

## **The Independent Directors of The BlackRock Equity Liquidity Funds**

November 5, 2010

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

Re: Comments on Proposed Rule Regarding Mutual Fund Distribution Fees;  
Confirmations, File No. S7-15-10

Dear Ms. Murphy:

We are writing on behalf of the Independent Directors of the BlackRock Equity Liquidity Funds (the “Independent Directors”). The BlackRock Equity Liquidity Funds comprise 135 funds with aggregate assets in excess of \$250 billion. We are Co-Chairs of the Boards of the BlackRock Equity Liquidity Funds. The Independent Directors appreciate the opportunity to comment on the proposed new rule 12b-2 and the other rule amendments that would replace rule 12b-1 under the Investment Company Act of 1940 (the “Proposal”). The Independent Directors wish to comment specifically and solely on the role contemplated for fund boards under the proposed framework.

We support the statement in the release accompanying the Proposal (the “Proposing Release”)<sup>1</sup> that: “one of the fundamental premises of rule 12b-1 – that independent directors would play an active part in setting distribution fees – does not reflect the current economic realities of fund distribution and the role 12b-1 fees play in it.” We also agree with the statement in the Proposing Release that: “. . . many of the assumptions underlying the rule appear to no longer reflect current marketplace realities, including the role that 12b-1 fees play in the distribution of fund shares and the tasks that directors should be required to undertake in considering whether to approve 12b-1 fees.” The premises embodied in these statements, as they pertain to the role of independent directors, should be fully realized in the Commission’s final rule making on this subject.

### Proposed Rule 12b-2

Proposed rule 12b-2 embodies a vastly improved approach to a fund board’s role. As the Proposing Release notes, fund boards would “have the ability to authorize the use of fund assets to finance distribution activities consistent with the limits of the rule and their fiduciary obligations to the fund and fund shareholders.” The proposed rule itself

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<sup>1</sup> Mutual Fund Distribution Fees; Confirmations, Investment Company Act Release No. 29367 (July 21, 2010).

provides safeguards on the use of fund assets that should assist a board in exercising its fiduciary role.

Importantly, as Independent Directors, we have a thorough understanding of our fiduciary duties to the BlackRock Equity Liquidity Funds and their shareholders. A list of suggested factors that boards should consider in connection with the oversight of distribution is unnecessary and, as has proved to be the case with respect to the rule 12b-1 factors, can quickly lose its relevance as market practices evolve.

The role contemplated for the fund board under rule 12b-2 is consistent with the Commission's longstanding policy of seeking to reduce the involvement of fund boards in the oversight of day-to-day fund operations:

[I]ndependent directors are unnecessarily burdened . . . when required to make determinations that call for a high level of involvement in day-to-day activities. Rules that impose specific duties and responsibilities on the independent directors should not require them to “micro-manage” operational matters. To the extent possible, operational matters that do not present a conflict between the interests of advisers and the investment companies they advise should be handled primarily or exclusively by the investment adviser.<sup>2</sup>

Whether or not the Commission determines to proceed with rule 12b-2, we strongly recommend that the Commission amend or otherwise provide guidance concerning the role of fund boards under rule 12b-1 that is consistent with the proposed approach under rule 12b-2. For example, it is unclear to us why fund boards should be required to review the quarterly reports of expenditures under rule 12b-1 plans if, as the Commission recognizes, such reviews should not be necessary under rule 12b-2.

#### Proposed Rule 6c-10

We are concerned about the Commission's proposed guidance concerning the role of fund boards under rule 6c-10. The proposed guidance suggests that “. . . directors must exercise their reasonable business judgment to decide, among other things, . . . whether the underwriter's compensation is fair and reasonable (considering the nature, scope and quality of the underwriting services rendered), and whether the sales loads (including the ongoing sales charge) are fair and reasonable in light of the usual and customary charges made by others for services of similar nature and quality.”

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<sup>2</sup> SEC, Protecting Investors: A Half Century of Investment Company Regulation (1992) at 266.

This guidance is inconsistent with some of the Commission’s other statements in the Proposing Release:

- The Proposing Release states that the ongoing sales charges that would be paid by fund shareholders under rule 6c-10 are “another form of sales load.” In the past, boards have not exercised extensive oversight of sales loads, viewing them as having been imposed by market practices.
- The Proposing Release states that: “funds lack the bargaining power to effectively negotiate the level of fees that are paid to financial intermediaries through 12b-1 plans and other sources . . .” This is as true of sales loads (deferred or otherwise) as it is of rule 12b-1 fees.
- The Proposing Release states that: “one of the fundamental premises of rule 12b-1 – that independent directors would play an active part in setting distribution fees – does not reflect the current economic realities of fund distribution . . . .” Again, this applies to sales loads as well as rule 12b-1 fees.

We note that the Independent Directors and the full Board of Directors have exercised and expect to continue to exercise oversight of (1) payments by the Funds to intermediaries for services such as sub-accounting, and transfer agency functions such as statements and tax reporting – services that would have been provided at fund expense by other service providers had they not been furnished by the intermediary, and (2) so called revenue sharing arrangements, or payments by the adviser to intermediaries for distribution and marketing services.

As the Commission acknowledges, marketing charges are set by the market. A mutual fund board should be taken out of the middle of what is essentially the relationship between the fund’s investment adviser and the distribution channel selected by a purchasing shareholder. Nor is a fund board in a position, as the proposed guidance suggests, to determine whether these market-based fees are “fair and reasonable.” Rather, the issue should be whether these fees are clearly disclosed to fund shareholders.

We appreciate the opportunity to comment on the Proposal.

Very truly yours,

/s/ Ronald W. Forbes

Ronald W. Forbes

Co-Chairman

BlackRock Equity Liquidity Funds

/s/ Rodney D. Johnson

Rodney D. Johnson

Co-Chairman

BlackRock Equity Liquidity Funds