BLACKROCK

16 May, 2010

Secretariat of the Financial Stability Board
c/o Bank for International Settlements,
CH-4002, Basel, Switzerland

e-mail: fsb@bis.org

RE: FSB Consultation Paper “Shadow Banking: Scoping the Issues”

Dear Sir or Madam:

This letter responds to the Financial Stability Board’s (“the Board”) request for comments on the consultation paper dated 12 April, 2011 titled “Shadow Banking: Scoping the Issues” (the “Paper”). Given market events over the past few years, we support the Board’s activities and appreciate the opportunity to comment. Additionally, as one of the leading providers of investment, advisory and risk management solutions, BlackRock is supportive of appropriate regulatory reform that addresses the causes of systemic risk and has the potential to bring about positive change for investors.

BlackRock is one of the world's leading asset management firms, managing $3.561 trillion as of December 31, 2010 on behalf of institutional and individual clients worldwide, including governments, pension funds and endowments. BlackRock and its predecessor companies have been involved in the management of money market funds (“MMFs”) since 1973, and today BlackRock is one of the largest cash management providers in the world. As of 31 March 2011 BlackRock managed a total of USD $409.5 billion in MMFs in the US and Europe.

Our comments focus on the inclusion of money market funds (“MMFs”) in the Paper. In the context of the Board’s continuing review of the Shadow Banking industry we believe it is important to outline a number of key points highlighting the features of MMFs and the useful role that they play in the economy.

The Role of MMFs

MMFs have provided substantial benefits over their history.

- They provide a source of liquidity, diversification and market-based yields for a wide array of investors including consumers, small businesses and other enterprises. For many investors, MMFs provide greater liquidity and credit diversification than can be achieved through investing in instruments directly. They give small investors the same access to competitive investments that were previously only available to large investors.

- MMFs play an important role in providing short-term funding to sovereigns, banks and corporations. For many such entities, the availability of short-term funding through MMFs is a useful alternative to relying on bank credit. In addition, MMFs finance - via purchases of ABCP - the working capital needs of corporations and represent an important source of trade receivable financing, in particular for mid and large European companies. It should be noted in this context that credit enhancement and liquidity support provided by bank sponsors sets ABCP apart from regular term ABS.

- Since their initial development in the 1970s and their subsequent growth in the U.S. and European financial markets, MMFs have provided these benefits without costing taxpayers anything. In fact, the insurance program put in place in the U.S. during the financial crisis, earned the Treasury – and in turn taxpayers - $1.2 billion.

Regulatory concerns

While we strongly reaffirm the broad benefits of MMFs to the economy, we also recognize the concerns of regulators and others resulting from the events of the 2007-2009.

- Government intervention was required to support the MMF industry in late 2008 directly as a result of events taking place during the Financial Crisis including the Reserve Primary Fund "breaking the buck".

- Actions taken by regulators in response to highly unusual market conditions were unprecedented. As such, the type and level of support provided through government sources is not likely to be replicated.

The context for further action

We fully support further steps that reduce systemic risk while strengthening the MMF industry. However, we believe that these should take into account the changes already made to the regulatory regime for MMFs in the U.S. and Europe which have strengthened the product model and reinforced their relevance to investors.

In both the United States through the SEC, and in Europe through the Commission of European Securities Regulators (CESR – now ESMA), significant steps have been taken to re-define the MMF model. In this context we ask that sufficient consideration be taken in ensuring that the benefits MMFs provide are not unnecessarily reduced through the unforeseen consequences of further regulatory change.

We would also ask that the Board consider the following in the context of MMFs inclusion within the Paper as a component of the "Shadow Banking" industry.

- *MMFs are highly regulated*
  The Paper implies that MMFs are lightly or non-regulated entities. We believe that, on the contrary, MMFs are highly regulated and transparent investment vehicles. In the U.S., the SEC regulates MMFs under Rule 2a-7 of the Investment Company Act of 1940. Within the European Union MMFs are regulated as UCITS vehicles and subject to the investment restrictions set forth by the Eligible Assets Directive and in the ESMA Guidelines on a common definition of European Money Market Funds. In addition the ratings agencies impose their own guidelines and conduct monitoring and oversight on those MMFs which seek their own ratings.

- *MMFs do not use leverage*
  MMFs organized under Rule 2a-7 in the U.S., the IMMFA (Institutional Money Market Funds Association) Code of Practice and triple A rating agency requirements generally do not use leverage as a practical matter. Any lending undertaken by a MMF to short-term issuers has to be fully funded through cash received from investors.

- *MMFs are highly transparent*
  U.S. regulation for MMFs and the IMMFA Code of Practice now require increased disclosure of key portfolio information to be posted to an accessible website. We believe this increased transparency allows investors to have a greater understanding of the risks and dynamics of MMFs than previously, and assist in their decision to invest (or not) in a particular fund. We believe that this high degree of portfolio transparency also sets MMFs apart from other institutions and products being considered by the FSB.

- *Regulatory changes have strengthened MMFs*
  As a result of the financial crisis, new rules have been introduced by U.S. and European regulators for liquidity, transparency and oversight by MMF trustees while restrictions on portfolio maturity and credit quality have been tightened. For instance, Rule 2a7 and the ESMA Guidelines specify that MMFs ('short term money market funds' under ESMA) must now have a portfolio weighted average maturity ("WAM") of 60 days (previously 90 days), while a new rule for portfolio weighted average life ("WAL") of 120 days has been introduced.

- *MMFs undertake limited maturity transformation*
  Maturity transformation is a feature of MMFs but within a relatively narrow window and generally mitigated by the regulatory/industry framework for MMFs.

  The current average maturity transformation in MMFs would be from one day to 30-40 days, which we believe to be significantly less than that for banks. Indeed, under both Rule 2a-7 and the ESMA Guidelines, the longest maturity for an individual security permitted by MMFs is 397 days, while the longest WAM and WAL are 60 days and 120 days respectively

  In addition, the relatively high levels of liquidity maintained by MMFs (which is required by regulation in the USA) results in their having a high degree of ability to meet the ongoing daily liquidity needs of their investors without any maturity transformation taking place. European MMFs under ESMA Guidelines have similar restrictions which generally ensure MMFs are highly liquid and diversified, and are able to satisfy expected client flows. The rules described also require "stress tests" to test that a MMF is prepared to handle significant redemptions or market events.

- *MMFs are a form of credit intermediation*
  MMFs perform credit intermediation but do so only for borrowers of the highest credit quality and only for short maturities

- *MMFs further strengthened by 'banking' regulation*
  Basel III, the Dodd-Frank Act in the USA and draft directives/ regulations in the European Union will strengthen the banking system and credit environment. This will further improve the safety of MMFs by reducing risk in the instruments issued by

financial institutions and held by MMFs, and by requiring banks to limit their reliance on short-term funding.

Blackrock agrees that regulation of this important asset class can be further refined and improved. We welcome the opportunity to provide additional content and information to regulators to help fashion an appropriate solution to further strengthening the MMF industry. When contemplating additional reform, we believe it is critical to consider the substantial strengthening of the MMF industry that already has occurred as a result of recent actions. Care is necessary to ensure that the reforms, both individually and collectively, achieve the objective of protecting MMF shareholders without creating unexpected adverse consequences to the financial system.

Overall, our belief is that MMFs are less "shadow banks" (a term that implies being unregulated and opaque) and more "hybrid products" - that share characteristics of products of two strong regulatory regimes. As a result, we favor solutions that recognize the fundamental nature of money market funds as investment products, but incorporate some elements of banking regulation to help strengthen the product. A number of such ideas are under active consideration now in the United States, notably the concept of capital as a buffer for the NAV of MMFs. We look forward to working with the FSB and regulators as these solutions are developed.

Sincerely,

Simon Mendelson
Managing Director, BlackRock, Inc.

Richard Hoerner
Managing Director, BlackRock, Inc.

Co-Heads of Global Cash Management and Securities Lending