BLACKROCK

April 23, 2014

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/rules/proposed.shtml

RE: Money Market Fund Reform; Amendments to Form PF (Release No. IC-30551; File No. S7-03-13) — Staff Analysis of Data and Academic Literature Related to Money Market Fund Reform

Dear Ms. Murphy:

BlackRock, Inc. ("BlackRock")[1] is pleased to have the opportunity to review and provide comments to the Securities and Exchange Commission (the "Commission") on the four reports (the "Reports")[2] prepared by the staff of the Division of Economic and Risk Analysis ("DERA") of the Commission released on March 25, 2014 related to money market fund reform. BlackRock previously submitted a comment letter ("Original Response Letter") to the Commission in September of 2013 on the Commission's proposal for Money Market Reform (the "Proposed Rule")[3] and submitted a joint comment letter with a number of other asset managers in October of 2013 regarding the definition of retail money market funds. This letter addresses the DERA Reports in light of some of the comments we made in our Original Response Letter and, in some instances, addresses issues that were not originally covered by our Original Response Letter but are raised directly in the Reports.

Government Money Market Fund Exposure to Non-Government Securities ("Exposure Report") and Demand and Supply of Safe Assets in the Economy ("Safe Assets Report")

The Exposure Report concludes that relatively few Government money market funds ("MMFs") invest in "Other Securities", or securities that are not Treasury Debt, Treasury Repurchase Agreements, Government Agency Debt and Government Agency

[1] BlackRock is one of the world's leading asset management firms, managing approximately $4.4 trillion (as of March 31, 2014) on behalf of institutional and individual clients worldwide, including governments, pension funds and corporations.
[2] *See* SEC Press Release 2014-56, Staff Analysis of Data and Academic Literature Related to Money Market Fund Reform (March 24, 2014), *available at* http://www.sec.gov/News/PressRelease/Detail/PressRelease/1370541253716 .
[3] *See* Money Market Fund Reform; Amendments to Form PF, 78 Fed. Reg. 36834 (June 19, 2013); *or see* Money Market Fund Reform; Amendments to Form PF, Release No. IC-30551 (June 5, 2013), *available at* http://www.sec.gov/rules/proposed/2013/33-9408.pdf ("SEC 2013 Proposal").

Repurchase Agreements,[4] based on a review of data collected from MMFs on Form N-MFP submissions between November 2010 and November 2013. The Safe Assets Report[5] concludes that it is unlikely that Government MMFs would face an issue with the supply of underlying eligible securities if the Commission were to reduce the 20% non-government securities basket (the "20% basket")[6] that is permissible under the Proposed Rule for Government MMFs.

We agree, that today, Government MMFs are essentially "all government"; they don't widely use "Other Securities" and when they do use these securities, they represent a very small portion of those MMFs' assets. We also agree that during the financial crisis in 2008, there were enough U.S. government securities for Government MMFs to invest in, even without having a 20% basket of "Other Securities" available to them. However, it is important to note that we believe this was due in part to the U.S. Treasury issuing additional Treasury bills under the Supplementary Financing Program. This additional influx of bills, in our opinion, aided the ability of Government MMFs to accommodate the additional flows during the 2008 financial crisis.

Importantly, we do not yet know how the final MMF rule from the Commission will change Prime MMFs, and consequently, we also don't know how clients will react to the final rule. In the event the final rule leads to significant outflows from Prime MMFs into Government MMFs, we anticipate two issues. First, in the absence of additional Treasury bill issuance, Government MMFs may be challenged to find sufficient supply of eligible securities.[7] Second, if there is no 20% basket, there may be significant overhang of supply of commercial paper causing corporate funding problems. Given that some clients need "all Government securities", we anticipate that MMFs sponsors may offer both "traditional government MMFs" and "hybrid MMFs" which use the 20% basket. Once new rules are adopted, the Commission should review the data around Government MMFs and commercial paper again. For example, the Commission should consider: How much of the "20% basket" is being used? What is the composition of the 20% basket when it is used? How has commercial paper been absorbed in the market? Depending on the data, it may make sense to phase out the 20% basket over time. Until we can observe client behavior and allow the market to find a new equilibrium, however, this 20% basket may be an important tool to have available.

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[4] Item 31 on Form N-MFP has MMFs categorize securities based on a number of proposed categories or allows a MMF to check "Other Instrument". The Exposure Report categorizes the options on Form N-MFP into either "Government Securities" or "Other Securities".

[5] A "safe asset" is defined as any debt asset that promises a fixed amount of money in the future with virtually no default risk.

[6] *See* SEC 2013 Proposal, *supra* 3, at p. 65 ("We are proposing an exemption to the floating NAV requirement for government money market funds–money market funds that maintain at least 80% of their total assets in cash, government securities, or repurchase agreements that are collateralized fully").

[7] It should be noted that the global market for "safe assets" is not representative of the eligible safe assets for U.S. money market funds, which are generally limited to U.S. dollar denominated securities with a remaining maturity of less than 397 calendar days.

Liquidity Cost During Crisis Periods ("Liquidity Cost Report")

The Liquidity Cost Report analyzes the spread between same day buy and sell transaction prices for Tier 1 and Tier 2 securities from January 2, 2008 through December 31, 2009. While we think a report like this could be helpful in analyzing the appropriate liquidity fee, we think the methodology used in the Liquidity Cost Report was not the appropriate methodology to measure the true cost of liquidity in MMFs.

The Liquidity Cost Report uses the difference in purchase and sale prices for securities reported in TRACE with maturities less than 120 days to maturity to measure liquidity before, during and after the bankruptcy of Lehman Brothers.[8] Money market instruments and debt securities that have a maturity of less than a year at issuance are not reported in TRACE. Consequently, in our opinion, the security transactions recorded by TRACE were the least liquid of securities held in MMFs, and represented the smallest portfolio allocation. We also believe that the size of the trades in TRACE are much smaller than the size of the trades that MMFs typically participate in, skewing the results in the Liquidity Cost Report.

In order to accurately review the liquidity of MMFs during the crisis, we believe that the difference between the sale price of a security in a MMF during the crisis and the amortized cost of such security sold by the MMF should be reviewed. We acknowledge that this data from 2008 is likely not publicly available, however, the Commission could request the data from fund managers.

We assume that this analysis is being used to consider the appropriate size of a liquidity fee in the event a fee needed to be imposed. If so, it is important that the actual cost of liquidity in the instruments held by MMFs be used in this analysis.

Municipal Money Market Funds Exposure to Parents of Guarantors Report ("Municipal Money Market Report")

We generally agree with the data provided in the Municipal Money Market Report.[9] Despite our agreement with the data, we don't agree with a key presumption supporting the Municipal Money Market Report: that portfolio managers actively choose to concentrate in a guarantor or demand feature above 10%. In our experience, portfolio managers are forced to go above 10% due to market dynamics.

We believe in order to truly analyze the impact of the Commission's proposal to eliminate the "25% basket"[10], an analysis of the outstanding supply of securities subject to

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[8] TRACE is a commercially available database of over-the-counter secondary market transactions in corporate and agency bonds.

[9] The Municipal Money Market Report reviewed information on MMF holdings from Form N-MFP between November 2010 and November 2012, excluding the February 2012 submissions. The Municipal Money Market Report in particular focused on the percentage of exposure MMFs had to guarantors that exceeded 10%, 15% and 20%.

[10] *See* SEC 2013 Proposal, *supra* 3, at p. 447 (The Commission proposes to tighten the diversification requirements applicable to guarantors and providers of demand features by eliminating the "25% basket".); Rule 2a-7 currently applies a 10% diversification limit on guarantees and demand features but only to 75% of a MMFs total assets. *See* Rule 2a-7(c)(4)(iii)(A). Thus, today, 25% of the value of securities held in a MMF's portfolio may be subject to guarantees or demand features from a single institution; this 25% basket is limited to first tier guarantees and demand features.

guarantees or a demand feature also needs to be completed. We would expect that a MMF's holdings generally would mimic supply of outstanding variable rate demand notes ("VRDNs.") In our view, this type of analysis would show that Municipal MMFs are often concentrated because they had to be due to market supply rather than a conscious decision by portfolio management to concentrate risk in particular guarantors.

The Municipal Money Market Report supports the idea that removing the 25% basket will not decrease the credit quality of Municipal MMFs, because the guarantor parents who represent the top ten guarantors in the market have essentially the same credit default swap spreads. We agree that the credit quality of the top ten providers is likely the same. However, in our experience, parent guarantors in the six to ten range do not have the same capacity to supply securities as do parent guarantors in the top five. Based on publicly available data on Bloomberg related to the amount of par notes provided by parent guarantors, the top five guarantors have approximately $97 billion par outstanding, while the next five have only approximately $39 billion, as of March 2014.[11] It is unclear that the supply provided by the next level of guarantors (i.e., the 6-10 range) will be able to fill the demand that will be created if Municipal MMFs can no longer rely on the 25% basket.

As we noted in our Original Response Letter, since the financial crisis of 2008, the number of providers of credit and liquidity enhancement has declined due to credit downgrades, U.S. bank consolidation, European banks pulling back from the market, and less availability of bond insurance. In our opinion, financial reform measures that continue in both the U.S. and globally, including Basel III, will only further suppress the availability of credit and liquidity enhancement, consequently reducing supply to the MMFs.[12] The 25% basket may therefore become more important with this decreased supply.

Lastly, in managing these funds, we have found the 25% basket provides an important tool for Municipal MMFs during the seasonal times that these funds experience asset increases. Typically, assets in Municipal MMFs increase in the early days of January, June, and July. In January a Municipal MMF sees an increase in assets generally because of both coupon payments and a return of corporate investments. During the beginning of June and July, Municipal MMFs see an increase in cash flows due to coupon payments and bond maturities. To quickly reinvest the cash during these periods, Municipal MMFs would look to deploy this excess cash in VRDNs. The seasonality issues are only heightened in state-specific Municipal MMFs who have even fewer issuers available to them than national Municipal MMFs.

We recommend that the final rule continue to allow a 25% basket for concentration limits for Municipal MMFs.

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[11] Source: Bloomberg.

[12] For example, we believe that the number of banks who will be underwriting VRDN offerings in the future will likely decrease, as banking regulations increase.

We thank the Commission for giving us the opportunity to express our views on the Reports. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

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Vice Chairman

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Managing Director
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cc:
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