BLACKROCK

February 25, 2014

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

Submitted via email: rule-comments@sec.gov

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

Dear Ms. Murphy:

The enclosed document is an educational presentation about asset managers, the products they manage, and ways to improve the financial ecosystem in which they are managing portfolios. We respectfully submit this material as a supplement to the letters we submitted on November 1, 2013 and December 3, 2013.

We again thank the Securities and Exchange Commission for providing the public, including BlackRock, the opportunity to comment on the Office of Financial Research Study. We are prepared to assist the Financial Stability Oversight Council and its member agencies in any way we can, and we welcome a continued dialogue on these important issues.

Sincerely,

Barbara Novick
Vice Chairman

BLACKROCK®

Understanding Asset Management

February 2014

The opinions expressed are as of February 2014 and may change as subsequent conditions vary.

The Asset Managers

Asset managers come in many shapes and sizes

Business Focus

- Retail
- Institutional
- Passive
- Active
- Alternatives
- Global
- US
- Europe

Capital Structures Vary

- Public
- Privately held
- Wholly-owned subsidiaries
- Mutual fund shareholders

Representative Asset Managers

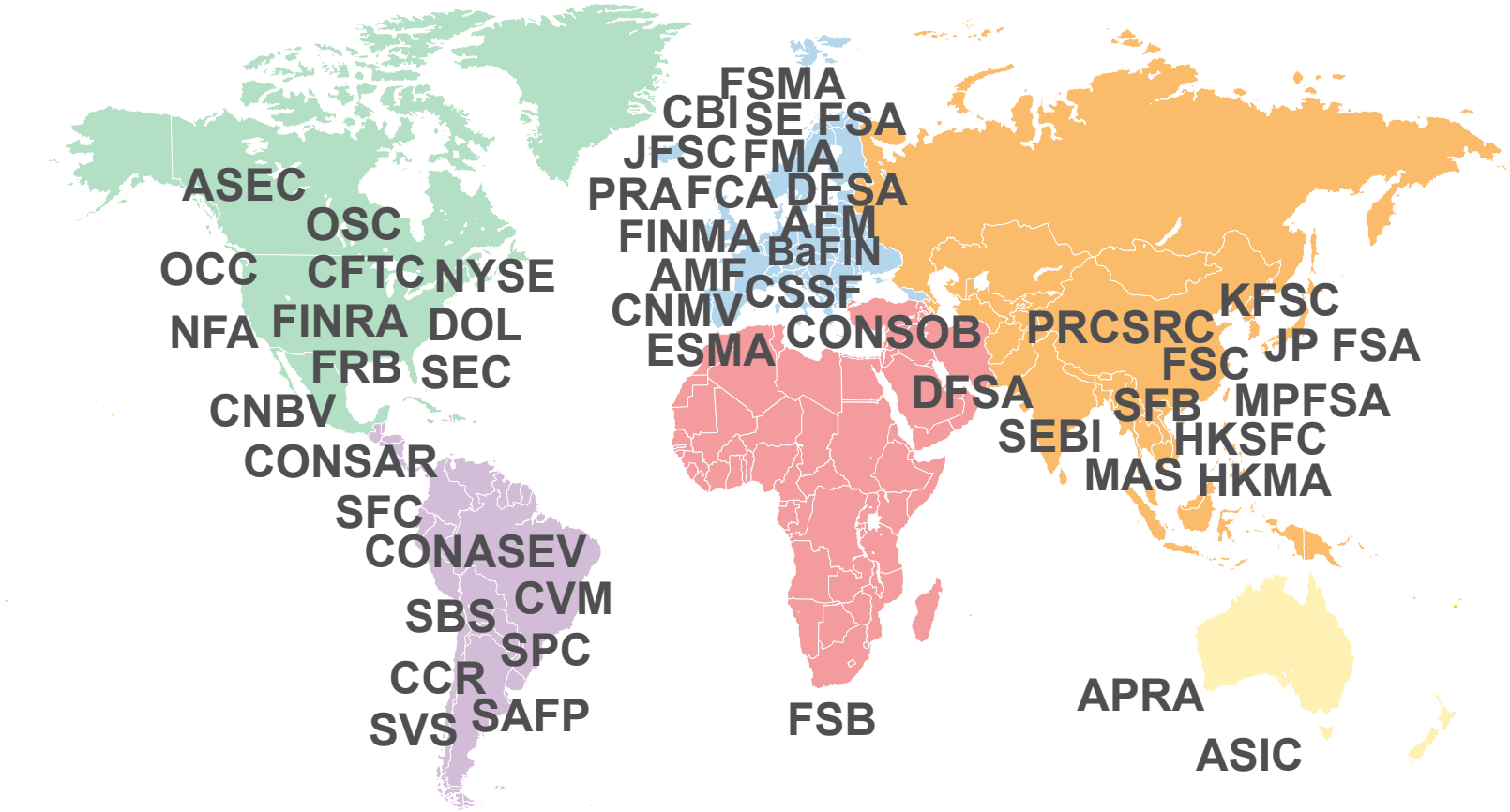
- Aberdeen
- Allianz Global Investors
- AQR
- BlackRock
- Blackstone
- Bridgewater
- Capital Group
- Fidelity
- Fortress
- Franklin Templeton
- Invesco
- KKR
- Man Investments
- Pimco
- T. Rowe Price
- UBS Global Asset Management
- Vanguard
- Wellington Management

Asset managers offer diverse product sets

Cash	Fixed Income	Equity	Alternatives
	Active	Active	Hedge Funds
	Passive	Passive	Private Equity
			Real Estate

Asset managers serve a diverse set of clients

Asset managers are comprehensively regulated



Asset managers are fiduciaries

Asset managers do

- Act on behalf of clients
- Rely on a generally stable fee-based income stream
- Receive regulatory oversight at both the manager and portfolio levels

Asset managers do not

- Invest with their own balance sheets by engaging in principal trades with clients
- Employ balance sheet leverage
- Guarantee investor principal
- Have access to central bank liquidity

Asset management business model is fundamentally different than that of other financial institutions, such as:

- Commercial banks
- Investment banks
- Insurance companies
- Government-sponsored enterprises

Asset managers act as agents for clients

An investment management agreement (IMA) governs relationship

- IMA includes investment guidelines for specific mandates
- IMA includes fee schedule for calculating compensation
- Contractual agreement which may be terminated without penalties
- For commingled funds, the fund prospectus or offering documents set out key investment terms and fees and fund enters into IMA with the asset manager

Client assets are held by a custodian that is generally selected by the client

- The custodian maintains the official books and records regarding assets held, open trades, derivatives

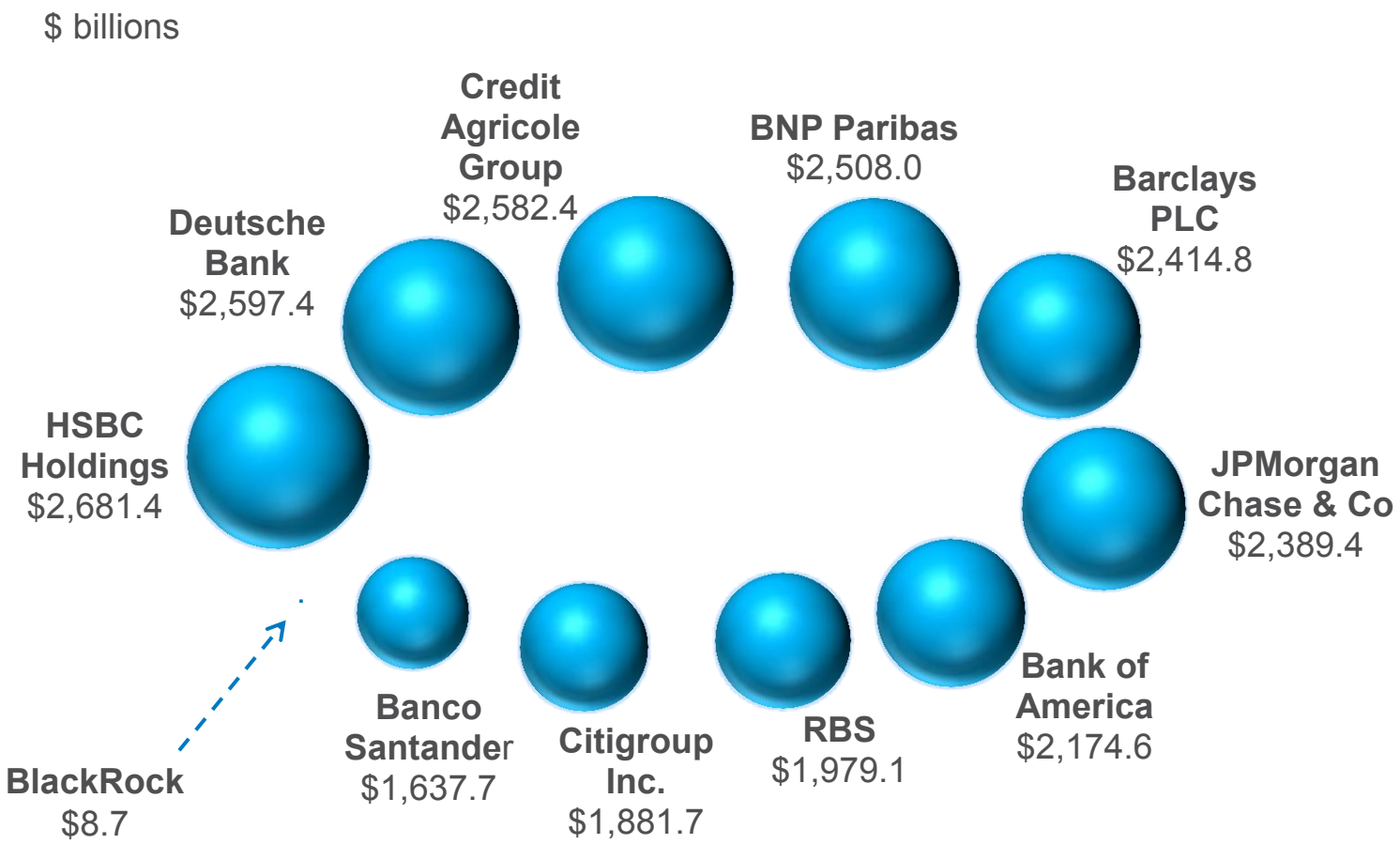
The asset manager executes trades on behalf of its clients per the relevant IMAs

- The client, not the asset manager, is the counterparty and the client is exposed to other counterparties

In the event a client wishes to change managers, the client sends a simple communication to both the manager and the custodian

- A new manager is appointed
- The assets remain with the custodian throughout the transition process

Asset managers have small balance sheets



Source: http://www.relbanks.com/worlds-top-banks/assets as of 31 March 2013. 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).

Robust M&A in Asset Management

Acquisition of an asset manager is relatively common because of the simple business model and limited nature of an asset manager's balance sheet

- Shifts in majority ownership of asset managers are not uncommon – even for large firms

143 asset management M&A transactions, representing $1.5 trillion in transacted AUM, were announced in 2012*

- 132 deals representing $1.3 trillion in transacted AUM were announced in 2011*

Total Number of Asset Management M&A Transactions and Acquired AUM*

Year	Number of Deals	Transacted AUM ($ billions)
2012	143	$1,514
2011	132	$1,288
2010	128	$992
2009	148	$4,011
2008	219	$1,953

*Source: Sandler O'Neill: "Shifting Into Higher Gear: 2012 M&A Activity in the Asset Management Industry". March 2013.

Asset management "resolution" is straight-forward

A comprehensive review of the asset management business over the past 25 years shows very few asset managers require "resolution"

Key exceptions are:

- *Long-Term Capital Management*
- *Reserve Management Company*

Each had relatively small AUM

Most firm "failures" are related to ethical breaches

- *Strong Capital*
- *Pilgrim Baxter*
- *Putnam*
- *Advanced Investment Management (AIM)*

Client assets were protected and clients moved to replacement asset managers with no market impact.

The Investment Products (and Practices)

Commingled investment vehicles are commonly used by institutional and retail investors

Commingling assets provides investors with diversification

Different legal vehicles are used in different markets

- Regulatory requirements in different jurisdictions
- Liquidity profiles and investor bases vary significantly

Fund entities are separate legal entities from the managers

- Even when accounting rules require consolidation on balance sheet of manager, the legal entity and client assets remain legally separate

Frequently Used Fund Structures	
• Mutual Funds	• Hedge Funds
• ETFs	• Collective Trust Funds
• UCITS	• Limited Partnerships

Separate accounts for institutional clients

Separate accounts are individual portfolios

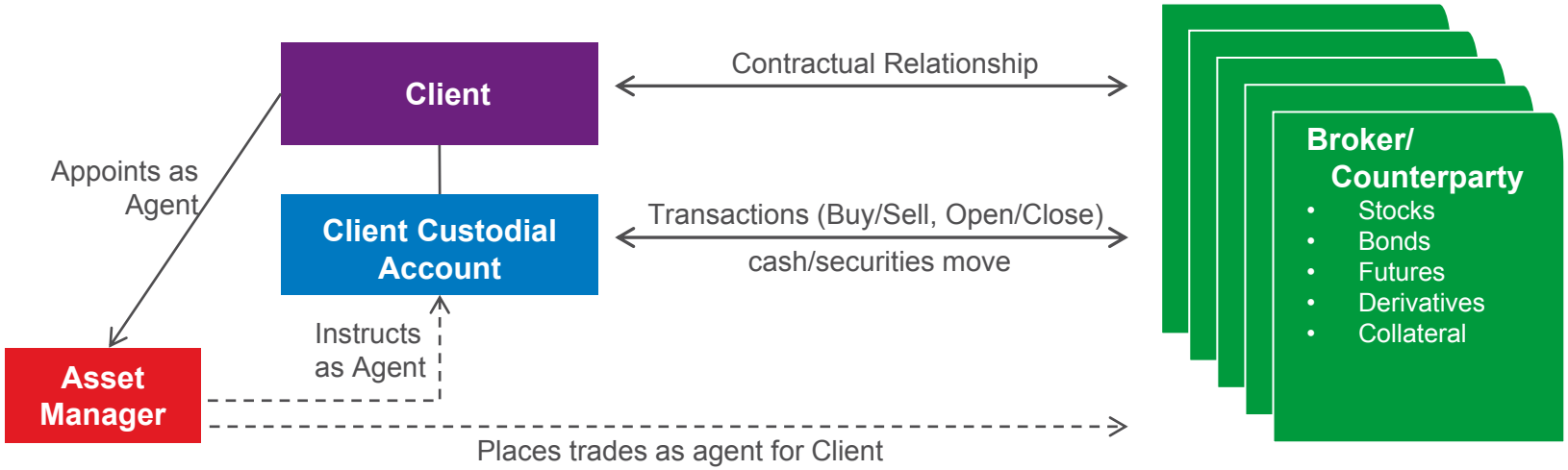
- The client is the legal owner of the assets
- The assets are held by a custodian, which is generally selected by the client
- The asset manager acts as the client's agent
- Regulated by SEC, FCA, DoL, depending on client and jurisdiction

Vast majority of separate accounts are long-only portfolios managed for institutional investors

The term "separate account" is also used by insurance companies but should not be confused with separate accounts managed by asset managers

Reasons for Using Separate Accounts
• Customized guidelines
• Direct ownership of assets
• Legal or regulatory requirements

Role of third-party asset manager and custodian

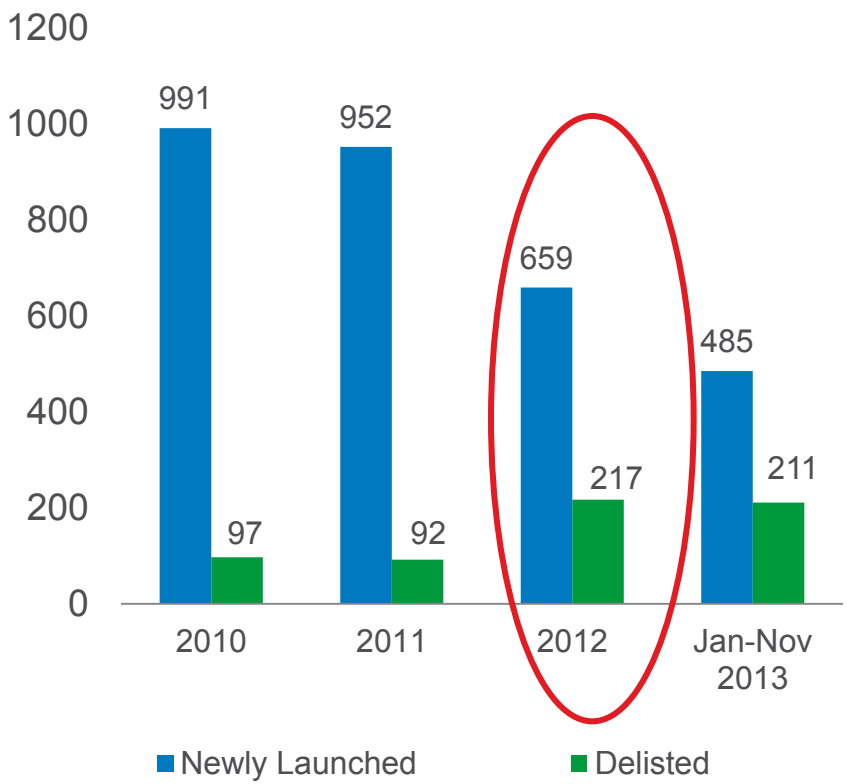


Asset Manager	Client	Custodian	Broker / Counterparty
The manager has an investment management agreement with each Client and provides trade instructions to the Client's custodian and counterparties based on client-specified guidelines; it also assists the Client's custodian in the settlement process	Even though the asset manager provides trade instructions, the Client has the contractual relationship with each counterparty and exclusively bears the associated counterparty risk	The Client's third-party custodian, selected by the Client, safeguards the Client's assets and serves as the book of record for the Client's account. The custodian facilitates settlement of Client assets with counterparties	The broker/counterparty buys/sells various securities and other instruments to/from the Client and legally faces the Client in each transaction

Source: PIMCO

Funds open and close routinely

Global ETPs: Newly Launched vs. Delisted



Source: BlackRock, provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange. Includes individual share classes, excludes cross listings. As of November 2013.

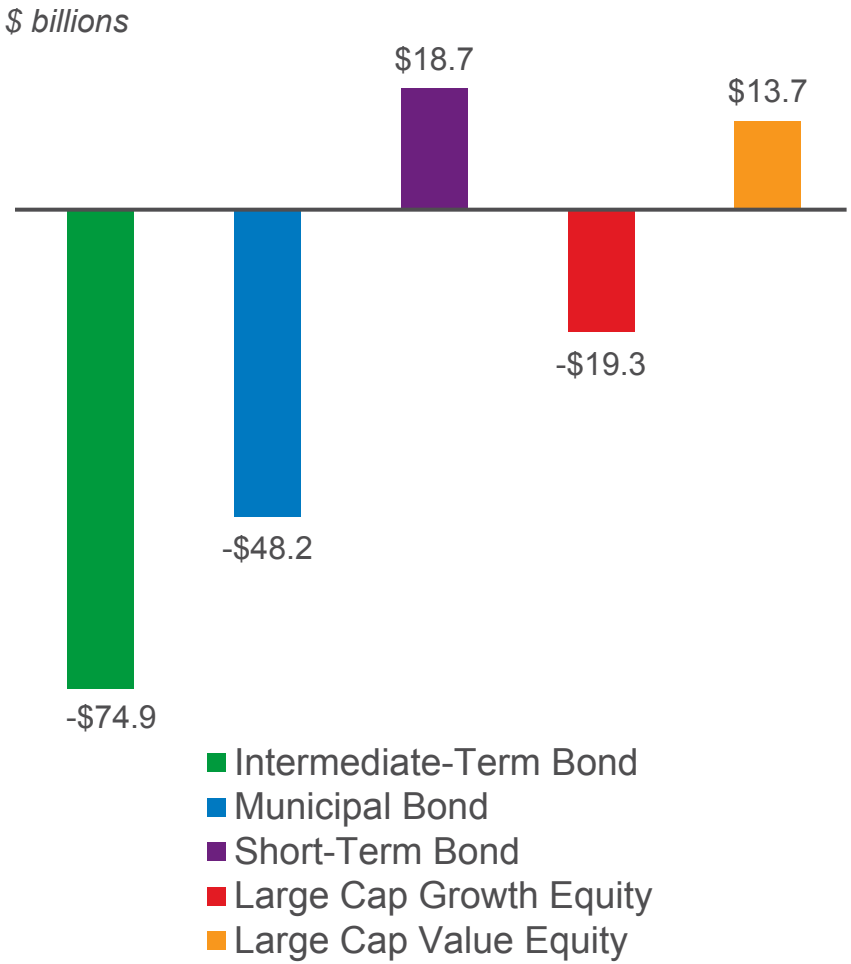
Hedge fund launches and closures

Year	Est. Funds Launched	Est. Funds Closed
2012	1,108	873
2011	1,113	775
2010	935	743
2009	784	1,023
2008	659	1,471

Source: *"HFR Global Hedge Fund Industry Report – Third Quarter 2013", HFR, www.hedgefundresearch.com*

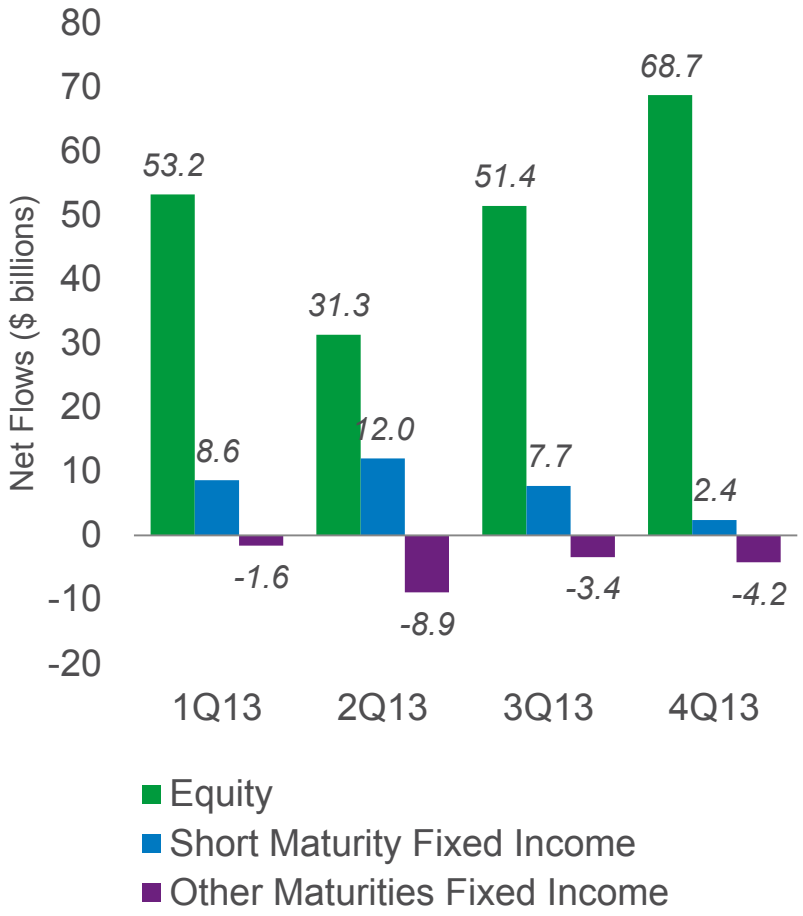
Significant inflows and outflows are routine

US Active Mutual Fund Net Flows in 2013



Source: Simfund. As of November 2013. Excludes funds of funds to avoid double counting. Excludes money market funds and index funds. Reflects Morningstar categorization.

US ETP 2013 Quarterly Net Flows



Source: BlackRock, provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange. As of 31 December 2013.

Improving the Financial Ecosystem

The evolving financial ecosystem

Market forces and financial regulatory reform have combined to change the financial ecosystem

- Increased emphasis on risk management
- Improvements in liquidity management
- Enhanced collateral management and counterparty limits
- Increased transparency
- Deleveraging of banks and increased capital standards
- Detailed reporting on private funds and on derivatives

Major Financial Legislation and Regulation	
Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	Bank Capital & Liquidity Rules
Alternative Investment Fund Managers Directive Markets in Financial Instruments Directive	OTC Derivatives Rules
European Market Infrastructure Regulation Basel Accords	Cash Investing Rules
Volcker, Vickers, Liikanen	Private Funds Reporting

Observations and recommendations for additional reforms

Cash Management Products

Securities Financing Transactions

Exchange Traded Funds

Leverage

Global Harmonization of Reporting

CCP Resolution

Market Liquidity

Cash management products in the US

SEC in 2010 and OCC in 2012 introduced new rules

- Regulators of comparable products should harmonize rules

	SEC 2a-7 Rules (2010)	OCC STIF Rules (2012)
Quality & Concentration	• Max. issuer concentration: 5% • Max. 2nd tier[1] issuer concentration: 3%[2]	• Portfolio and issuer quality standards and concentration restrictions must be identified, monitored and managed
Maturity	• Max. WAM: 60 days • Max. WAL: 120 days	• Max. WAM: 60 days • Max. WAL: 120 days
Liquidity	• ≥10% in daily liquid assets • ≥30% in weekly liquid assets	• Liquidity standards, contingency plans for market stress must be developed and regularly tested
Stress Testing	• Required to periodically stress test MMF to examine MMF's ability to maintain a CNAV	• Required to periodically stress test STIF to examine STIF's ability to maintain a CNAV
Transparency / Disclosure	• Monthly public disclosure of portfolio holdings and additional data (i.e. "shadow NAV")	• Monthly disclosure to client and OCC of portfolio holdings and additional data (i.e. "shadow NAV")

Source: SEC, OCC, Dechert LLP. Note: the above chart is not exhaustive.

1 A 2nd-tier security is as a security rated in the second-highest short-term rating category.
2 With certain additional restrictions

WAM = Weighted Average Maturity
WAL = Weighted Average Life
CNAV = Constant NAV
STIF = Short Term Investment Fund

Cash management products in Europe

ESMA 2010 Guidelines and EC Money Market Fund (MMF) regulation proposal classify MMF into both 'Short Term MMF' (similar to 2a-7 MMF) and 'Standard MMF' (ultra short bond funds)

	ESMA 2010 Guidelines	EC MMF Regulation Proposal
Quality / Concentration / Diversification	• High quality instruments or deposits [1] • Concentration and diversification limits	• Prescriptive requirements for credit analysis process • Limits on diversification, concentration
Maturity	Short-term MMFs: • WAM ≤ 60 days; WAL ≤ 120 days • 397 days residual maturity Standard MMFs: • WAM ≤ 6 mos.; WAL ≤ 12 mos. • ≤2 years residual mat. w/reset 397 days	• Similar requirements re: WAM and WAL and residual maturity
Liquidity	• Liquidity risk must be monitored and managed	• ≥10% in daily liquid assets • ≥20% in weekly liquid assets • 3% liquidity buffer for CNAV funds subject to 3-yr. phase in
Stress Testing	• Required to periodically stress test	• Regular stress testing with prescriptive requirements
Transparency / Disclosure / KYC	• Daily NAV, price calculation • Daily subscription/redemption of units	• Enhanced disclosure requirements (e.g. "shadow NAV") • Disclose if extended mat. or CNAV • KYC procedures and due diligence

[1] Awarded one of the two highest short-term credit ratings or Investment Grade for Sovereign debt in Standard MMFs

EC = European Commission

KYC = Know Your Client

Securities financing transactions
(Securities lending and repo)

Securities lending and repo are established practices in global financial markets

- Provide liquidity to markets by increasing the availability and circulation of securities
- Facilitate price discovery, enhance market liquidity, and help reduce price volatility by supporting short selling
- Can unlock additional returns for investors by generating extra income from their portfolio

Securities financing ecosystem has many participants, including lenders, borrowers, custodial and non-custodial lending agents, central banks, prime brokers, and exchanges

Asset managers act as agents in securities finance transactions

- In securities lending, asset managers are only involved as lending agent with a small subset of the total volume of sec lending transactions
- For repo, asset managers may act as the seller of the repo to raise cash for certain strategies or could become the buyer of repo (for example when investing cash)

Like any investing activity, securities financing transactions entail risks that must be managed

- Key risks include counterparty credit risk, cash collateral reinvestment risk, non-cash collateral (market) risk, and operational risk

Repo = repurchase agreement

Exchange traded funds (ETFs)

ETFs combine features of traditional mutual funds and individual stocks

Most ETFs use an "in-kind" transfer mechanism to create/redeem shares

- Helps keep ETF supply and demand in continual balance
- Provides "hidden" layer of liquidity not evident by looking at ETF trading volumes alone

Benefits of ETFs include:

- Instant portfolio diversification, tax efficiency, and greater transparency on fees and expenses
- In stressed/suddenly illiquid markets, ETF shares are typically the most liquid asset and facilitate price discovery

Recommendations

- Clear labeling of product structure and investment objectives
- Frequent and timely disclosure for all holdings and financial exposures
- Clear standards for diversifying counterparties and quality of collateral
- Disclosure of all fees and costs paid, including those to counterparties
- Universal trade reporting for all equity trades, including ETFs

Addressing leverage

Leverage can be employed at multiple levels

- Underlying securities
- Fund products
- End-investor portfolios

Leverage magnifies returns

- Positive or negative

Leverage is not the same as risk

- However, funding mis-matches can create stress

A number of regulatory regimes for collective vehicles contain leverage limitations (e.g., US mutual funds and UCITS)

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

Global harmonization of reporting

DATA ≠ INFORMATION

Regulators and investors would benefit from consistently reported information

- Facilitates comparisons
- Enables aggregation for analysis

Areas to consider for harmonization

- Private/alternative fund reporting
- Swap data reporting
- Threshold reporting
- Securities lending reporting

Central Counterparty (CCP) resolution

Central clearing reduces systemic risk by having a clearing house being a common counterparty to every trade and by protecting losses against an event of default by collateralizing all positions held at the clearing house

However, central clearing is not without its own risks because central clearing concentrates margin and risk in CCPs

- Policy makers at global and regional levels are considering the implications and potential remedies in the event of a CCP failure

Recommendation: Focus on CCP resolution, not recovery

Regulatory regime should ensure a rapid and complete wind-down of positions and a timely and orderly repayment of customer margin

"Recovery" is likely to be more de-stabilizing than resolution

- Recovery by means of haircutting client variation margin is likely to be highly pro-cyclical
- Failure of a CCP would most likely be due to improper risk management; unlikely that clients would continue to use such a "recovered" CCP
- Regulators should focus on determining appropriate level of CCP capital to reduce the risk of default and to provide sufficient resources so that a failed CCP can be wound down in an orderly manner

Corporate bond market liquidity

We are seeing a structural shift in the corporate bond market

- Sporadic issuance has led to a highly fragmented market
- New issues dominate trading
- Liquidity is patchy – it is increasingly difficult to buy and sell bonds in the secondary market

Consequences

- Wider spreads, higher transaction costs, diminished returns for investors

Recommendation: Bond Standardization

Issuing similar notional amounts as before, but at set maturity intervals and reopening benchmark issues to cut down the number of individual bond issues, creates a liquid curve for large and frequent issuers and enables lower-cost hedging for these issues with centrally cleared derivatives

ISSUER	BONDS IN BARCLAYS US CORPORATE INDEX	TOTAL BONDS OUTSTANDING	COMMON EQUITY SECURITIES	PREFERRED EQUITY SECURITIES
GE	44	1,014	1	4
J.P Morgan	32	1,645	1	13

Sources: Barclays and Bloomberg, May 2013. Note: Table shows issuers with the largest notional amount outstanding in the Barclays US Corporate Index.

Public Policy on www.blackrock.com

Google search: “BlackRock Public Policy”

URL : http://www.blackrock.com/corporate/en-us/news-and-insights/public-policy

Securities Lending: Balancing Risks and Rewards

BLACKROCK®

ViewPoint
May 2012

Securities Lending:
Balancing Risks and Rewards

Securities lending (sec lending) is an established practice in global financial markets that provides liquidity to markets while also generating additional returns to investors who lend securities. In the wake of the 2008 financial crisis, sec lending as well as many other established practices has come under review by regulators in various jurisdictions. The Financial Stability Board (FSB), European Commission, European Securities and Markets Authority (ESMA), International Organization of Securities Commissions (IOSCO), and Securities and Exchange Commission (SEC) have each reached out to market participants to develop a better understanding of how to manage the risks associated with sec lending.

Sec lending provides benefits to the financial markets and to investors. First, the availability of securities through lending arrangements translates into liquidity for the settlement of transactions. A number of academic studies have cited this benefit, e.g. Saffi and Sigurdsson, Price Efficiency and Short Selling, December 10, 2007. During the recent financial crisis beginning in 2007, sec lending helped to mitigate market stresses. A second key benefit comes from the income generated for investors whose securities are lent. This extra return is generated both by the “intrinsic value” of the securities as well as (primarily in the US market) by reinvesting any cash collateral received, resulting in enhanced returns to investors.

Several sec lending risks have been identified and need to be managed. Key risks include counterparty credit risk, cash collateral reinvestment risk, non-cash collateral risk, and operational risk. During the financial crisis, issues surfaced related to cash collateral reinvestment strategies which have triggered increased scrutiny of sec lending. Each of these risks can and should be addressed and monitored in a well-managed sec lending program.

BlackRock manages approximately USD $1.425 trillion in a wide variety of investment strategies for which BlackRock also acts as the sec lending agent. Sec lending has added substantial value to these portfolios for our clients. BlackRock brings a portfolio management perspective to sec lending, integrating collateral management, and risk management into its sec lending practices.

Barbara Novick, Vice Chairman, is head of Government Relations

Joanne Medero, Managing Director, is a member of the Government Relations Group

Rob Hoerner, Managing Director, is co-head of Global Cash and Securities Lending

Simon Mendelson, Managing Director, is co-head of Global Cash and Securities Lending

Summary of Recommendations for Regulation of Securities Lending

1. Investment objectives for cash collateral reinvestment that take into account the relatively stable nature of sec lending collateral balances within lending programs;
2. Disclosure by lenders and borrowers in the form of non-public reporting to regulators;
3. Consistent principles for disclosure regarding securities lending;
4. Flexibility for lenders to accept a range of collateral that includes both cash and non-cash collateral, including both debt and equity securities;
5. Regulators should not restrict lenders’ and lending agents’ ability to protect their interests by adjusting margins on collateral or removing borrowers;
6. Indemnification by lending agents should not be mandated but should be based on arms-length negotiations;
7. There is no need for a separate resolution authority specifically for sec lending; and
8. Given the global nature of sec lending, we recommend an internationally coordinated approach to standards and regulations.

The opinions expressed are as of May 2012 and may change as subsequent conditions vary.

ETPs: Overview, Benefits and Myths

VIEWPOINT

EXCHANGE TRADED PRODUCTS:
OVERVIEW, BENEFITS AND MYTHS

JUNE 2013

BLACKROCK®

Executive Summary

As exchange traded funds (ETFs) and other exchange traded products (ETPs) have grown tremendously over the past several years, so too has the notice of regulators, academics and investors. BlackRock, a leading investment manager and major ETF sponsor, has been an active participant in discussions related to ETFs. This *ViewPoint* represents the third in a series, which also includes “ETFs: A Call for Greater Transparency and Consistent Regulation,” published in October 2011, and “Understanding the Flash Crash: What Happened, Why ETFs Were Affected and How to Reduce the Risk of Another,” published in November 2010.

While this paper, our most comprehensive, provides an overview of the range of investment vehicles commonly referred to as ETPs, its primary focus is ETFs. We identify specific benefits of ETFs, analyze their purported shortcomings and dig into some of the common myths about ETFs, particularly index-based products. We also identify some general principles that we believe can help maximize the utility of ETFs and minimize the potential for adverse impacts on investors and the broad financial markets.

The terms ETP and ETF are commonly used to describe a number of very different investment vehicles that share one common trait — they are traded on an exchange. The majority of ETFs provide exposure to a market index and seek to mimic the performance of that index. Not all ETFs are funds. Because index-tracking ETFs are the most typical ETPs, this paper focuses primarily on those products.

While the growing impact of ETFs on markets has been the topic of healthy debate, the vast majority of empirical data and practical experience to date indicates that well-structured ETFs have extended significant benefits to investors and to the functioning

Ben Golub, PhD, Chief Risk Officer and Co-Head of BlackRock Risk & Quantitative Analysis

Barbara Novick, Vice Chairman, Head of Government Relations

Ananth Madhavan, PhD, Global Head of Research, BlackRock iShares

Ira Shapiro, JD, Head of Strategic Product Initiatives, BlackRock iShares

Kristen Walters, Global Chief Operating Officer, BlackRock Risk & Quantitative Analysis

Maurizio Ferroni, PhD, Head of Risk & Quantitative Analysis for Beta Strategies

SUMMARY OF ETF BENEFITS

VERSUS OPEN END MUTUAL FUNDS	WHEN INDEX BASED
Enhanced liquidity	Generally low administrative expenses
High degree of transparency	Low trading overhead (costs of trading ETPs can be much lower than the costs of trading the underlying securities)
Greater tax efficiency (lower trading of underlying securities = fewer realized capital gains)	Cost-efficient, convenient access to a variety of markets
Lower vulnerability to market timing	Ability to easily replicate exposure to numerous broad benchmarks through a single vehicle
Ability to trade in and out of positions intraday	
Potential for enhanced returns through securities lending	
Less potential for inadvertent value transfer among shareholders	
Greater resilience in times of financial crises	

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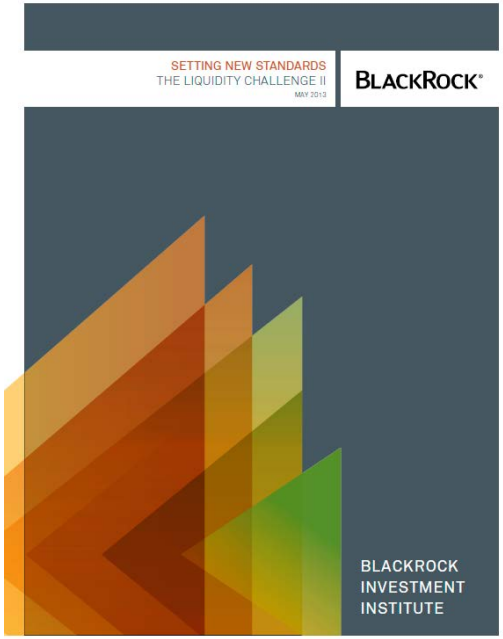
Setting New Standards: The Liquidity Challenge II



SETTING NEW STANDARDS
THE LIQUIDITY CHALLENGE II
MAY 2013

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6. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. All financial investments involve an element of risk. Therefore, the value of an investment and the income from it will vary and an initial investment amount cannot be guaranteed. Changes in the rates of exchange between currencies may cause the value of investments to go up and down. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.
7.

The following notes should be read in conjunction with this document:

- The opinions expressed are as of February 2014 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. There is no guarantee that any forecasts made will come to pass. Any investments named within this material may not necessarily be held in any accounts managed by BlackRock. Reliance upon information in this material is at the sole discretion of the reader. Past performance is no guarantee of future results.

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