BLACKROCK

18 June 2007

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, N. E.
Washington, D.C. 20549-1090

Via e-mail to: rule-comments@sec.gov / Subject: File Number S7-08-07

Re: Amendments to Financial Responsibility Rules for Broker-Dealers

Dear Ms. Morris:

BlackRock is a premier provider of global investment management, risk management and advisory services. As of March 31, 2007, the firm managed US$1.1 trillion across various asset classes. Of that amount, $244 billion was attributed to liquidity assets, including $161 billion in U.S. registered money market funds.

BlackRock supports the Commission's proposal to expand the use of money market funds for purposes of its broker-dealer financial responsibility rules.[1] In particular, we strongly support those aspects of the proposal that would extend to a broker-dealer's investments in shares of certain money market funds equivalent treatment as the rules currently accord to direct investments in U.S. government securities. We recommend that such treatment be extended to a broader array of money market funds, including those that have received the highest rating from a nationally recognized statistical rating organization ("NRSRO"). We also recommend the haircut that broker-dealers are required to apply to proprietary positions in money market funds be reduced from the proposed one percent to zero percent.

We believe that money market funds that comply with Rule 2a-7 under the Investment Company Act of 1940 and that also meet the additional NRSRO requirements for

[1] SEC Release No. 34-55431 (March 9, 2007), 72 FR 12899 (March 19, 2007) ("Release")

receiving the highest rating provide sufficient liquidity and safety for use in meeting capital requirements for broker-dealers. However, BlackRock does not believe that it is necessary or appropriate to further restrict investments such that repurchase agreements would be required to be "collateralized fully" as defined under the Investment Company Act of 1940. We believe that liquid collateral, typically in amounts of 102% to 105% of the underlying repayment obligation, is sufficient, regardless of whether it consists of government securities, top rated securities and those deemed equivalent, or cash items ("Look Through" collateral) or other marketable, liquid securities.

Expansion of Definition of "Qualified Security" under Exchange Act Rule 15c3-3

Under Rule 15c3-3 under the Securities Exchange Act of 1934, a broker-dealer is limited to depositing cash or "qualified securities" into a bank account it maintains to meet its customer reserve deposit requirements ("special reserve account"). Currently, the rule defines "qualified securities" to include investments in securities issued or guaranteed as to principal or interest by the United States ("U.S. Treasury securities"). The proposal would expand the definition to include money market funds that invest only in cash or securities meeting the definition of "qualified security" in Rule 15c3-3. Thus, under the proposal, the assets held by a qualifying money market fund would be the same as those a broker-dealer can currently hold directly in a special reserve account.

BlackRock strongly supports this aspect of the proposal and believes that permitting the use of money market funds for this purpose is desirable and appropriate. Expanding the definition of "qualified security" in this manner would be significantly more convenient and efficient for broker-dealers without compromising the safety of customer assets.

However, based upon our understanding of the relatively limited asset size of Treasury-only money market funds available in the market place, along with the proposed cap on the percentage ownership of such funds by broker-dealers for this purpose, as well as our discussions with potential investors, we believe the proposed rule as written is unlikely to result in an effective, efficient and administratively convenient solution for large broker-dealers. We believe that these issues can be addressed by broadening the types of money market funds permitted to be used for this purpose. This would permit access to larger, highly liquid funds, which have historically offered an extremely high level of principal preservation.

BlackRock recommends that the Commission's proposal be expanded to include money market funds beyond those that invest solely in U.S. Treasury securities, specifically to include money market funds that have received the highest rating from an NRSRO. Permitting these types of money market funds to be used for purposes of Rule 15c3-3 would further address operational difficulties faced by broker-dealers, such as avoiding the need to actively manage a portfolio of U.S. Treasury securities.

Money Market Funds Rated by an NRSRO in its Highest Rating Category

Expanding the proposal to include money market funds that are rated in the highest rating category by an NRSRO would afford investor protections that are even higher than the current strict standards of Rule 2a-7. For example, to qualify for an NRSRO's top rating, a money market fund typically must have, at a minimum, all of its assets in the highest short-term rating (none being unrated) and a weighted average maturity not to exceed 60 days (rather than 90 days as permitted under Rule 2a-7). The shorter weighted average maturity requirement reduces interest rate risk and, therefore, provides a greater degree of investor protection. By including prime funds (those that invest in commercial obligations) there would be a significant increase in the availability of funds and an increase in liquidity. Such funds also tend to earn higher yields for investors than do Treasury-only funds. Compliance with both Rule 2a-7 and NRSRO highest rating category requirements would provide an appropriate level of safety for broker-dealer capital, while permitting each broker-dealer to allocate assets among a variety of high quality money market funds based upon market, tax and other factors as they deem appropriate.

Repurchase Agreement Criteria

BlackRock believes that an additional restriction limiting investments to funds that invest in repurchase agreements only if they meet the definition of "collateralized fully" under Rules 2a-7 and 5b-3 under the Investment Company Act[2] is unwarranted and undesirable. Such a restriction on the types of investments made by money market funds limits choices and liquidity options without providing any meaningful benefit. Furthermore, yield could be negatively impacted, resulting in an unnecessary detriment to fund shareholders.

Some funds invest in transactions structured as repurchase agreements that are collateralized 102% or more by liquid securities other than government securities, top rated securities and those deemed equivalent, or cash items, and those repurchase agreements are, therefore, not considered to be "collateralized fully." We see no reason to treat less favorably for this purpose an investment in a repurchase agreement backed by non-Look Through collateral, relative to commercial paper issued by the same counterparty without any collateral support whatsoever. We think broker-dealers would be better served by

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[2] Rule 5b-3(c)(1) defines the term "collateralized fully" to mean a repurchase agreement for which, among other things, the value of the securities collateralizing it, reduced by expected transaction costs in the event of a default, is at least equal to the contractual resale price and remains at that level throughout the term of the agreement. The other aspects of the definition require that the fund's security interest in the collateral be perfected, that the collateral be maintained in a qualified custodial account, that the collateral be limited to certain highest quality securities (including U.S. government securities and securities that at the time the repurchase agreement is entered into are rated in the highest rating category by the requisite NRSROs (as defined) or comparable quality unrated securities), and that the repurchase agreement qualify for favored treatment under applicable insolvency laws.

having more choices available to them, and that restricting the type of permissible repurchase agreement collateral does not have any meaningful impact on the risk profile of the investment for funds that comply with Rule 2a-7 and have been rated in the highest rating category by an NRSRO.

Conditions to be Considered a "Qualified Security"

The proposal would require that a money market fund eligible for deposit into a broker-dealer's special reserve account meet several conditions: 1) the money market fund may not be affiliated with the broker-dealer; 2) the money market fund must agree to redeem fund shares in cash on the next business day; and 3) the money market fund must have an amount of net assets at least ten times the value of the fund's shares held by the broker-dealer in its special reserve account.

The fact that a money market fund may be affiliated with a broker-dealer holding shares of the fund would not, in our view, limit the ability of the money market fund to redeem fund shares. BlackRock believes that the regulatory and structural safeguards imposed by the Investment Company Act provide more than sufficient protection from any perceived risk, and that such a restriction is neither necessary nor appropriate.

BlackRock generally supports the condition in the proposal that would require a broker-dealer to utilize a money market fund that agrees to redeem fund shares in cash on the next business day. However, we recommend that the Commission 1) clarify the definition of business day to reference the fund's next business day, and 2) include an exception to the proposed condition for those rare instances where there are unscheduled closings (including early closings) of a Federal Reserve Bank or registered securities exchange, or as otherwise permitted by the Commission.

To prevent a broker-dealer from holding too concentrated a position in a single money market fund, the proposal would require that a money market fund have an amount of net assets that is at least ten times the value of the fund's shares held by the broker-dealer in its special reserve account. BlackRock believes the proposed concentration requirement is too restrictive in light of the extremely high liquidity of money market funds, and recommends that the Commission adopt a higher threshold limitation for purposes of Rule 15c3-3 of not less than 25 percent.

"Haircut" Reduction for Money Market Funds under Exchange Act Rule 15c3-1

The proposal would reduce the "haircut" under Exchange Act Rule 15c3-1 that broker-dealers are required to apply to proprietary positions in money market funds that are registered under the Investment Company Act and subject to Rule 2a-7 under that Act from two percent to one percent. The Release notes that money market funds have been

historically stable investments and that the risk limiting investment restrictions in Rule 2a-7 were adopted by the SEC after the two percent haircut was imposed.

BlackRock strongly supports reducing the haircut for money market funds. However, in light of the strict requirements of Rule 2a-7 and the historically high level of stability and liquidity of money market funds, we believe the Commission should eliminate entirely the haircut for money market funds.

To the extent the Commission determines it is necessary to impose a haircut of greater than zero percent on money market funds, we recommend that a bifurcated haircut scheme be implemented. Bifurcation could, for example, recognize the distinction between Rule 2a-7 money market funds generally (which would be subject to a haircut greater than zero percent), and money market funds that qualify for deposit in a broker-dealer's special reserve account under Rule 15c3-3 (which would be subject to a zero percent haircut).

If the Commission determines it necessary to impose a haircut on those money market funds that do not qualify for deposit in a broker-dealer's special reserve account, we suggest that the haircut certainly should not exceed 1/8 of 1%. We suggest this because a 1/8% haircut is imposed on commercial paper that is rated in one of the three highest categories and, therefore, may be expected to be of lesser credit quality than these money market funds, whose quality will be at least equivalent to the top two rating categories. The low risk associated with holding a money market fund merits application of the lowest possible net capital charge.

BlackRock appreciates the opportunity to comment on this proposal. If you have any questions about our comments or would like any additional information, please contact me at (302) 797-2371.

Very truly yours,

/s/ Robert E. Putney, III

Robert E. Putney, III
Director and Senior Counsel