issue to closure. *See* BlackRock, *The New Regulatory Regime for Money Market Funds: A Window into the Mark-to-Market NAV*, *ViewPoint* Jan. 2011, https://www.blackrock.com/cash/literature/whitepaper/viewpoint-window-into-mark-to-market-nav.pdf; BlackRock, *Money Market Funds: A Proposal for a Capitalized Special Purpose Entity*, *ViewPoint* Feb. 2010, https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111124986; BlackRock, *Money Market Funds: The Debate Continues*, *ViewPoint* Mar. 2012, https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111160117; BlackRock, *Money Market Fund Reform: Discussion of Reform Proposals*, *ViewPoint* Jan. 2011 https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111128669; BlackRock, *Money Market Funds: Potential Capital Solutions*, *ViewPoint* Aug. 2011, http://www.blackrock.com/corporate/en-ca/literature/whitepaper/viewpoint-mmfs-potential-capital-solutions-aug-2011.pdf ; BlackRock*, Money Market Funds: A Path Forward*, *ViewPoint* Sept. 2012 https://www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111173537; Comment letter from BlackRock to FSOC (Dec. 13, 2012) (re: FSOC Proposed Recommendations Regarding Money Market Mutual Fund Reform (FSOC-2012-0003)); Comment Letter from BlackRock to Elizabeth M. Murphy, Secretary, SEC (Sept. 12, 2013) (*available at* http://www.sec.gov/comments/s7-03-13/s70313-115.pdf) (re: Money Market Fund Reform; Amendments to Form PF (Release No. IC-30551; File No. S7-03-13)); Comment letter from BlackRock to Elizabeth M. Murphy, Secretary, SEC (Jan. 10, 2011) (re: President's Working Group on Money Market Fund Reform). Additionally, the European Commission has proposed additional changes to the regulation of cash funds, beyond those required by UCITS regulation and the ESMA Guidelines for money market funds.

[49] The CFTC could do the same with regard to commodity pools within their jurisdiction.

Likewise, the Office of the Comptroller of the Currency (the "OCC") oversees bank collective trust funds, another large category of pooled vehicles. These funds may only be used by investors that enter into a trust relationship with the bank.[50] The OCC regulations governing these vehicles permit the trustees to establish rules for required notice and manner of redemption. Further, the OCC regulations – in place long before 2008 – require that as a fiduciary, the trustee has the unilateral authority to protect other investors in the trust, which would allow the manager to suspend redemptions, change notice periods for redemptions or change the form of redemption (e.g., from cash to in-kind). If additional regulation of collective trust funds is warranted, the OCC could tailor its rules appropriately to the strategy and investor base.[51]

Securities lending

Securities lending is an established practice in global financial markets that provides liquidity to markets while also generating additional returns to investors who lend securities.[52] The availability of securities through lending arrangements translates into liquidity for the settlement of transactions.[53] During the financial crisis, securities lending helped to mitigate market stresses by providing needed liquidity to the markets at a challenging time and allowing market participants to transact more quickly and efficiently. Another key benefit comes from the income generated for investors whose securities are lent. This extra return is generated primarily from the "intrinsic value" of the securities as well as (in the U.S. market) by reinvesting any cash collateral received, resulting in enhanced returns to investors.

Like any investing activity, securities lending entails risks that need to be managed. Key risks include counterparty credit risk, cash collateral reinvestment risk, non-cash collateral risk, and operational risk. Each of these risks can and should be addressed and monitored in a well-managed securities lending program. BlackRock has made specific suggestions for enhanced regulation of the securities lending industry.[54]

The OFR Study cites risks associated with cash collateral reinvestment strategies, and the FSOC has specifically cited "cash" pools as an area of systemic concern.[55] In both its 2012 and 2013 Annual Reports the FSOC recommended that member agencies should, where applicable, impose similar standards on comparable cash management vehicles within their jurisdiction.[56]

---

[50] Most of these investors are institutional investors, typically trusts, and the decisions by these investors to contribute or redeem assets are made in a fiduciary capacity under ERISA, state or other non-US fiduciary laws.

[51] Issues arising in collective investment trusts managed by state-chartered banks could be addressed through authority of the Board and the FDIC to address safety and soundness issues by regulation or supervisory letter.

[52] In May, 2012, BlackRock published a ViewPoint entitled *Securities Lending: Balancing Risks and Rewards*. In this publication, we explained the benefits of securities lending to markets and to investors while also highlighting the risks associated with this investment practice and offered several recommendations for the enhanced regulation of securities lending.

[53] A number of academic studies have cited this benefit. *See, e.g.*, Pedro A.C. Saffi & Kari Sigurdson, *Price Efficiency and Short Selling*, IESE BUSINESS SCHOOL WP 748 (Apr. 2008).

[54] BlackRock, *Securities Lending: Balancing Risks and Rewards, ViewPoint* May 2012, http://www.blackrock.com/corporate/en-us/literature/whitepaper/balancing-risks-and-rewards-may-2012.pdf.

[55] Financial Stability Oversight Council, *2012 Annual Report*, http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf.

[56] *See* Financial Stability Oversight Council, *2012 Annual Report* 11-12, http://www.treasury.gov/initiatives/fsoc/Documents/2012%20Annual%20Report.pdf; Financial Stability Oversight Council, *2013 Annual Report* 12, http://www.treasury.gov/initiatives/fsoc/Documents/FSOC%202013%20Annual%20Report.pdf. The federal banking agencies, for example, may be able to impose certain standards as a safety and soundness matter through the issuance of interpretive guidance. However, as member agencies have been slow to respond to this recommendation, the FSOC should consider using its authority under §120 of the Dodd-Frank Act to formalize this recommendation that the relevant agencies take action, and if the member agencies fail to do so, to act instead.

The management of cash collateral pools in securities lending provides an excellent example of how the FSOC can encourage its member agencies to create a harmonized regulatory environment to address investment products or practices that may present systemic risks. The management of cash pools is already subject to oversight by multiple regulatory bodies who are working independently to address a variety of concerns arising from the financial crisis, including the guidelines that apply to stable NAV cash funds. The SEC has finalized an updated Rule 2a-7 under the 1940 Act addressing portfolio characteristics and liquidity requirements for registered money market funds[57] and continues to consider additional changes to Rule 2a-7, while the OCC has enacted new rules for Short-Term Investment Funds (each, a "STIF") addressing credit quality, maturity and liquidity as well as disclosure of portfolio holdings.[58] Changes to the investment standards and rules applicable to STIFs managed by state chartered institutions (including custodians that engage in securities lending) is yet to be enacted at either the Federal or state level; we encourage the FSOC to work with the Federal Deposit Insurance Corporation, the Board and state bank regulators to create a more harmonized environment. Harmonization across comparable cash products would protect investors and prevent regulatory arbitrage.

Outside the U.S., the European Commission is considering changes to the regulation of UCITS cash funds.[59] Similarly, the FSB in their recent policy recommendations regarding the regulation of securities lending and repurchase agreements recommended that regulators require that cash collateral be invested in pooled cash funds that are subject to investment guidelines generally in line with those already required for the U.S. registered money market funds or STIF funds described above.[60]

Securities lending also creates the risk of "semi-collateralized" loans being made due to long-standing industry practices which, in the U.S. typically lead to only 102% of the value of a borrowed equity being posted as daily collateral. Changes in market prices lead to an adjustment at the end of the day. This creates situations where if the market rallies substantially, the securities lender will find itself under-collateralized and exposed to the general credit of the borrower. That introduces the general credit of the securities borrower into the equation and creates a risk that if large borrower's credit deteriorates, there might be a massive run to recall securities across multiple lenders. Neither larger nor small lenders have the ability in isolation to effect a change in this market convention. Only changes in practices across the market would have an impact.

The securities lending market includes multiple participants, including lenders, borrowers, custodial and non-custodial lending agents, prime brokers and exchanges. Asset managers are only involved as lending agent with a small subset of the total volume of securities lending transactions. Seeking to regulate selected market participants, rather than market practices, will not address any potential systemic risks associated with securities lending.

If the FSOC were to determine that a particular securities lending practice presented a potential systemic risk that is not already being addressed by the relevant regulator, we believe it should recommend regulations to apply uniformly across the securities lending market, rather than

---

[57] Money Market Fund Reform, 75 Fed. Reg. 10060 (Mar. 4, 2010) (Release No. IC-29132; File Nos. S7-11-09, S7-20-09).
[58] Short-Term Investment Funds, 77 Fed. Reg. 61,229 (Oct. 9, 2012) (to be codified at 12 C.F.R. pt. 9).
[59] *Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds*, COM (2013) 615 final (Sept. 4, 2013).
[60] Financial Stability Board, *Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*, Aug. 29 2013, http://www.financialstabilityboard.org/publications/r_130829b.pdf.

having different standards adopted by each of the regulators governing the various participants in the securities lending market.[61]

Leverage

As we discussed earlier, asset managers have small and relatively uncomplicated balance sheets, and do not generally use leverage significantly at the enterprise level. However, asset managers may employ leverage on behalf of their clients as part of the investment strategy of a particular investment fund or product. In the investment management context, "leverage" refers to a strategy that creates investment exposure by a fund greater than the net asset value of the fund; it has many uses and can occur in a number of ways in funds, primarily through borrowing and the use of derivatives. Asset management clients benefit from the potential upside provided by leverage, and similarly bear the risk of any increased asset price volatility.

In considering leverage and the potential impacts of leverage on the markets, it is important to understand that leverage can occur not only at the product level, but also at the end-investor's portfolio level. Importantly, the use of leverage is not limited to assets managed by asset managers. As we saw in the 2008 financial crisis, many end-investors were forced to liquidate investments to meet their individual liquidity needs. These investors included pension funds, foundations and endowments as well as numerous financial institutions that had either employed leverage on their own balance sheets, or had misjudged the timing of cash flows from various investments and commitments.

The use of leverage in a number of investment products is subject to extensive regulation. As noted in the OFR Study, U.S. mutual funds are subject to specific leverage limitations, both in connection with borrowing[62] and the use of derivatives.[63] U.S. ETFs, as registered funds, are also subject to these limits. Managers of ERISA assets must also follow prudential standards in their investment activities, which has the effect of limiting the use of leverage.[64] Certain non-U.S. regulatory regimes similarly include explicit limits or disclosure obligations related to leverage, including AIFMD.

While private funds are generally not subject to regulatory leverage restrictions, many agree to abide by leverage limits in their offering materials and provide transparency to investors regarding current leverage levels.[65] Additionally, regulatory and market changes implemented since 2008 have significantly reduced the systemic risk that a private fund can pose. Central clearing, mandated changes to documentation and collateral practices, increased dealer requirements and other changes have reduced certain types of leverage, fundamentally changed trading practices, improved dealer risk management and mitigated the potential impact of the insolvency of a private fund.

---

[61] Such an approach would also be in line with the recent recommendations issued by the FSB. *Id.*; *see also* BlackRock, *Securities Lending: Balancing Risks and Rewards*, *ViewPoint* May 2012 http://www.blackrock.com/corporate/en-us/literature/whitepaper/balancing-risks-and-rewards-may-2012.pdf.

[62] Among other things, section 18 of the 1940 Act imposes various requirements on the capital structure of registered open-end investment companies, including, limitations on borrowings and the issuance of senior securities.

[63] Use of Derivatives by Investment Companies under the Investment Company Act of 1940, 76 Fed. Reg. 55,237 (Sept. 7, 2011) (concept release; request for comments).

[64] In addition, many separate accounts for pension plans and other tax-exempt clients are subject to investment guidelines designed to limit unrelated business taxable income ("UBTI"). UBTI can be generated through the use of leverage, so leverage is often prohibited in separate accounts for tax exempt investors.

[65] Private funds are open only to sophisticated investors, precisely because such investors are able to assess risk and demand limits and transparency consistent with their desired risk tolerance.

Regulators are in the process of implementing new rules requiring the reporting of data on swaps and on private funds. The swap repository data should be studied to determine if there are additional risks that should be addressed through regulation. Similarly, the SEC, CFTC and the National Futures Association now have access to extensive data on the use of leverage by private funds and commodity pools through Form PF, Form PQR and related forms.[66] This data should be studied to determine if additional regulation on leverage is required specific to hedge funds or private equity funds.

We recommend any new rules related to leverage should be tailored to the various entities and investment strategies that employ leverage, building on the existing regulatory framework. We have commented on the use of derivatives by U.S. mutual funds, where we advocate that the SEC should (a) adopt a risk-based approach to determining the amount of liquid assets a fund would be required to set aside against contingent liabilities resulting from the use of derivatives, (b) clarify the applicable custody requirements under Section 17(f) of the 1940 Act relating to use of margin in light of the central clearing of swaps required under the Dodd-Frank Act; and (c) permit ETFs to be able to use derivatives in the same manner as other funds, subject to a cap on derivatives exposure and transparent disclosure of the use and risks of the strategies employed.[67]

For the reasons described we do not believe that additional regulation of asset managers is warranted in connection with the leverage that may be employed on behalf of investors; rather, we suggest that additional regulation, if any, be focused on the specific activity or strategy regardless of the entity that may employ leverage.

Asset management firms as a source of risk

As we noted earlier, asset management firms have small balance sheets, and they do not engage in lending or act as counterparties to derivative or other transactions. Therefore, when an asset manager goes out of business, there is no direct impact on capital markets.

The OFR Study postulates, however, that "large" and "complex" asset management firms present special risks to the U.S. financial system due to the extent of their activities on behalf of client funds and accounts, and the OFR Study includes numerous unsupported statements to that effect. We disagree for two reasons. First, the closure of an asset management firm has little impact on capital markets because investors can easily hire another firm to manage their assets. Second, large asset managers in particular are much less likely to go out of business in any event because of the diversity of their business and the breadth and scope of their risk management practices.

In the event an asset management firm experiences a problem with a specific product, or that product falls out of favor, investors "vote with their feet" by moving their assets to other asset managers. Thought of in the context of other financial institutions, this frequent substitutability means that most asset managers not only have de facto "living wills" for their assets under management, but that they are forced by clients to exercise them frequently. Separate account clients initiate and terminate investment management agreements regularly for a variety of

[66] Reporting by Investment Advisors to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, 76 Fed. Reg. 71,128 (Nov. 16, 2011); Commodity Pool Operators and Commodity Trading Advisors: Amendments to Compliance Obligations, 77 Fed. Reg. 11,252 (Feb. 24, 2012); National Futures Association, *NFA Manual/Rules*, Rule 2-46 CPO and CTA Quarterly Reporting Requirements (2010). European regulators will have access to similar data through the reporting requirements under AIFMD.
[67] Comment letter from BlackRock to Ms. Elizabeth Murphy, Secretary, SEC (Nov. 4, 2011) (re: Use of Derivatives by Investment Companies under the Investment Company Act of 1940, Release No. IC-29776, File No. S7-33-11) (*available at* http://www.sec.gov/comments/s7-33-11/s73311-39.pdf).

reasons including changes in their asset allocation, poor performance, poor client service, and administrative consolidation. Such changes can be implemented on short notice, sometimes in as little as 24 hours, with no noticeable market impact.[68] While a typical search for a new manager usually takes longer, when clients want to move quickly, they can and they do. At BlackRock, there have been numerous situations where we assisted a client by taking on management responsibility for a separate account on extremely short notice. Substitutability of asset managers can be achieved quickly because client assets are held with custodians; clients can simply re-direct the management of an existing portfolio of securities to another manager without moving the assets at all.[69] With respect to clients invested in pooled vehicles, as described earlier, if a client wishes to replace a manager by redeeming, the structure of funds and applicable legal requirements significantly mitigate the risk that large fund redemptions will impact the markets, because the redemption rights of a particular fund are tailored to the liquidity of the underlying assets, either by law or contract. Some funds will permit – or under some circumstances – require redemptions in-kind. As we recommended before, changes in pooled vehicle liquidity requirements, if needed, should be implemented at the product level.

At the firm level, larger asset management firms are less likely to go out of business in the first place. As discussed earlier in this letter, larger firms tend to be more diversified than smaller specialized firms. These larger, diversified firms have a more stable business platform to withstand pressure under various market scenarios and shifting investor preferences. In most cases, while one product may lose assets, another may gain assets.[70] Likewise, a closure of one fund or one product category is unlikely to cause a large firm to close. In addition, larger firms tend to offer products with less correlated risks and returns in contrast to specialized firms that take concentrated positions or directional exposures in their products.[71] Rather than go out of business, a struggling firm may be acquired. The acquisition of an asset management firm is relatively easy precisely because of the simple business model and the limited nature of an asset manager's balance sheet, contrary to the situation with a bank. Shifts in the majority ownership of asset management firms are not uncommon—even for large firms.[72]

We also note that aggregated AUM is not relevant to any assessment of the systemic risk of an asset manager's client activities, since the product-level risks associated with different types of investment strategies varies dramatically from one asset manager to the next. For example, the

---

[68] We believe that the transition of separate accounts from one manager to another is typically no more difficult or impactful than transitions of other types of accounts or pooled vehicles. In some cases, asset sales may be directed by the client, but based on our experience, this would apply to a very limited amount of separate account assets, and it is difficult to see how these issues would contribute to systemic risk.

[69] In fact, there is a specialized business referred to as "transition management," where firms have developed expertise in the process of facilitating the transition from one asset manager to another.

[70] Multiple examples abound, including: (a) in the second quarter of 2013, BlackRock experienced $2.0 billion in redemptions from active currency strategies and net outflows of $4.2 billion in its equity and fixed income institutional active business but had $8.8 billion of flows into multi-asset class institutional active products, resulting in net long-term inflows of $1.3 billion into its institutional active business during the quarter, Press Release, BlackRock, BlackRock Reports Quarterly Diluted EPS of $4.19 or $4.15 as adjusted (July 18, 2013) (*available at* http://www.blackrock.com/corporate/en-us/investor-relations/press-releases#); and (b) in the fourth quarter of 2013, Franklin Resources indicated that strong inflows in equity and hybrid products offset $5.4 billion of outflows in tax-free and taxable U.S. fixed income and more than $3.0 billion of outflows in global/international fixed income, resulting in only $2.7 billion of net outflows for the quarter, Franklin Resources, Inc., *Preliminary Fourth Quarter and Fiscal Year Results*, Oct. 24, 2013, http://phx.corporate-ir.net/phoenix.zhtml?c=111222&p=quarterlyearnings.

[71] The OFR Study makes the conclusion with no supporting evidence that under stress, counterparties might not distinguish among exposures to the firm and its funds. This is incorrect on two counts. First, asset management firms would not have direct exposures; exposures would all be at the fund and account level. Second, in our experience, counterparties are very aware that they are exposed to multiple, independent accounts with different risk profiles.

[72] See Exhibit E for lists of the largest mergers and acquisitions transactions in the asset management industry, both by transacted AUM and by disclosed deal value. Source: Sandler O'Neill.

majority of the AUM at the largest asset managers tends to represent long-only asset strategies, including index assets. Under the OFR's own analysis, long-only strategies appear to present minimal risk from a systemic perspective, and passive strategies present even less potential for systemic risk. At BlackRock, although our aggregate AUM is over $4 trillion, these assets are managed in more than 4,100 separate accounts and 3,200 pooled fund vehicles, including collective investment funds, mutual funds and ETFs, which are allocated across a wide variety of strategies, objectives and clients.

In addition, by observation, we note that the scale of a larger asset management firm enables the firm to dedicate additional resources to risk management, including both experienced risk professionals and software systems to support these efforts. Smaller firms, on the other hand, may have limited resources to apply to risk management. As we noted earlier, BlackRock has a dedicated risk management function, RQA, with over two hundred employees focused on understanding and monitoring risks in client accounts. To the contrary of the OFR's conclusions, we believe this capability gives BlackRock and our clients a distinct advantage during periods of market stress.

Risk management practices at asset management firms have also improved following the crisis. Based on our observations of the behavior of market participants, the financial crisis resulted in higher and tighter standards across the asset management industry. For example, well-managed larger firms have taken the following steps on behalf of the client funds and accounts they manage:

- use multiple prime brokers and counterparties to reduce counterparty risk, where practical for the investment mandate;
- apply restrictions on the ability for counterparties to re-hypothecate assets of client funds and accounts;
- where possible, enter into a tri-party cash repo arrangement so that the fund is left holding assets within a ring-fenced custody account, rather than continuing to hold excess unencumbered cash with the prime broker (where the client fund or account could become an unsecured creditor in the event of a default);
- include the ability to renegotiate credit terms, including the valuation haircuts on collateral securities within counterparty trading documentation; and
- demand higher quality collateral and have improved the matching of collateral.

Closures of Asset Management Firms

The table attached as Exhibit F sets out our review and analysis of asset management firm closures and related events in the asset management industry over the past twenty-five years.[73] While the OFR Study implies that complexity magnifies risk, in fact, the opposite occurs – the asset managers that go out of business or are acquired are predominantly smaller, more specialized firms. Even more interestingly, the managers on our list are generally not well remembered since these events had limited impact on clients of those firms and no noticeable second order impacts on the capital markets.

Individual funds are closed and liquidated routinely by large asset managers for a variety of reasons, but this rarely precipitates the closure of the asset management firm. One reason is that asset management firms can adjust their expenses to meet reduced cash flow from

---

[73] While we undertook a detailed review and believe we have captured the material examples, Exhibit F is not meant to represent a comprehensive list of closures of asset management firms during that time period. In addition, we have focused on asset management firms, and in particular we have not listed closures of hedge fund managers. which happens frequently.

outflows or from a fund closing. Even when an asset manager does stumble, this does not have implications for the financial system. Two examples from 2003 illustrate this point. As noted in the table attached as Exhibit F, in 2003, a number of asset management firms were accused by state authorities and the SEC of violating the law by their involvement with or facilitation of market timing or late trading in registered funds:

- One of the first firms to be accused was Putnam Investment Management LLC, a U.S.-based investment manager with a mix of both retail and institutional clients investing in mutual funds, other commingled vehicles and separate accounts. At year-end 2002, Putnam had $277 billion under management, representing both domestic strategies and international securities. Client reaction was to pull assets from Putnam's international equity products (as market timing was centered on these strategies), including both commingled funds and separate accounts. Importantly, there was no noticeable impact on the underlying international stocks as clients generally chose to remain invested in the same mandates but with another manager. The firm was ultimately sold and continues to operate today, with AUM as of September 2013 of approximately $141 billion.[74]

- A second example highlights how an asset management firm ceased to exist. The chief executive and founder of Strong Capital Management was implicated in facilitating market timing in September 2003, at which time Strong Capital managed approximately $42 billion in client accounts. By May 2004, AUM was down to $34 billion ($27 billion across over 70 mutual funds and $7 billion in institutional investment accounts), at which time Wells Fargo announced that it had entered an agreement to acquire the assets of the firm.[75] Through this transaction, Strong Capital's funds were reorganized into the *Wells Fargo Funds*® family. The legal entities comprising the Strong Financial complex were subsequently liquidated. Again, there was no market impact.

In each of these cases, an asset management firm experienced reputational harm, causing clients to redeem over time, and eventually causing a change in ownership of the asset management firm. They are no different than the acquisitions, closures and bankruptcies that go on in the business world every day. While these events may lead to clients changing asset managers or redeeming from specific funds, those activities have no systemic impact.

Product Risk Confused with Firm Risk

Long Term Capital Management ("LTCM") and Reserve Management Company (sponsor of the Reserve Funds) are often cited as examples of the "failure" of an asset manager that presented systemic risk. However, upon closer examination, both are in fact examples of product level risk. Distress in specific products ultimately led to the closure of the asset management firm that sponsored those products because each firm was relatively small and lacked diversification in the strategies they managed. While in each instance the product level distress had market

---

[74] *About Putnam Investments*, Putnam Investments, https//www.putnam.com/about-putnam/media.jsp (last visited Oct. 30, 2013).
[75] Press Release, Wells Fargo (May 26, 2004) (*available at* https://www.wellsfargo.com/press/strong05262004). The transaction closed in 2005. Press Release, Wells Fargo, Wells Fargo Becomes One of Nation's 20 Largest Mutual Fund Companies with Acquisition of Strong Financial Corporation Assets (Jan. 3 2005) (*available at* https://www.wellsfargo.com/press/20050103_strong).

impact, the ultimate closures of the asset management firms that managed the products were hardly newsworthy.[76]

LTCM managed the Long Term Capital Portfolio, a private fund with approximately $5 billion of assets that experienced significant distress in September 1998. The use of excessive leverage with a mismatch of funding resulted in an inability of the fund to withstand market movements. The fund was unable to meet margin calls and had to liquidate positions.[77] A consortium of banks acquired capital interests in the fund for approximately $3.65 billion and over the next year, the positions were unwound in an orderly fashion with a small profit.[78]

Reserve Management Company managed the Reserve Primary Fund that “broke the buck” in 2008 due to its investments in Lehman Brothers debt securities. Reserve Management Company had less than $100 billion in assets under management across all of the funds it managed for clients, ranking it #81 among U.S. asset managers overall as of 31 December 2007,[79] and #14 against managers of money market mutual funds.[80] Cash management products were the only strategies managed by Reserve Management. Following this incident at the height of the financial crisis, investors who were already fearful about liquidity made significant redemption requests to other money market mutual funds, and the Federal Reserve, Treasury and certain foreign agencies stepped in to create a series of programs to calm the markets. Investors in the Reserve Primary Fund ultimately received 99.04% of their assets, and Reserve Management Company ceased actively managing money.[81]

Asset management firms and the financial crisis

Overall, the closure of diversified asset management firms was uncommon during the 2008 financial crisis.[82] End-investors, not asset managers, ultimately bore the market and liquidity impacts of the crisis. Many clients experienced significant declines in the value of their investments, although other clients made money because of falling asset prices. As for asset managers, many experienced revenue declines as AUM dropped with market values, which created the need to manage employee compensation and other expenses, but, asset managers were generally able to navigate those issues.

---

[76] Aggregate AUM for each firm was relatively modest, compared to the largest managers at the time as measured by AUM. While data is not available on hedge funds from 1998, 757 funds participated in Pension & Investments' survey of investment advisers in 1999, and the funds ranged in AUM from $785.6 billion down to $10 billion. LTCM's AUM at the end of 1997 was $4.8 billion. Report of the President's Working Group on Financial Markets, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management*, Apr. 1999, http://www.treasury.gov/resource-center/fin-mkts/Documents/hedgfund.pdf.

[77] There have been multiple examples of hedge funds dissolving or experiencing heavy losses with little systemic impact. As a conservative estimate, over one hundred major hedge fund product closures have occurred since 2006 with little evidence of systemic impact. Importantly, fund size is not relevant without further analysis of the strategy employed, quality of the risk management and application of relevant regulation. For example, whereas a large index fund has very little risk, a large, highly leveraged actively managed fund with poor margining and poor collateral management theoretically could create risk to its trading counterparties, since such funds are difficult to transfer in specie. In practice, it is difficult to imagine this scenario today given improved industry practice and regulatory focus on derivatives and on private funds.

[78] Roger Lowenstein, ***After a Hedge Fund's Fall, Is Wall Street the Wiser?***, The New York Times, Sep. 17, 2000, http://query.nytimes.com/gst/fullpage.html?res=9506E0DF1138F934A2575AC0A9669C8B63&smid=pl-share.

[79] Source: Pensions & Investments, *Money Manager Overview*, December 31, 2007.

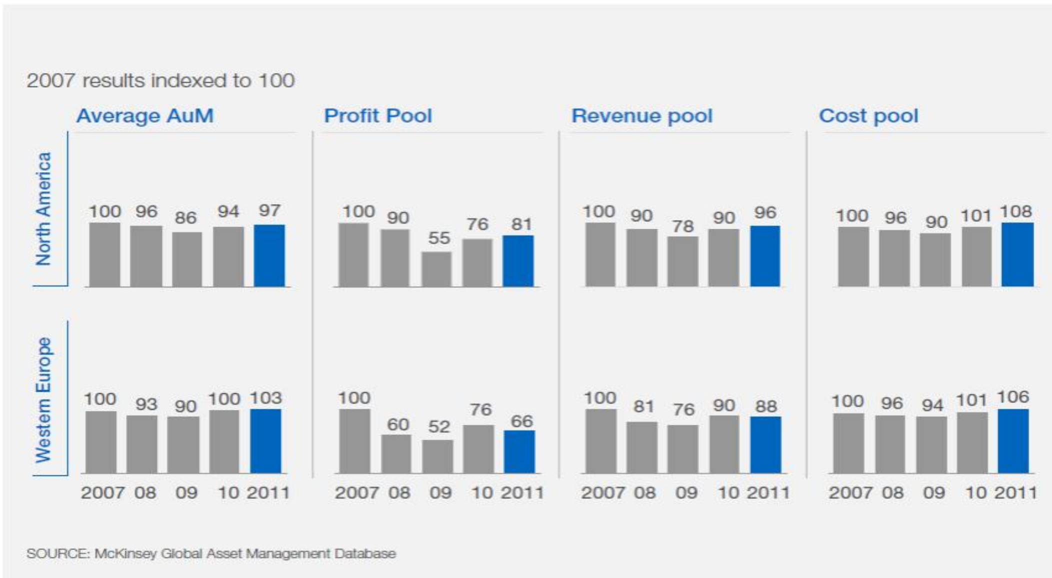
[80] Source: iMoneyNet, as of December 31, 2007.

[81] Primary Fund-In Liquidation, *Additional Information Regarding the Primary Fund-In Liquidation*, November 29, 2011, http://www.primary-yieldplus-inliquidation.com/pdf/FundUpdate-July2011.pdf.

[82] A number of hedge funds and their managers did close during the period 2007—2009, but those closings are not viewed as a market failure.

Taking the Lehman Brothers default as an example, if a fund or client account held Lehman equity or debt at the time of its bankruptcy in accordance with the strategy they chose, the investors suffered losses. Asset management firms did not suffer any losses. Similarly, issues created by Lehman as counterparty to derivative and repo trades were incurred by investors.

Unlike other financial institutions, we note that asset managers did not receive financial assistance under the Troubled Asset Relief Program. The graph below, taken from the McKinsey 2012 Report on Global Asset Management[83] illustrates that the asset management industry remained profitable throughout the financial crisis.



Sponsor support

The OFR Study raises the issue of sponsor support. Over the past few years, a number of asset managers have chosen to provide limited support to selected products in periods of stress. The most commonly cited situation involves cash funds where some sponsors have chosen to support their fund rather than "break-the-buck". This support has included purchasing assets from a fund at the amortized cost value, even when that value exceeds the market value, providing a credit support agreement that would trigger payments to the fund in certain circumstances and outright payments to a fund to bolster the net asset value. Beyond cash funds, there are very few examples of sponsors providing support to commingled investment vehicles.

Sponsors are not obligated to provide financial support to asset management products. In fact, asset managers clearly represent that the investment results of their products belong solely to the investors. In certain circumstances, sponsors may choose to support a product. This is no different than any commercial decision to allocate resources to a business, and a firm's decision to do so does not present systemic risk.

The OFR Study, in Figure 10, appears to correlate the perceived balance sheet strength of an asset management firm relative to its AUM as a proxy for a manager's ability to provide support. In addition to omitting from the table privately-held asset managers, and several factual and

[83] McKinsey & Company, *The Hunt for Elusive Growth: Asset Management in 2012*, June 2012, http://www.mckinsey.de/sites/mck_files/files/global_am.pdf.

computational errors,[84] the implicit correlation is fundamentally flawed. As stated previously, AUM is not the determinative factor for asset management – it is necessary to understand the mix of asset classes and types of clients of a particular manager. For example, a manager that offers only passive index strategies would be extremely unlikely to provide sponsor support. Regardless, as we noted above, the decision to provide support is a commercial one without systemic ramifications.

We recognize that protecting taxpayer funds and avoiding “bailouts” is one of the most significant goals of the Dodd-Frank Act. If there is a concern that sponsor support could put government funds at risk, regulation should focus on the banking institutions with asset management divisions that hold insured deposits and have access to government support.[85] Any new rules in this area should take into consideration other relevant regulatory changes. For example, the SEC is likely to finalize a new rule for money market funds which may impact the likelihood of sponsors choosing to support these cash products in the future.[86] In addition, the various regulators continue to work on finalizing the “Volcker Rule” which would similarly change a bank’s ability to support certain products that they sponsor.

Data gaps

The OFR Study states “there are limitations to the data currently available to measure, analyze, and monitor asset management firms and their diverse activities, and to evaluate their implications for financial stability.” We believe the OFR Study overstates the concern that data about asset management firms and activities is not available. As discussed below, a wealth of data is available and should be used to assess various risks. While the OFR Study claims that filling these data gaps would allow for better macroprudential analysis and oversight of risk, we believe the missing data might significantly change the conclusions derived from the study.

We believe the OFR Study provides a good starting point to create a Request for Information (an “RFI”) from a broader and more representative spectrum of investors. The RFI could target specific investment products and practices for which more data is needed to make informed decisions. Likewise, the responses should be specifically requested from a combination of in-house asset managers (e.g., pension and endowments where the entity manages its investments directly) and external asset managers, long-only managers and alternatives managers as well as publicly-owned asset managers, non-public asset managers, and asset managers that are wholly-owned subsidiaries.

Furthermore, the OFR should factor in the increasingly robust reporting environment as a source of informative data. Over the past few years, regulators have significantly enhanced data reporting in the asset management industry by introducing a significant number of new reporting requirements. The current applicable reporting requirements are attached as Exhibit G.

---

[84] OFR Study, p. 20. BlackRock’s tangible book value is $1.1 billion not $(4.91) billion, as noted in Figure 10. Blackrock calculates its tangible equity by deducting net goodwill and intangible assets of $30,221 million less related deferred tax liabilities of $5,802 million from total stockholders’ equity, as adjusted, of $25,566 million. Please see page 72 of the Q2 BlackRock Form 10-Q.

[85] The OFR Study notes that the Fed’s annual stress test requires asset management divisions of large bank holding companies with money market products to set aside capital to cover the risk they might support those funds. Regardless of whether that is an appropriate consideration, it has no bearing on the treatment of independent asset managers.

[86] Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36,834, 36,924 (June 19, 2013) (Release No. 33-9408, IA-3616; IC-30551; File No. S7-03-13) (requiring enhanced registration statement and website disclosure about financial support provided to a fund by a fund sponsor or an affiliate).

With respect to the specific data gaps noted in the OFR Study, we note that while information about certain separate account holdings may not be subject to specific reporting requirements, these assets are still subject to extensive regulation. As noted in the OFR Study, the SEC oversees the activities of asset managers broadly under the aegis of the Advisers Act and a large number of separate accounts are managed on behalf of private pension clients subject to rules promulgated by the Department of Labor. Furthermore, a large number of separate accounts are managed on behalf of insurance clients and these accounts are subject to the rules of the respective state insurance commissioners. In addition to these regulations, any separate accounts that use derivatives are subject to the rules of the CFTC.

Separate accounts do not present some of the risks identified in the study. Whereas commingled products may present issues on redemptions, separate accounts have no first mover advantage, as one client owns all of the assets. In addition, in our experience, a significant amount of separate account assets follow traditional, long-only strategies, and many separate accounts for tax-exempt clients avoid certain kinds of borrowing for tax purposes, making leverage less of a concern. The OFR Study suggests that there could be significant separate account assets with "bespoke strategies" and highly illiquid or highly levered investments, which is contrary to our observations.[87] However, if there are concerns about separate account holdings, they could be addressed by simply asking asset managers for information regarding the categories of investments held by most of their separate accounts in an RFI.

As described in Exhibit H below, there is a significant amount of data already available regarding securities lending, and repo and reverse repo. This data is primarily available from commercial vendors, but is extensive, is generally available daily, and is contributed to and actively used by most participants in these markets. Regarding the funds or accounts in which cash collateral from securities lending is reinvested, while some is invested through separate accounts, a significant amount of cash collateral is invested through registered money market funds, which report their holdings publicly on Form N-MFP. Cash reinvestment in securities lending is also done through STIFs; banks that are overseen by the OCC are required to disclose to the OCC on a monthly basis information about such funds and their portfolio holdings. Similar portfolio holdings reporting to investors should be required for state-chartered banks and trust companies that operate cash funds; however, these entities are not currently subject to such disclosure requirements.

Finally, with respect to firm information, we note that asset management entities are organized using many different business models, including public and private companies, mutual organizations, bank subsidiaries, insurance subsidiaries and family offices, each of which have different reporting regimes. While the OFR Study states that "many of the largest asset managers are private and do not issue financial statements," 16 of the top 20 asset manager parent companies named in Figure 3 of the OFR Study are public companies.

* * * * *

[87] The OFR Study does not provide any empirical support for its views on the nature of the investment activity in separate accounts, and could have requested this information as part of its study.

In summary and conclusion, we would ask the FSOC to consider the following recommendations:

- This process is at a critical junction. Rather than spending resources trying to develop metrics to designate a small number of asset managers as systemically important financial institutions, we recommend working with the industry to develop new regulations to address investment products and practices that may create systemic risks.

- As a next step in this process, issue an RFI to a broad group of asset managers and large investors asking them to identify areas of concern and suggestions for addressing these concerns. Also consider arranging a public roundtable that includes a diverse group of asset management firms (e.g., large, small, diversified, alternative) and other industry participants.

- Just as the CFTC changed the ecosystem for the swaps market, we recommend developing a comprehensive regulatory framework that encompasses all market participants in particular products or practices. Within this framework, allow the FSOC member agencies to tailor solutions in their respective jurisdictions rather than create "one size fits all" regulation.

- Assess the reporting that is currently required. Eliminate duplications, and identify and address any gaps. Harmonize for benefits of comparing and aggregating.

- Study the data to see if additional risks need to be addressed.

We thank the SEC for providing BlackRock the opportunity to express its views on the OFR Study. We are prepared to assist the FSOC and the member agencies in any way we can, and we welcome a continued dialogue on these important issues. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Barbara Novick
Vice Chairman

EXHIBIT A

Top 20 Asset Managers by Assets Under Management (as of 12/31/2012)[1]

	Asset Managers	Worldwide (WW) AUM *$ in billions*	WW Registered Funds AUM[1] *$ in billions*	Registered Funds AUM *as % of WW AUM*	WW Unregistered AUM[2] *$ in billions*	Unregistered AUM *as % of WW AUM*
1	BlackRock Inc.	$3,791.6	$2,114.8	55.8%	$1,676.8	44.2%
2	Vanguard Group Inc.	$2,215.2	$2,124.3	95.9%	$90.9	4.1%
3	State Street Global Advisors	$2,086.2	$608.8	29.2%	$1,477.4	70.8%
4	Fidelity Investments	$1,888.3	$1,436.3	76.1%	$452.0	23.9%
5	Pacific Investment Management Company LLC	$1,624.3	$1,054.1	64.9%	$570.2	35.1%
6	J.P. Morgan Asset Management	$1,426.4	$742.1	52.0%	$684.3	48.0%
7	BNY Mellon Asset Management	$1,385.9	$490.7	35.4%	$895.2	64.6%
8	Deutsche Asset & Wealth Management	$1,244.4	$298.1[3]	24.0%	$946.4	76.0%
9	Prudential Financial	$1,060.3	$273.1	25.8%	$787.2	74.2%
10	Capital Research & Management Company	$1,045.6	$1,045.6	100.0%	$0.0	0.0%
11	Amundi	$959.8	$363.0	37.8%	$596.8	62.2%
12	The Goldman Sachs Group Inc.	$854.0	$338.0	39.6%	$516.0	60.4%
13	Franklin Templeton Investments	$781.8	$617.2	79.0%	$164.6	21.0%
14	Northern Trust Global Investments	$758.9	$152.9	20.1%	$606.0	79.9%
15	Wellington Management Company LLP	$757.7	$395.0	52.1%	$362.7	47.9%
16	AXA Investment Managers	$729.8	$203.3	27.9%	$526.6	72.1%
17	Metlife Inc.	$721.3	$0.0	0.0%	$721.3	100.0%
18	Invesco	$687.7	$443.8	64.5%	$243.9	35.5%
19	Legg Mason Inc.	$648.9	$353.6	54.5%	$295.3	45.5%
20	UBS Global Asset Management	$634.2	$12.1	1.9%	$622.2	98.1%

[1] WW Registered Funds AUM determined by summing P&I data on each asset manager's worldwide AUM and ETF AUM.
[2] WW Unregistered AUM determined by subtracting WW Registered Funds AUM from Worldwide AUM.
[3] For 2012, Deutsche Asset & Wealth Management declined to respond to the survey question on its registered funds, according to P&I. Its worldwide mutual fund AUM was $298.05 billion in 2011.
Sources: P&I, OFR Analysis

[1] OFR Study, p. 5.

EXHIBIT B

Largest Alternatives Managers

Name	AUM ($ billions)
Hedge Funds[a]	
1. Bridgewater Associates	$83.3
2. J.P. Morgan Asset Management	$44.0
3. Man Investments	$41.4
4. Brevan Howard	$36.7
5. Och-Ziff Capital Management	$31.9
Hedge Fund of Funds[b]	
1. Blackstone	$44.8
2. UBS Global Asset Management	$25.5
3. HSBC Alternative Investments	$25.1
4. Goldman Sachs	$22.9
5. Grosvenor Capital Management	$22.3
Private Equity[c,d]	
1. TPG	$52.8
2. Goldman Sachs	$52.1
3. Oaktree Capital Management	$51.2
4. Carlyle Group	$48.0
5. Blackstone	$39.4
Private Equity Fund of Funds[e]	
1. Alpinvest Partners	$45.6
2. HarborVest Partners	$35.0
3. Goldman Sachs	$34.0
4. Axa Private Equity	$30.1
5. Credit Suisse	$28.8
Real Estate[f]	
1. Prudential Real Estate	$75.5
2. UBS Global Asset Management	$59.3
3. CBRE Global Investors	$50.3
4. RREEF	$38.8
5. J.P. Morgan Asset Management	$37.6

a Source: Absolute Return Magazine, BlackRock. As of December 2012.
b Source: HFR, Absolute Return Magazine, BlackRock. As of December 2012.
c Private equity figures represents largest managers by assets raised over past 10 years.
d Source: Preqin. As of December 2012.
e Source: Preqin. As of December 2012.
f Source: Pensions & Investments. Real Estate Manager Rankings. As of 30 June 2012.

EXHIBIT C

World’s Largest Asset Owners

Fund	Country	Type	Total Assets ($ bn)
1. Government Pension Investment Fund	Japan	Pension	$1,394.32
2. Abu Dhabi Investment Authority	U.A.E	Sovereign Wealth Fund	$841.12
3. AXA Insurance	France	Insurance	$813.69
4. MetLife Insurance	U.S	Insurance	$677.30
5. Allianz	Germany	Insurance	$612.79
6. Government Pension Fund Global	Norway	Sovereign Wealth Fund	$574.34
7. Prudential Financial Inc.	U.S	Insurance	$557.69
8. AIG	U.S	Insurance	$556.45
9. Generali Insurance	Italy	Insurance	$536.21
10. Aviva	U.K	Insurance	$531.63
11. Legal & General Group	U.K	Insurance	$492.47
12. SAMA Foreign Holdings	Saudi Arabia	Pension	$464.80
13. General Organization for Social Insurance	Saudi Arabia	Pension	$448.00
14. Nippon Life Insurance Company	Japan	Insurance	$437.67
15. CNP Assurances	France	Insurance	$406.95
16. Aegon	Netherlands	Insurance	$406.75
17. ING Group	Netherlands	Insurance	$403.68
18. Prudential (UK)	U.K.	Insurance	$373.39
19. China Investment Corporation	China	Sovereign Wealth Fund	$372.28
20. SAFE Investment Company	China	Sovereign Wealth Fund	$368.87
21. Pensioenfonds ABP	Netherlands	Pension	$338.76
22. Government of Singapore Investment Corporation	Singapore	Sovereign Wealth Fund	$323.40
23. Zurich Financial Services	Switzerland	Insurance	$303.85
24. Hong Kong Monetary Authority Investment Portfolio	Hong Kong	Sovereign Wealth Fund	$301.68
25. The Hartford Group	U.S.	Insurance	$296.05

Source: aiCIO. “aiGlobal 500”. http://ai-cio.com/aiGlobal500.aspx?id=3100

EXHIBIT D

Summary of Key Reform Recommendations for ETFs

- *Clear labeling of product structure and investment objectives*

While ETFs all share certain characteristics, "ETF" has become a blanket term describing many products that have a wide range of different structures. This may lead to confusion among investors. Investors should know what they are buying and what a product's investment objectives are. This can be achieved by establishing a global standard classification system with clear labels to clarify the differences between products.

- *Frequent and timely disclosure of all holdings and exposures*

Just as investors should understand the structure of any exchange traded product they are buying, they should also understand what that product holds. To that end, sponsors should be required to disclose a clear picture of what the product holds and any other financial exposures it has, including counterparty exposures. Ideally, the goal should be daily disclosure of holdings and exposures, but we recognize that there are currently practical, technical and legal constraints that may prevent full disclosure of all portfolio holdings in some products.

- *Clear standards for diversifying counterparties and quality of collateral*

In addition to disclosure, standards should be established regarding counterparty exposure and the quality of collateral posted by counterparties. We recognize that different regulatory regimes have different approaches to counterparty exposure. The FSB report released in April 2011[89] asked appropriate questions regarding counterparty exposure that could arise when a swap is used to track the underlying benchmark as well as from the practice of securities lending. In BlackRock's view, the best practice with swaps and securities lending is for the fund to transact with multiple, unaffiliated counterparties and to over collateralize with highly liquid and diversified collateral. Clear guidelines are also required regarding the types of collateral that are permissible.

- *Disclosure of all fees and costs paid, including those to counterparties*

As some funds have become more complex, the fees associated with some of them have also become more complex. Investors should have complete clarity regarding all the costs and revenues associated with any fund they buy, so they can clearly understand how the ETF sponsor is being compensated. In addition, investors should understand that the total cost of ownership of an ETF includes more than just the expense ratio. Thus, in addition to clearly stating the management fee and other fees such securities lending agency fees or swap counterparty fees paid by the fund to the sponsor or its affiliates, the disclosure should inform investors that there are other costs that affect the

---

[89] Financial Stability Board, *Potential Financial Stability Issues Arising from Recent Trends in Exchange-Traded Funds (ETFs)*, Apr. 12 2011, http://www.financialstabilityboard.org/publications/r_110412b.pdf.

investors' returns, including trading, market impact tracking error and taxes. These disclosures should enable investors to better understand the total cost of owning ETF shares.

- *Universal trade reporting for all equity trades, including ETFs*

One of the reasons so many investors have embraced ETFs is because they trade throughout the day on a recognized exchange. Various jurisdictions, however, have different rules regarding the reporting of trades on an exchange. One of the main regulatory initiatives in both the United States and in Europe is to move over-the-counter (OTC) derivatives trading onto an exchange with a central clearing party. Their goals are to reduce systemic risk and to increase transparency. Similarly, ETFs should be subjected to standardized transaction reporting.

EXHIBIT E

Largest Mergers & Acquisitions Transactions in Asset Management Industry

Largest Asset Management Deals by Transacted AUM, 2012

Date	Target	Country	Type	Acquirer	Country	AUM ($MM)	% Acquired
Aug-12	Janus Capital Group, Inc.	U.S.	Div	The Dai-ichi Life Insurance Company, Limited	Japan	$ 152,400	20%
May-12	The Carlyle Group	U.S.	Alt	IPO	U.S.	146,969	10%
Aug-12	The TCW Group	U.S.	Div	The Carlyle Group	U.S.	127,300	Majority
Feb-12	Bridgewater Associates LP	U.S.	Alt	Teacher Retirement System of Texas	U.S.	120,000	Minority
Dec-12	Dexia Asset Management	Belgium	Div	GCS Capital	Hong Kong	100,211	100%
Aug-12	Merrill Lynch's International Wealth Management Business	U.K.	PvtCl	Julius Baer Group Ltd.	Switzerland	84,000	100%
Apr-12	Oaktree Capital Group, LLC	U.S.	Alt	IPO	U.S.	74,897	6%
Sep-12	BHF-Bank	Germany	PvtCl	RHJ International S.A.	Belgium	46,967	100%
Sep-12	Pareto Investment Management Limited	U.K.	Inst	Insight Investment Management Limited	U.K.	43,440	100%
Feb-12	Dwight Asset Management Company, LLC	U.S.	Inst	Goldman Sachs Group	U.S.	42,000	100%

Source: Sandler O'Neill

All-Time Largest Asset Management Deals by Transacted AUM

Date	Target	Country	Type	Acquirer	Country	AUM ($MM)	% Acquired
Jun-09	Barclays Global Investors	U.S.	Div	BlackRock Inc.	U.S.	$ 1,440,000	100%
Dec-06	Mellon Financial Corporation Inc.	U.S.	Div	Bank of New York Company, Inc.	U.S.	947,000	100%
Jan-09	Société Générale Asset Management	France	Div	Crédit Agricole SA	France	838,651	100%
Feb-06	Merrill Lynch Investment Managers	U.S.	Div	BlackRock Inc.	U.S.	544,000	100%
Jun-05	Citigroup Asset Management	U.S.	Div	Legg Mason	U.S.	437,000	100%
Sep-01	Zurich Scudder Investments	U.S.	Div	Deutsche Bank AG	Germany	278,000	100%
Nov-99	PIMCO Advisors L.P.	U.S.	Inst	Allianz AG	Germany	256,153	69%
Oct-08	Aberdeen Asset Management plc	U.K.	Div	Mitsubishi UFJ Financial Group Inc.	Japan	226,300	10%
Jul-08	Russell Investments	U.S.	Div	Nippon Life Insurance	Japan	211,000	5%
Jun-00	United Asset Management (UAM)	U.S.	Inst	Old Mutual plc	U.K.	203,150	100%

Source: Sandler O'Neill

Largest Asset Management Deals by Disclosed Deal Value, 2012

Date	Target	Country	Type	Acquirer	Country	DDV ($MM)	% Acquired
Aug-12	Merrill Lynch's International Wealth Management Business	U.K.	PvtCI	Julius Baer Group Ltd.	Switzerland	$ 884	100%
May-12	The Carlyle Group	U.S.	Alt	IPO	U.S.	671	10%
Dec-12	Epoch Holding Corporation	U.S.	Div	TD Bank Group	Canada	668	100%
Dec-12	NGP Energy Capital Management, LLC	U.S.	Alt	The Carlyle Group	U.S.	578	48%
Sep-12	BHF-Bank	Germany	PvtCI	RHJ International S.A.	Belgium	501	100%
Dec-12	Dexia Asset Management	Belgium	Div	GCS Capital	Hong Kong	495	100%
Apr-12	Oaktree Capital Group, LLC	U.S.	Alt	IPO	U.S.	380	6%
Apr-12	Yacktman Asset Management Co.	U.S.	MuFu	Affiliated Managers Group, Inc.	U.S.	376	Majority
Aug-12	Janus Capital Group, Inc.	U.S.	Div	The Dai-ichi Life Insurance Company, Limited	Japan	321	20%
Feb-12	Natcan Investment Management Inc.	Canada	Div	Fiera Sceptre Inc.	Canada	310	100%

Note: For the NGP Energy Capital Management / The Carlyle Group deal, DDV reflects the estimated present value of consideration and % acquired reflects the % acquired of management fee-related revenue.
Source: Sandler O'Neill

All-Time Largest Asset Management Deals by Disclosed Deal Value

Date	Target	Country	Type	Acquirer	Country	DDV ($MM)	% Acquired
Dec-06	Mellon Financial Corporation Inc.	U.S.	Div	Bank of New York Company, Inc.	U.S.	$ 17,619	100%
Jun-09	Barclays Global Investors	U.S.	Div	BlackRock Inc.	U.S.	13,502	100%
Feb-06	Merrill Lynch Investment Managers	U.S.	Div	BlackRock Inc.	U.S.	9,602	100%
Jun-07	Nuveen Investments Inc.	U.S.	Div	MBO (Madison Dearborn Partners, LLC)	U.S.	5,750	100%
Sep-97	Mercury Asset Management	U.K.	Inst	Merrill Lynch & Co.	U.S.	5,326	100%
Sep-05	Global Asset Management & 3 private banks	Switzerland	Alt	Julius Baer Holding AG	Switzerland	4,600	100%
Jun-07	The Blackstone Group	U.S.	Alt	IPO	U.S.	4,130	12%
Apr-00	Robert Fleming Holdings Limited	U.K.	Div	Chase Manhattan Corp.	U.S.	4,100	100%
Feb-07	Putnam Investments	U.S.	MuFu	Power Financial Corporation	Canada	3,900	100%
Jun-05	Citigroup Asset Management	U.S.	Div	Legg Mason, Inc.	U.S.	3,700	100%

Source: Sandler O'Neill

The above charts were sourced from the Sandler O'Neill report entitled: "Shifting Into Higher Gear: 2012 M&A Activity in the Asset Management Industry". March 2013. http://www.sandleroneill.com/Collateral/Documents/English-US/2013%20Asset%20Management%20report.pdf

EXHIBIT F

Firm and Fund Closures and Related Events in the Asset Management Industry over the Past 25 Years

Name	Event	Year	Resolution	AUM year of event, (if known)	AUM after event (if known)
Barlow Clowes	Investment losses Fraud	1988	• Firm closed, funds liquidated, UK government made ex gratis payment to investors • UK Government repaid from trustees GBP120mn of GBP153mn payment-2011	GBP 188mn	GBP 30mn
Hyperion (Term Trusts 1997,99,03)	Investment losses-MBS	1993	• Civil litigation • Regulatory fines for fund marketers	USD 1.5bn	USD1.2bn
Piper Jaffrey/ Institutional Government Bond Fund	Investment losses-MBS	1994	• Fund closed to new investors - assets run off • Civil litigation. • Parent of manager sells stake to ITT insurance 1997	Fund: USD 750mn	Initial drop to USD 590mn then run off to zero.
TCW/Term Trusts 2000 & 2003	Investment losses-MBS	1994	• Civil litigation • Regulatory fines for fund marketers • Manager firm ownership change 1996	Two trusts: USD 1.5mn	Initial drop to USD 1.0mn Trusts liquidate at term end
Community Bankers MMF	Investment losses in structured notes	1994	• Fund liquidated September 1994	USD 82mn	None
LTCM	Investment losses	1998	• Creditor investments to avoid loss • Firm closed • Creditors make small profits when unwind completed	USD 5bn	USD 60mn Creditors made whole

Advanced Investments Management	Breach of client guidelines (all separate accounts)	2002	• Firm closes 2002 • Civil litigation • Regulatory fines	USD 5.5bn	USD 15mn
Canary Capital Partners	Market timing Late trading	2003	• Fines • Principal receives 10 year bar	USD 500mn	Not known
Alliance Capital Management	Market timing	2003	• Fines and Disgorgement • Management changes • Renamed Alliance Bernstein in 2006	USD 434bn	USD 456bn (USD790m of mutual fund outflows from August 31 to November 30, 2003, increase in AUM attributed to market appreciation)
Janus Capital Management	Market timing	2003	• Fines • Management changes	USD 149bn	USD 151bn (outflows of $3.2b from August 31 to September 30, 2003, increase in AUM attributed to market appreciation)
Pilgrim Baxter	Market timing	2003	• Principals barred • Old Mutual (owner since 2000) closes some funds; rebrands	US 7bn	US 5.4b (20% decline from September 30, 2003 to December 31, 2003)
Putnam	Market timing	2003	• Management changes • Fines • Sold to Great West Life in 2007	USD 277bn	USD 263bn $14bn (5%) decline in first week of November 2003; USD 141bn at 9/30/2013
Strong Capital	Market timing	2003	• Principal barred • Asset sale to Wells Fargo in January 2005	USD 34bn	USD 29bn
Absolute Capital Management	Securities fraud	2007	• Founder criminally charged • Multiple enforcement actions • Civil suits	USD 3bn	USD 885mn

Reserve Primary Fund	Investment losses	2008	• Fund in liquidation • Firm in liquidation	USD 65 bn in fund USD 125bn in total AUM	De minimis
Galleon Group	Insider trading	2009	• Firm closed • Founder criminally convicted • Funds liquidated 2009	USD 7bn	None
Gartmore Group	"Star" manager departures	2010	• Sold to Henderson 2011	GBP 22bn	GBP 16bn
Axa Rosenberg	Concealed model error (fraud alleged)	2011	• Founder barred • Management changes	USD 61bn	USD 42bn
SAC Capital Management	Allegations of insider trading by portfolio managers	2008- 2012-	• Firm to convert to internal management (per media reports)	USD 15bn	USD 9bn

EXHIBIT G

Holdings and Transaction-Related Regulatory Reports

Report	Entity	Description	Frequency
Schedule 13G	SEC	Beneficial Ownership report of U.S. registered voting equity securities where beneficial ownership levels exceed 5% (passive)	Monthly, Annually
Schedule 13D	SEC	Beneficial Ownership report of U.S. registered voting equity securities where beneficial ownership levels exceed 5% (controlling)	As Required
Form 13F	SEC	Report of Institutional Investment Managers that exercise investment discretion over U.S. listed securities appearing on SEC published list	Quarterly
Form 13H	SEC	Confidential information filing to facilitate identifying transactions by 'large traders'	Annually, Quarterly updates as required
Form N-MFP	SEC	Portfolio holdings report (including triparty collateral data) for money market funds	Monthly
Form N-Q	SEC	Schedule of portfolio holdings report for mutual funds and other financial data	Quarterly
Form PF	SEC	Reporting form for Investment Advisers to private funds including exposures, risk, concentrations, liquidity, etc.	Quarterly
Form ADV	SEC	Registration form used by advisers of funds to register with the SEC; includes business and other reporting requirements	Annually
Form N-PX	SEC	Report of proxy voting for registered management investment companies	Annually
Form N-SAR, Form N-CSR	SEC	Annual and semi-annual report to shareholders of registered investment companies	Semi-Annually
Section 16 (Forms 3, 4 & 5)	SEC	Statement of ownership filing for corporate insiders (including a company's officers and directors)	Quarterly
Form CPO-PQR	NFA	Report for registered commodity pool operators and commodity pools; includes exposures, risks, concentrations, etc	Quarterly
Form CTA-PR	NFA	Report for registered commodity trading advisers including AUM for accounts that trade swaps and futures	Quarterly

Form CPO-PQR	CFTC	Report for registered commodity pool operators and commodity pools; includes exposures, risks, concentrations, etc	Quarterly
Form CTA-PR	CFTC	Report for registered commodity trading advisers including AUM for accounts that trade swaps and futures	Annually
Form CFTC Special Call Report	CFTC	Report for commodity index traders including futures and swap holdings in commodities	Monthly
CFTC Swap Data Reporting	CFTC	Swap data reporting of cleared and bilateral swaps	Per Trade
MSP Reporting	CFTC	Holdings report for funds meeting definition of a Major Swap Participant (MSP)	Monthly
STIF Funds Reporting	OCC	Holdings report for short term investment funds (STIF) funds	Monthly
Form 5500	DOL	Report of employee benefit plans. BlackRock files for its CTF funds and a subset of private funds.	Annually
TIC Form S	FRB-NY	Report of purchases and sales of securities by U.S. accounts traded with foreign desks/residents	Monthly
TIC Form SLT	FRB-NY	Report of foreign resident holdings of U.S. securities and US resident holdings of foreign securities	Monthly
TIC Form D	FRB-NY	Report on the value of cross boarder holdings of derivatives and net settlement payments thereof	Quarterly
TIC Form SHC(A)	FRB-NY	Report of U.S. resident holdings of foreign securities	Annually
Auction Award Confirmation	Treasury	Notification of participation in U.S. Treasury Bill auction where award is over $2 billion	As Required

EXHIBIT H

Examples of Commercially-Available Data Regarding Securities Lending, Repo and Reverse Repo

Commercial Data - Examples	Firm	Description	Frequency
Holdings			
Morningstar, FactSet, Lipper	Various	Fund holdings data	Quarterly
Securities Financing			
Markit	Markit	Securities financing market data such as volumes, pricing, available and on loan securities	Daily
Lending Pit / Astec Analytics	SunGard	Securities financing market data such as volumes, pricing, available and on loan securities	Daily
DataLend	Equilend	Securities financing market data such as volumes, pricing, available and on loan securities	Daily
Agent Lender Disclosure (ALD)	Equilend	Loan level data provided from agent/lender to borrower	Daily
Contract Compare	Equilend	Loan level data and terms to support the trade confirmation process	Daily
Derivatives			
CCPs	Various	Central Clearing Counterparties (CCPs) such as CME, LCH and ICE provide the CFTC data on cleared derivatives	Per Trade
DTCC Swap Data Repository	DTCC	Data repository for cleared and uncleared OTC derivatives reporting	N/A
Fixed Income			
TRACE	FINRA	Broker trade reporting and market data for corporates, agencies, asset backed and mortgage backed securities	Per Trade
Execution Platforms			
EMSX, TradeWeb, MarketAxess, etc.	Various	Examples of electronic trading platforms and industry sources of trading data	Per Trade

Confirmation Platforms			
CTM, Oasys, MarkitServ, Traiana, etc.	Various	Examples of electronic post trade confirmation platforms and industry sources of trading data	Per Trade
Clearing / Depository Platforms			
DTCC	DTCC	Clearing, settlement and information services	Per Trade
Custodian Banks	Various	Clearing, settlement, safekeeping of assets, corporate action and cash processing, administrative services	Per Trade, Holding