BLACKROCK

28 May 2012

Mr. Mohamed Ben Salem
General Secretariat
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

RE: IOSCO Consultation Report on Money Market Fund Systemic Risk Analysis and Reform Options

Dear Mr. Ben Salem:

BlackRock is pleased to have the opportunity to respond to IOSCO's Consultation Report on Money Market Fund (MMF) Systemic Risk Analysis and Reform Options.

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At 31 March, 2012, BlackRock's AUM was $3.684 trillion (£2.303 trillion). BlackRock offers products that span the risk spectrum to meet clients' needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®.

Our client base includes corporate, public funds, pension schemes, insurance companies, third-party and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals. BlackRock represents the interests of its clients and it is from this perspective that we engage on all matters of public policy. BlackRock supports regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analyses, preserves consumer choice.

In our response, we summarize our views on the major reform ideas highlighted in the consultation report and comment on specific questions posed in the consultation report. Our response focuses those areas where we believe that we can provide additional information or offer a unique perspective. In addition, we suggest a number of ideas that IOSCO should consider that are not a focus of the consultation report. BlackRock would be supportive of introducing into regulation global principles to enhance liquidity, valuation practices, disclosure to regulators and limitations on shareholder concentration.

We would like to commend IOSCO on the thoroughness of its consultation. We would welcome the opportunity to discuss the issues raised in direct meetings with IOSCO or its member regulators if that would be helpful to the process. We understand the time constraints under which IOSCO is operating and therefore strongly urge IOSCO to recommend that the Financial Stability Board carry out a further consultation on IOSCO's final recommendations.

If we can answer any questions or provide further information regarding this important topic, please do not hesitate to contact us.

Yours sincerely,

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Regarding the IOSCO Consultation Report of April 2012: Money Market Fund Systemic Risk Analysis and Reform Options

Introduction

BlackRock welcomes the opportunity to comment on the above consultation report regarding Money Market Fund (MMF) reform options. BlackRock, as one of the world's largest cash management providers, fully supports the goal of strengthening the MMF industry while reducing systemic risk. Throughout the 2008 financial crisis and its aftermath, the swift, decisive and concerted actions taken by various global regulators helped to restore confidence and order to the markets in a time of uncertainty. Many would contend that those actions have met their goals. However, as the consultation report makes evident, more change is being considered for the MMF industry. Ultimately, when contemplating additional change, it is critical to ensure that the reforms, both those already implemented and those being considered, achieve the objective of protecting MMFs and their investors without inadvertently destabilizing financial markets, increasing systemic risk or producing costs in excess of the benefits delivered to investors and the economy.

BlackRock is one of the world's pre-eminent asset management firms and a premier provider of global investment management, risk management and advisory services to institutional and retail clients around the world. With $3.68 trillion of assets under management (as of March 31, 2012), BlackRock is the largest asset manager in the world. BlackRock's liquidity business is also one of the largest in the world with almost $300 billion of global money market fund assets. Our liquidity offering includes Euro, Sterling and Dollars managed in pooled funds, both constant NAV (CNAV) and variable NAV (VNAV) and in separate accounts for clients in multiple jurisdictions around the world.

What should be the standard for 'success'?

Any discussion of regulatory reform should begin with a basic question: what is the goal of the proposed reforms? What are we trying to accomplish? In the case of MMFs, these questions are particularly important as two diametrically opposing views have emerged. On the one side, some argue that no further change is necessary and that MMFs are among the safest and most successful financial products ever created. In addition, they point out that the US Securities & Exchange Commission (SEC) tightened MMF rules in the US and ESMA introduced MMF guidelines in Europe, both in 2010, which helped MMFs withstand the stress of the European debt crisis the following year without incident. Opponents of this view argue that MMFs are "susceptible to runs" and a "major source of systemic risk" that "must be addressed."

The reality is that MMFs are at neither of these extremes; they are products that are extremely safe, but not perfectly safe. They are subject to very infrequent challenges, but when those occur, they can be severe. We note in this context that a "run" has only occurred once - during the system-wide crisis of 2008. While some investors redeemed from MMFs in 2008, both VNAV or CNAV, when it appeared that wide sections of the banking industry might be insolvent, they did so because they feared a substantial loss of capital and not because of the pricing structure of one or other type of MMF. During the 2008 crisis, investors redeemed because they feared exposure through the MMF to banks. Some have suggested that the run on MMFs was, in effect, a run on the bank credit held in the MMF portfolios. Had MMFs not existed and the end-investor instead invested directly with banks, they would still have redeemed their investments, perhaps more quickly. We also note that the run was largely from one form of MMF (i.e. primarily bank debt) into another form of MMF (i.e. government debt).

There are two reasonable goals for further regulatory reform of MMFs: the first would be to attempt to inoculate MMFs completely from the effects of systemic failures in the capital markets, like the one that occurred in 2008; the second, more modest goal, would be to make MMFs safer and more resilient than they are today.

If inoculation is the goal, we believe the only answer is to provide MMFs with access to governmental sources of liquidity during a crisis. This idea was the underpinning of the first reform proposal that BlackRock made in the US in April 2010; MMFs as Special Purpose Entities. In this model, MMFs would be managed by entities that would be regulated by banking regulators, hold a modest amount of capital and have access to lender of last resort liquidity. We believe this is the only way in which MMFs can eliminate their susceptibility to systemic failures and the possibility of runs (however remote a risk they are). This proposal was rejected in the US but is the focus of Question #15 in the consultation report. However, it does not appear to be under serious consideration today.

We therefore conclude that regulators should have a more modest objective; trying to make MMFs safer and more resilient. In this context, the question is much more judgment-based. Regulators are, in effect, attempting to parse a very narrow band of the risk spectrum (somewhere between extremely safe and perfectly safe) to decide on the location of "safe enough". A related question is; for each step along the spectrum, is the reduction in risk worth the cost to the real economy associated with avoiding that risk? A step that destroys the core utility of the product would be – in our opinion – too big a cost to the economy to be justified given the value MMFs have provided over the years.

We believe that there have already been two important steps to improve the safety of MMFs since the 2008 crisis. The first was the tightening of Rule 2a-7 in the U.S and the introduction of MMF guidelines in the European Union. These changes were not cosmetic but had real substance (most notably weighted average maturity and liquidity requirements, including daily and weekly liquid asset minimums in the U.S.). The second change is not often noted but may be even more important in terms of decoupling MMFs from systemic events. Bank regulators successfully reduced the reliance of banks on the short term funding markets. Between December 31, 2007 and December 31, 2011, the combined US and Euro financial commercial paper outstanding from bank, finance company, ABCP, etc. fell by 51%, from USD $2,168B to $1,053B. With this change, MMFs by definition became much less systemically important.

Reactions to the major reform ideas

So the question remains, are MMFs now "safe enough"? We briefly summarize BlackRock's views on the major ideas mentioned in the consultation report:

- Floating the NAV. Without amortized cost accounting, this change will destroy a core utility of the CNAV MMF product for clients whether they are based in the Americas, Asia or Europe and, furthermore, it will not eliminate the risk of runs (and may in fact increase the risk of runs). Even if the use of amortized cost accounting were allowed for some portion of MMF assets, floating the NAV will undermine the utility of MMFs for a significant proportion of clients in the US and the operational transformation will be costly.
- Capital buffers. We would like to find a way to allow sponsors of MMFs to put aside a portion of their earnings in the business as a reserve for future needs of the business. That being said, there are issues with the major capital buffer proposals.
    - Shareholder capital -- Builds up slowly, tax inefficient and provides no "skin in the game".
    - Sponsor capital -- a quicker solution but will cause a major contraction in the industry and will trigger consolidation of the funds onto sponsor balance sheets for accounting purposes.
    - A combination of shareholder and sponsor capital -- a complex outcome that may be confusing for clients.
    - In addition, none of these ideas can insulate MMFs from a true systemic event as the capital will not be of sufficient magnitude to withstand systemic

failure. This implies that the true purpose of the capital is to shield funds from idiosyncratic events.
    - In addition, the presence of explicit capital could lead users of the funds to assume that they are guaranteed. This may cause clients to more aggressively chase yield, further destabilizing the industry.
- Permanent redemption restrictions (such as minimum account balances that are subject to first loss in a crisis). Based on input from clients in the U.S., this would destroy much of the core utility of the product. Clients in some cases would prefer a floating NAV to this proposal but most would abandon the product. We are not supportive of these types of solutions.
- Standby liquidity fees. We believe this idea deserves further study. Standby fees, triggered by an objective measure (such as a fall in available liquidity or a fall in the mark-to-market NAV), could be a useful tool in mitigating the effects of a run. However, care must be taken in the design to ensure that such standby fees do not become a catalyst for the run they are trying to prevent.
- At this time, we do not see feasibility/utility in the various other ideas discussed such as an industry liquidity facility or insurance.

Additional ideas that IOSCO should consider

There are a number of ideas that IOSCO should consider that are not a focus of the consultation report. We believe these would improve the risk profile of the MMF industry without significant loss of utility and hence impact to the real economy. BlackRock would be supportive of introducing into regulation global principles to enhance

- Liquidity, through weighted average maturity requirements and daily and weekly liquid asset minimums liquidity ladders (which we regard as more effective for MMFs than the "prudent man" approach);
- Valuation practices, by requiring weekly mark to market valuations for CNAV MMFs
- Disclosure to regulators by requiring CNAV MMFs to file the shadow NAV and portfolio holdings with the relevant authorities. We believe that the SEC has found the new disclosed data from Rule 2a-7 incredibly useful in monitoring the industry
- Limitations on shareholder concentration for publicly offered products, whether directly by regulation or by requiring a MMF Board or Trustee to determine an appropriate level of such concentration. Effectively, no single investor should be permitted to represent more than a certain percent of a MMF's total value. Omnibus accounts and portals would have to provide sufficient information about the underlying investors to verify that the rule is not violated or otherwise be subject to the same concentration limitation themselves.

Below we comment on many of the specific questions posed in the consultation report. In many cases we use excerpts from material we have previously published. As other commentators will be comprehensive in their responses, we will focus our responses on those where we believe we can provide additional information or a unique perspective.

Finally, we would like to commend IOSCO on the thoroughness of its consultation. We would welcome the opportunity to discuss these or other issues in direct meetings with IOSCO or its member regulators if that would be helpful to the process. We understand the time constraints under which IOSCO is operating and therefore strongly IOSCO to recommend that the Financial Stability Board carry out a further consultation on IOSCO's final recommendations.

Related BlackRock Comments and ViewPoint Papers

- Securities Lending: Balancing Risks and Rewards, May 2012
- Reform of Credit Rating Agency Regulation in Europe: An End-investor Perspective, April 2012
- Money Market Funds: The Debate Continues, March 2012
- Money Market Funds: Potential Capital Solutions, August 2011

- Money Market Funds: The Importance of Credit Research and NRSRO Ratings, May 2011
- Money Market Fund Reform: Discussion of Reform Proposals, January 2011
- The New Regulatory Regime for Money Market Funds: A Window into the Mark-to-Market NAV, January 2011
- Money Market Mutual Funds: The Case Against Floating the Net Asset Value, July 2010
- Money Market Funds: A Proposal for a Capitalized Special Purpose Entity, February 2010

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1. **Do you agree with the proposed definition of money market funds? Does this definition delimit an appropriate scope of funds to be potentially subject to the regulatory reform that the FSB could require to put in place, with an objective to avoid circumvention and regulatory arbitrage?**

We support the proposed definition of MMFs, but want to emphasize that MMFs are not homogeneous. Therefore we believe that their regulation must take into account differences in types of funds and local markets. In addition, the definition should exclude those funds that use a true VNAV (marked-to-market without any amortized cost accounting). In addition, some specialized funds – particularly those that are regulated in other ways – should be subject to requirements that are tailored to them. For example, cash collateral pools for securities lending have unique liquidity demands and should not be regulated precisely the same way as MMFs.

3. **Do you agree with the description of the role of money market funds in short-term money markets? To what extent this role may create risks for short-term funding markets and their participants? Are there changes to be taken into account since the 2007-2008 experience? What are the interdependencies between banks and MMFs and the risks that are associated?**

We agree on one key point: MMFs are essential as a source of short-term financing for businesses, institutions and governments and, as such, are critical to the financial system and the broader economy. Regulators' interest in fortifying the industry is derived from a constructive place and, indeed, the regulatory response in the wake of the 2008 financial crisis was both swift and effective.

Regarding changes to take into account since 2007-2008, in addition to the significant changes to the regulation of MMFs in several markets globally it is important to note that financial institutions' reliance on short-term funding has declined meaningfully. Between December 31, 2007 and December 31, 2011, the combined US and Euro financial commercial paper outstanding from bank, finance company, ABCP, etc. fell by 51%, from USD $2,168B to $1,053B. This decline has been partially driven by regulatory changes applicable to those issuers and partly by market forces, but the effect has been to reduce the systemic importance of the funding provided by MMFs and therefore the pressure to make additional regulatory changes.

8. **What is the importance of ratings in the MMF industry? What is the impact of the monitoring function of credit rating agencies for MMFs? What are the potential systemic risks associated with ratings in the MMF industry?**

Ratings are discussed in two contexts: ratings on assets held by MMFs, and ratings on MMFs themselves.

Regarding ratings on assets held by MMFs, while we support the need for independent credit research, we do not believe that the use of ratings should be eliminated or otherwise restricted. We maintain that MMF advisors should not rely on a security's rating, but instead should consider ratings as preliminary screens in an independent credit review. In fact, the elimination of references to ratings may inadvertently result in the creation of new risks for MMF investors, as lower quality securities may be deemed creditworthy by advisors. In addition, we believe the disclosure of ratings on portfolio holdings is helpful to investors.

BlackRock issued a ViewPoint in May 2011 titled "Money Market Funds: Importance of Both Credit Research and NRSRO Ratings" which summarizes our views regarding a

specific proposal regarding the use of ratings for assets by MMFs. The ViewPoint is available here:
http://www2.blackrock.com/global/home/PublicPolicy/ViewPoints/index.htm

Regarding ratings on MMFs themselves, ratings are important for many investors as the ratings requirements are "baked into" many client guidelines. In the event that a particular fund were downgraded or otherwise were no longer rated at a particular level, clients might leave that fund, but it would not be a systemic issue as those investors who desired or needed a particular rating would simply go to another MMF that met their criteria.

In general, ratings agency standards are seen as holding an MMF to consistent and somewhat higher standards than applicable regulation, and investors understand and appreciate the level of oversight and continuous review performed by the ratings agencies which is greater than what any regulatory agency could or does provide.

10. **Are the above-mentioned changes in the environment of MMFs relevant factors to take into consideration? What are some of the implications for regulatory options? Are there other aspects to consider?**

No discussion of MMF reform would be complete without consideration of the question: Have we done enough already? Some in the industry have argued that sufficient action has been taken and that the MMF industry is in a place of strength and stability today.

In addition to the changes to US and European MMF standards, efforts have been undertaken to strengthen the broader financial system which benefit MMF investors by strengthening the financial industry assets in which MMFs tend to invest. In the U.S., these include the establishment of the Financial Stability Oversight Council (FSOC), which has the ability to provide proactive and more comprehensive monitoring of the financial markets, including the issuers and counterparties to which MMFs are exposed, and the implementation of the Dodd-Frank Act, which further bolsters the safety of MMFs by reducing risk in the instruments held by MMFs.

A frequently overlooked point is that in addition to changes to MMFs themselves, regulators have substantially limited the ability of financial institutions to rely on short-term funding in their capital structures. This has perhaps been the most significant regulatory change of all. The result has been a reduction in supply of some of the short-term instruments most used by MMFs. As noted in the introduction, between December 31, 2007 and December 31, 2011, financial commercial paper outstanding globally fell 51%. We believe the reduced reliance on short-term funding by financial institutions reduces the systemic importance of the money fund industry. It appears that, in aggregate, these measures have been effective. MMFs have been functioning efficiently, with no systemic or idiosyncratic events recorded since the September 2008 credit crisis.

11. **Do you agree with the systemic risk analysis and the rationale for reform presented in this section? Are there other factors to consider?**

BlackRock, as one of the world's largest cash management providers, fully supports the goal of strengthening the MMF industry while reducing systemic risk. Many believe that the reforms already implemented have met their goals. However, if regulators conclude that there is a need for additional action, it is critical to ensure that the additional reforms achieve the objective of protecting MMFs and their investors without inadvertently destabilizing financial markets or increasing systemic risk.

As noted at the beginning of our response, the question is what should be the definition of "success." Building a regulatory regime that will prevent, avert and contain any possible danger of a run or of breaking the buck in any particular fund is impossible and should not

be the goal. Regulators should instead focus on what is achievable without further damaging the properties that make MMFs an important and successful product that is valued by investors.

12. **Do you agree with the benefits of imposing a mandatory move from CNAV to VNAV, which would amount to prohibiting the use of amortized cost valuation for any securities held by a MMF? Are the challenges identified in the US context valid in other jurisdictions currently authorizing CNAV funds? How could these challenges be overcome?**

BlackRock is among a diverse group of money market fund sponsors, industry organizations, individual and institutional investors and issuers that believe maintaining a stable NAV structure (or similar VNAV model that allows for the use of amortized cost accounting for some of the fund's assets) for money market funds is critical not only for liquidity markets, but for the broader financial and economic system. The vast majority of investors in geographies that offer CNAV use money market funds specifically because of their $1.00 NAV feature. For many investors, floating the NAV negates the value of the product. A floating NAV fund generates taxable gains and losses with each subscription and redemption, creating a tax and accounting burden for individual investors and for institutions that use these funds on a daily basis for their working capital.

Perhaps most notably, floating the NAV does not solve the underlying issue. In the event of a significant decline in NAV, both retail and institutional investors are likely to leave floating NAV funds just as quickly as stable NAV funds. As evidenced by the experience of ultra-short floating NAV funds, which lost substantial assets from mid-2007 to year-end 2008, floating the NAV of a money market fund would not lessen the incentive for investors to redeem shares in periods of market turmoil, and may even increase systemic risk.

Ultimately, floating the NAV will shrink money market funds, resulting in a shortage of capital to buy commercial paper and other short term debt instruments, impacting corporations' and municipalities' ability to fund their operations. It will drive investors into bank deposits, increasing the issue of "too big to fail".

13. **What would be the main effects of establishing a NAV-buffer? What would be the most practical ways to implement such buffers? Should various forms of NAV-buffers be allowed or should regulators favor a single option? What would be a realistic size of the NAV-buffer and what would be the impact in terms of costs for running MMFs? In the case of subordinated shares, could the option be seen as creating a securitization position, with associated requirements in terms of retention?**

There are various NAV buffer proposals, each of which has somewhat different impacts. BlackRock issued a ViewPoint in August 2011 which analyzes each option for a NAV buffer. That ViewPoint was titled "Money Market Funds: Potential Capital Solutions". This is available on the BlackRock website here:
http://www2.blackrock.com/global/home/PublicPolicy/ViewPoints/index.htm

We also addressed the various NAV buffer options presented in the President's Working Group on Money Market Fund Reform in a ViewPoint titled "Money Market Fund Reform: Discussion of Reform Proposals" in January 2011 which is also available at the link above.

14. **Do you agree with the description of the challenges associated with the establishment of a private insurance? Are there ways to address them?**

During the financial crisis, the US Treasury put in place a Temporary Guarantee Program, an insurance program for investors who were MMF shareholders as of September 19, 2008. This program remained in effect for one year and played an important role in restoring investor confidence. At the program's conclusion, the government had collected $1.2 billion in fees without paying any claims.

Private insurance has been made available in the past, but has been unsuccessful due to limited coverage, and the cost to MMFs and their sponsors. Private MMF insurance products present the risk of being cancelled by insurers when insurance is most needed or of having claims disputed during a crisis. Furthermore, it is unlikely that any private insurance program would be large enough to protect against systemic issues unless it is coupled with access to government liquidity, which has been ruled out for the US at least by the Dodd-Frank legislation.

15. **Do you agree with the description of the challenges and potential second-round effects of a conversion of MMFs into special purpose banks? Are there ways to circumvent those effects?**

This proposal suggests that stable-NAV MMFs be regulated as Special Purpose Banks (SPBs), thereby subjecting them to banking oversight and regulation (such as cash reserve requirements, capital buffers, access to a liquidity backstop and insurance coverage). Such a plan could present many challenges for the MMF industry, fund sponsors and investors, making MMFs cumbersome ventures for all but the largest sponsors with the greatest resources, and potentially unattractive to investors if the requirement to hold capital resulted in significantly lower returns.

While BlackRock does not find the SPB option, as described above, to be viable, we do find merit in an alternative structure that would leave the existing stable-NAV MMF product intact with manageable capital costs and a workable regulatory structure. Our proposal – originally made in April 2010 - would require the sponsor or investment manager, not the MMF itself, to be regulated as a Special Purpose Entity (SPE) and to hold capital. We believe the SPE structure, combined with access to liquidity through the Federal Reserve Discount Window, would address both idiosyncratic and systemic risk while permitting the current Rule 2a-7 MMF structure to continue with its advantages for investors and the financial markets firmly intact.

These ideas have since been rejected by regulators in the US and would need to be refined substantially for European context.

BlackRock issued a ViewPoint in February 2010 which was focused solely on our SPE proposal, titled "Money Market Funds: A Proposal for a Capitalized Special Purpose Entity." The ViewPoint is available on our website here: http://www2.blackrock.com/global/home/PublicPolicy/ViewPoints/index.htm

16. **What are the main advantages and drawbacks of two-tier system(s)? Would it be sufficient to address the risks identified? What could be the conditions applicable to CNAV funds? What could be the potential impact on investor demand? Should certain funds be exempted from certain risk limiting conditions due to their holdings?**

This proposal is intended to allow investors flexibility in choosing the MMFs that match their risk-return objectives, offering the option of either CNAV or VNAV MMFs. In this case, the CNAV funds would be subject to tighter regulation.

A two-tier system of short-term funds is already an option today in many markets. In the US, investors can choose between CNAV MMFs and VNAV short-term bond funds. It is worth noting that fund sponsors in the US are not precluded from creating a VNAV Rule 2a-7 fund (or similar fund without 2a-7 restrictions), but have never done so, which indicates a lack of investor interest in such a product. By contrast, in Europe, CNAV and

VNAV funds have existed side by side. Certain investors have expressed a strong preference for CNAV products based largely on taxation and operational considerations.

As discussed in our response to Question 12, above, in the ViewPoint titled "Money Market Funds: The Debate Continues; Exploring Redemption Restrictions, Revisiting the Floating NAV" mentioned above, BlackRock suggested a model for a two-tier system of CNAV and VNAV MMFs. That ViewPoint is available here: http://www2.blackrock.com/global/home/PublicPolicy/ViewPoints/index.htm

17. **Do you agree with the suggestion that reserving CNAV funds for only certain investors (i.e. retail or institutional investors) would face practical challenges and would not be sufficient to address the risks identified?**

There has been substantial discussion around the behavior of "institutional" versus "retail" clients, and the possibility of creating funds with different characteristics for the two groups of investors. CNAV MMFs would be reserved for retail, or individual, investors.

For all practical purposes, many MMFs intermingle institutional and retail clients, and it would be difficult, if not impossible, to differentiate between the two types of investors. Fund complexes that use a structure in which there is a single portfolio with multiple share classes would find it difficult to define themselves as "retail" or "institutional."

Moreover, retail investors increasingly act through institutional advisors who manage and invest their assets. For example, retail shareholders often invest in MMFs through institutional share classes — through defined-contribution retirement plans or broker or bank sweep accounts — where one institutional decision-maker acts on behalf of many retail customers. A two-tier approach to MMFs that delineates between retail and institutional funds would be difficult to implement and may lead to gaming behavior by investors (e.g., institutional investors may have incentive to appear to be "retail" investors to qualify for CNAV funds). For these reasons, we are opposed to a two-tier approach which depends on the status of the investor as retail or institutional.

It is worth noting that if regulators want to implement a distinction between institutional and retail investors, managers will need additional disclosure about underlying clients from portals and other aggregators for the intent of the rule to be fully achieved.

22. To what extent are managers able to "know their customers" and anticipate redemptions? Are there practical obstacles for managers to "know their customers" (e.g., in the case of platforms, omnibus accounts) and how could they be addressed? What are the main features of the funds' investor base to take into consideration from a liquidity risk management point of view? Should conditions, e.g., regarding the concentration of the investor base be considered? Would this requirement allow fund managers to better understand and manage the risks to which the fund is exposed?

We believe that greater knowledge of the customer base and their liquidity needs and characteristics would be useful for managers. This would make it possible for the portfolio managers of each MMF to better take into account their clients' needs in asset/liability management. This transparency is also why we believe that certain types of MMFs such as those used for securities lending cash collateral and sweep funds should be treated differently. These benefits would only require descriptive information, not identifying details.

We suggest MMFs be required to limit shareholder concentration, whether directly by regulation or by requiring a MMF Board or Trustee to determine an appropriate level of such concentration. Effectively, no single investor should be permitted to represent more

than a certain percent of a MMF's total value. Omnibus accounts and portals would have to provide sufficient information about the underlying investors to verify that the rule is not violated or otherwise be subject to the same concentration limitation themselves.

23. Would such a liquidity fee generate a pre-emptive run? If so, when and are there ways that pre-emptive run risk could be reduced? How would shareholders react to the liquidity fee? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm? Would MMF board directors be able to impose a liquidity restriction despite potential unpopularity with investors and competitive disadvantage imposed on the fund? At what level such a liquidity trigger should be set?

We assume that the question refers to a "standby" liquidity fee (i.e., one that does not operate in normal times and is triggered in times of stress). The trigger for the imposition of the fee could be based on a fund's liquidity dropping below a predetermined level or a fund's mark-to-market NAV declining below a certain price. Liquidity fees would be automatically imposed when a trigger is reached and lifted when a fund's liquidity or mark-to-market NAV recovers to a specified level.

As we stated in the introduction, we believe this idea could be useful and merits further study. Care must be taken in the design to ensure that such standby fees do not become a catalyst to the very kind of run that they are designed to prevent.

The choice between the standby liquidity fees described above and other options described elsewhere in the CP depends on which is more likely to stop a run and which is less likely to accelerate a run. While some regulators contend that standby fees will accelerate a run and that permanent redemption restrictions do not, our client research suggests just the opposite. In addition, based on our client discussions, standby liquidity fees are less likely to cause clients to abandon the product in large numbers. Finally, the cost of implementing standby fees is much lower than the cost of implementing other options.

24. How would shareholders react to a minimum balance requirement? Would it cause shareholders to transfer their MMF investments to alternative investment products? If so, which types of shareholders are most likely to make such transfers and to which products and will such a shift in investment create new systemic risks or economic, competitive, or efficiency benefits or harm?

BlackRock does not believe this structure will work for three critical reasons: i) Clients will not invest in MMFs with these redemption restrictions; ii) this approach may increase the likelihood of a run; and iii) there are enormous operational challenges in implementing this structure.

In recent research, we tested a version of this idea in detailed conversations with our clients in the US. They were unequivocally negative on the idea, for a number of reasons. Importantly, many clients do not naturally remain above a minimum account balance. Analysis of our client base showed that 43% of institutional clients dropped below a 3% minimum account balance (based on prior 30-day average) at least once in 2011. 10% of clients did so regularly (i.e., more than five times in the year). Many of these clients go below the minimum account balance because of the nature of their business, which calls for a ramp-up of assets and then a redemption to zero. In addition, many clients operate under guidelines that prohibit them from using funds with redemption restrictions. For example, sweep accounts and collateral accounts must have access to 100% of their funds. Many clients also strongly dislike the fact that their balances could be subordinated to other shareholders and object to being "punished" for a redemption made in the regular course

of business that happens to occur at a time of loss (the "innocent bystander" problem). Finally, clients find the structure difficult to understand and virtually without exception said that this model would cause them to abandon MMFs in favor of bank deposits or direct investments (in the case of larger clients). Liquidity is a key feature of MMFs, and an absolute necessity for many investors. Without full liquidity (at least in normal market environments), our view is that investors would not continue to invest in MMFs, resulting in substantial contraction of the industry.

However, the most telling input we received from clients was that they believed this approach would increase their likelihood of running in a financial crisis. Many of them told us that with a portion of their balance held back for 30 days and subordinated, they would choose to redeem much sooner — at the slightest sign of nervousness in the markets. The economists' theory that clients would calmly weigh the costs and benefits of redeeming is contrary to what we heard in our discussions (and is contrary to the sometimes irrational behavior we observed in 2008). In this model, we believe clients would not take the time to navigate the complex structure and would be more likely to redeem earlier — and in this model, 97% of balances are open for redemption. Rather than preventing runs, we believe this approach would act to accelerate a run.

Based on discussions with our clients we believe that this model would be unpopular and could lead to clients moving away from MMFs to bank deposits or direct investments. Further, we believe this model may be difficult and costly to implement from an operational perspective, particularly with regard to the transfer agency record-keeping aspects for omnibus accounts. We believe that the operational challenges can be overcome. Given the client objections noted above, we believe fund sponsors and transfer agents will be reluctant to incur these costs given serious questions about the commercial viability of the product.

26. **What are the benefits and drawbacks of allowing redemptions-in-kind? Are there practical impediments to implementing this option (e.g. some portfolio securities cannot easily be divided)?**

Under existing rules in a number of countries,, MMFs already have the authority to elect to make in-kind redemptions to shareholders when it is in the interest of the fund (and its remaining shareholders). We expect this option to be used rarely, if at all, as most shareholders do not want in-kind redemptions and many cannot receive and hold direct investments in money market assets. Some money market assets, such as repurchase agreements and Eurodollar time deposits, are over-the-counter contracts and cannot be transferred to retail or to multiple investors. For these reasons, it often is not possible to deliver a pro-rata slice of fund holdings to redeeming shareholders. Notably, this approach also does nothing to satisfy the demand for liquidity that begins this chain of events and could make the situation worse if multiple small recipients of an in-kind redemption attempt to sell their respective share of assets immediately.

MMF boards in a number of countries have the ability to suspend redemptions. Rather than mandating in-kind redemptions, we would support global principles that would give MMF Boards or sponsors the option to make in-kind redemptions or to suspend redemptions under extreme circumstances.

27. **What are the benefits and drawbacks of requiring gates in some circumstances? Which situations should trigger gates to be imposed to redeeming investors? Would it be enough to permit gates in some jurisdictions? Would there be a risk of regulatory arbitrage?**

BlackRock believes that if standby liquidity fee levels are set appropriately they are a better solution than gates. This is because clients with an extreme need for liquidity can choose to pay for that liquidity in a crisis. In severe systemic situations, MMF managers should also have the ability to close a fund to redemptions, but the starting point should be a liquidity fee as discussed in Question #23, above.

28. **What are the main benefits and drawbacks of the provisions included in current regimes referring to external CRA ratings? Are there alternatives to credit ratings that reasonably can be substituted?**

Please see our response to Question 8, above.

29. **What are the benefits of MMF ratings? Should a greater differentiation between MMF ratings be encouraged? To what extent are investors restricted in their investments to 'Triple-A' rated funds? What alternatives could there be (e.g. from other third parties)? What initiatives could be proposed to educate investors about MMF ratings?**

Please see our response to Question 8, above.