BLACKROCK

March 30, 2011

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Comments submitted via: www.federalreserve.gov

Re: RIN 7100-AD64 - Notice of Proposed Rulemaking and Request for Comment: Definitions Of "Predominantly Engaged In Financial Activities" And "Significant" Nonbank Financial Company And Bank Holding Company

Dear Sir or Madam:

BlackRock, Inc.[1] is writing in response to the Board of Governors of the Federal Reserve System's (the "Board") notice of proposed rulemaking and request for comment (the "Proposed Rule") on the proposed amendments to Regulation Y that (i) establish the criteria for determining whether a company is "predominantly engaged in financial activities" and (ii) define the terms "significant nonbank financial company" and "significant bank holding company" for purposes of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").

BlackRock's interest in the Proposed Rule relates principally to the definition of "significant nonbank financial company" and as such we will confine our comments to this issue. We have previously provided our comments to the Financial Stability Oversight Council ("FSOC") concerning the factors to be consider by the FSOC in the designation of systemically important financial institutions ("SIFIs"), a copy of which is attached hereto ("FSOC Letter"). As you will note from our comment letter, for a number of reasons we do not believe that asset management firms should be designated as SIFIs. For some of these same reasons, we do not believe asset management firms, while "predominantly engaged in financial activities", are "significant" under the use and purpose of that term in Title I of the Dodd-Frank Act.

The Proposed Rule states that in setting $50 billion in consolidated assets as the threshold for determining that a nonbank financial institution is "significant", the Board considered its supervisory experience with bank holding companies, and the fact that Congress established a

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[1] BlackRock is an independently managed public company (NYSE:BLK) that engages solely in providing asset management and risk management services. BlackRock manages approximately $3.5 trillion on behalf of institutional and individual clients worldwide through a variety of equity, fixed income, cash management, alternative investment, real estate and advisory products. Our client base includes corporate, public, multi-employer pension plans, insurance companies, mutual funds and exchange traded funds, endowments, foundations, charities, corporations, official institutions, banks, and individuals around the world.

$50 billion in consolidated assets threshold as the threshold for bank holding company SIFI designation. While such an approach may "provide a transparent standard" for the FSOC to use to meet its statutory obligation to consider the relationships of potential SIFI candidate companies with "significant" firms, reliance on the bank holding company business model fails to adequately consider the differences between those institutions that engage in financial activities that have principal and balance sheet risk, and those institutions that do not.

As we stated in the FSOC Letter, the business model of an asset manager is fundamentally different from that of other financial institutions (such as commercial banks, investment banks, insurance companies and government sponsored entities). Most importantly for the Proposed Rule, asset managers act as advisors or agents on behalf of their clients, and as advisors, the "assets under management" are owned by the advisor's clients. In contrast, other nonbank financial companies engage in activities involving balance sheet risk: investment banks act as principal in trading, market-making and prime brokerage; finance companies access the capital markets for funds and essentially re-lend these monies; and insurance companies provide long-term financing for real estate and other hard assets as part of their asset/liability management.

The Proposed Rule requests comment on whether the use of consolidated year-end financial statements prepared in accordance with Generally Accepted Accounting Principles ("GAAP") is an appropriate basis for determining consolidated assets and whether there are other methods that should be permitted. As agents and advisors, asset managers do not "use" their balance sheets in the conduct of their activities. However, asset managers may be required under GAAP to consolidate for reporting purposes certain managed partnerships, insurance company separate accounts and securities lending collateral. In fact, the managers do not have any contingent liabilities for these activities and the related consolidated net assets and liabilities generally approximate zero. Additionally, many asset managers have capitalized goodwill and other intangible assets that are not financial assets, are not impacted by temporary market movements, and for which the clients have no direct or indirect ownership. If the Board decides to evaluate asset managers as potentially "significant" nonbank financial companies, we believe that when determining consolidated assets, these consolidated products and intangible assets should be excluded.

BlackRock appreciates the opportunity to express its views on the Proposed Rule, and welcomes a continued dialogue on these important issues. Please contact either of the undersigned if you have any questions or comments regarding our views.

Sincerely,

Barbara G. Novick
Vice Chairman

Robert P. Connolly
Senior Managing Director
and General Counsel

Attachment: FSOC Letter

BLACKROCK

February 25, 2011

Financial Stability Oversight Council
c/o United States Department of Treasury
Office of Domestic Finance
1500 Pennsylvania Avenue
Washington, D.C. 20220

Via internet: www.regulations.gov

RE: Comments on Proposed Rulemaking Regarding Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies (Docket No. FSOC-2011-0001)

Dear Financial Stability Oversight Council:

BlackRock appreciates the opportunity to comment on the proposal from the Financial Stability Oversight Council (the "FSOC" or the "Council") regarding the criteria and process for the designation of nonbank financial companies as systemically important financial institutions ("SIFIs"). We commend the Council on its efforts to identify and address regulatory gaps as experienced in the recent financial crisis. However, we also recommend that the Council consider the underlying causes of the crisis and the risks presented by different types of firms as it approaches the question of designating firms as SIFIs.

BlackRock is an independently managed public company (NYSE:BLK) that engages solely in providing asset management and risk management services. BlackRock manages $3.5 trillion on behalf of institutional and individual clients worldwide through a variety of equity, fixed income, cash management, alternative investment, real estate and advisory products. Our client base includes corporate, public and multi-employer pension plans, insurance companies, mutual funds and exchange-traded funds, endowments, foundations, charities, corporations, official institutions, banks and individuals around the world. While part of the financial services sector, the business model of an asset manager is fundamentally different than that of other financial institutions (such as commercial banks, investment banks, insurance companies and government sponsored entities), and these differences are critical in assessing systemic importance. As the Council considers the question of designating firms as SIFIs, we urge it to give due weight to the different risk profile presented by asset management firms from the other institutions in the financial services sector.

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We believe that the key considerations in evaluating whether asset managers should be designated as SIFIs include the following:

- *Balance sheet risk was the common factor among financial firms that experienced distress during the financial crisis*
- *Asset managers invest on behalf of clients, not with their own balance sheets*
- *Asset managers rely on a generally stable fee-based income stream*
- *The principal of and any returns on investments made on behalf of clients are not guaranteed – asset managers do not have access to the Federal Reserve's discount window*
- *Money market funds are subject to specialized regulation and money market fund regulation is already being further strengthened*
- *There is little concentration in the asset management industry and advisory roles are easily transferred*
- *Asset managers are already subject to extensive oversight and regulation at both the manager and the portfolio levels, both in the U.S. and internationally*
- *Other new provisions of regulatory reform will provide further oversight and transparency for the asset management industry*
- *Lack of meaningful SIFI designation criteria increases uncertainty and impacts business planning*

Below we elaborate on each of these points further.

Balance sheet risk was the common factor among financial firms that experienced distress during the financial crisis.

In analyzing the causes of the financial crisis, one significant common denominator across financial firms that experienced distress was the use of their balance sheets. A variety of major financial firms, including investment banks, federal thrifts and government-sponsored entities, utilized their balance sheets to purchase assets and entered into derivatives contracts as the principal counterparty, relying on their balance sheets to backstop their obligations. As the Council and others have recognized, many of these financial firms employed significant leverage as part of their business strategy to maximize profits. Unfortunately, leverage is a double-edged sword. While leverage can magnify profits, it will also magnify losses when the underlying assets do not perform. In addition, leverage – particularly short-term borrowing – exposes firms to financing risk, especially when liquidity markets tighten dramatically as occurred in September 2008. The combination of significant leverage, balance sheets containing troubled assets and obligations placing financial demands on their balance sheets turned out to be crippling for these financial institutions.

Asset managers invest on behalf of clients, not with their own balance sheets.

First and foremost, asset managers are distinguishable from most other financial firms because they act as advisors or agents on behalf of their clients. Unlike an investment bank, which acts as a principal and uses its own balance sheet, the role of an asset manager in a transaction is as an agent on behalf of its clients. As advisors, the "assets under management" are owned by its clients; and accordingly, these assets are not on the balance sheet of the manager. Further, the assets under management are held by third-party custodians selected by, and under contractual obligation to, the clients; the manager does not generally have physical control or direct access to the clients' assets.[1]

We are concerned that prudential standards and capital requirements that are appropriate to banks and other types of financial institutions that engage in transactions using their balance sheets will not be appropriate for, nor even relevant to, asset managers.

Asset managers rely on a generally stable fee-based income stream.

Managers are generally paid an ongoing fee based on the terms of their investment management agreements. Their revenue sources are fees for services, not income from lending or other balance sheet based activities. Additionally, this revenue stream generates a very different and more stable income statement than the fee income at other financial institutions, which is often more transaction-oriented and variable. In addition, asset managers generally have only minor amounts of debt and generate significant free cash flow.

The principal of and any returns on investments made on behalf of clients are not guaranteed – asset managers do not have access to the Federal Reserve's discount window.

A critical difference between a commercial bank and an asset manager is the absence of government guarantees or support. Banks accept deposits that are then insured by the Federal Deposit Insurance Corporation ("FDIC"). Up to the deposit insurance limit, deposit insurance effectively provides a form of guarantee to the bank's customers. This guarantee ensures customers the value of their deposit plus interest, as well as liquidity or access to their funds. Asset managers, on the other hand, clearly disclose to clients that investment performance is not guaranteed by the manager, the government or any other party. In fact, advertising material is required to include language such as the following: "Shares of funds are not deposits or obligations of any bank, are not insured by the FDIC or

[1] Since asset managers act as agent for their clients and do not engage in the activities noted above involving principal and balance sheet risk, they do not have highly leveraged balance sheets. However, asset managers may be required under Generally Accepted Accounting Principles to consolidate for reporting purposes certain managed partnerships, insurance company separate accounts and securities lending collateral. The managers do not have any contingent liabilities for these activities and the consolidated net assets and liabilities generally approximate zero. Thus, when designing rules for designating SIFIs that considers leveraged assets, the impact of such consolidated products should be excluded.

any other agency, and involve investment risks, including the possible loss of the principal amount invested." Investment portfolios may appreciate in value or decline in value based on market conditions, investment management expertise, income earned and a host of other factors. Asset management clients understand that the portfolio results, positive or negative, belong to them alone.

Another critical difference is that banks are able to borrow from the Federal Reserve Bank's discount window for emergency liquidity needs, whereas asset managers are not. This is an additional level of taxpayer support provided to banks, but not asset managers, that warrants different regulatory treatment.

Given the role of asset managers in the marketplace, it should not be surprising that, while certain asset managers may have been affiliates of companies that received government assistance during the recent financial crisis, no asset manager was among the 707 financial institutions that received a direct investment under the TARP Capital Purchase Program, or the thousands of other institutions that received direct support through other programs implemented during the financial crisis.[2] As discussed below, in the unlikely event that an asset manager did fail in the future, there would be multiple competitors ready and willing to serve the clients of the failed manager. And, of course, the third-party custodians holding the clients' assets would safeguard those assets and allow for an easy transfer of the advisory role to a new asset manager.

Money market funds are subject to specialized regulation and money market fund regulation is already being further strengthened.

We would like to specifically address concerns raised regarding money market mutual funds. During the financial crisis, The Reserve Primary Fund experienced problems due to its investment in Lehman Brothers commercial paper, and consequently suspended redemptions and "broke the buck" when its net asset value fell below $1.00. Once The Reserve Primary Fund broke the buck, investors who were already fearful about liquidity made significant redemption requests to money market mutual funds that were not affiliated with The Reserve Primary Fund. The Federal Reserve, Treasury and certain foreign agencies stepped in to create a series of programs to calm the markets. These programs were successful as investors quickly returned to money market mutual funds and the short-term markets stabilized. We commend the efforts undertaken by regulators to stabilize the markets at that moment of uncertainty.

It is important to note that the investors in The Reserve Primary Fund were not "bailed out" nor was the manager itself "bailed out", and ultimately the shareholders of this fund received less than $1.00 on the value of their shares. Likewise, no other money market mutual fund investors were "bailed out" by the taxpayers, and the programs put in place have since expired with no costs borne by taxpayers. Additionally, asset managers are not required to support the money market funds they manage and The Reserve Primary Fund's manager did not do so.

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[2] Sources: U.S. Government Accountability Office; Office of Special Inspector General for the Troubled Asset Relief Program; U.S. Department of Treasury.

Subsequently, regulators have taken significant actions to strengthen money market mutual funds. In May 2010, changes to Rule 2a-7 of the Investment Company Act became effective. These enhancements address credit, quality, maturity and liquidity requirements for money market mutual funds. Many asset managers were supportive of making money market mutual funds more conservative and endorsed those changes from the outset. In December 2010, the Securities and Exchange Commission (the "SEC") requested comments on the President's Working Group Report on Money Market Funds, which recommended further structural changes to money market mutual funds. The SEC has received many comment letters from asset managers offering several concrete suggestions on ways to further safeguard money market mutual funds. As you have recognized, money market mutual funds are vital to our financial system, and steps should be taken to make them as sound as possible. This process is already underway and should be separate and distinct from the question of whether or not an asset manager is identified as systemically significant.

There is little concentration in the asset management industry and advisory roles are easily transferred.

Yet another important difference between commercial banks and asset managers is the degree of concentration in their respective sectors. Unlike the banking business, the asset management business is very decentralized with more than 125 asset managers each managing more than $100 billion in assets. The asset management industry is responsible for managing an estimated $29.6 trillion on behalf of clients.[3] In addition, an estimated $21.4 trillion is managed internally by pension funds, insurance companies and other large institutions.[4] In fact, there are numerous competitors for every strategy or product, which makes each manager easily replaceable, and asset managers are hired and terminated on short notice regularly as part of the normal course of business. When this happens, the new manager steps in with no impact to the client or the market since the assets continue to be owned by the clients and the assets are held without any disturbance at third party custodians. Several firms even provide transition management services to further streamline the process of moving from one manager to another. We are not aware of any case in which the transition from one manager to another precipitated the failure of any other firms or otherwise created significant turbulence in financial markets.

Asset managers are already subject to extensive oversight and regulation at both the manager and the portfolio levels, both in the U.S. and internationally.

Asset managers are already subject to comprehensive regulation that includes regular examinations and reporting and requires managers to have extensive risk management and compliance policies and procedures.

The SEC, frequently the primary regulator of asset managers, enforces and administers:

- the Investment Advisers Act, which imposes numerous obligations on registered investment advisers, including record-keeping, operational and marketing requirements,

[3] Source: P&I/Towers Watson
[4] Source: McKinsey and Company

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disclosure obligations and prohibitions on fraudulent activities,

- the Investment Company Act, which imposes stringent governance, compliance, operational, disclosure and related obligations on registered investment companies and their investment advisers and distributors, and

- the Securities Exchange Act, which regulates trading and investment activities for clients.

In addition, asset managers typically manage a variety of investment funds listed on U.S. and non-U.S. exchanges, which are subject to the rules of such exchanges, and are subject to the rules of several self-regulatory organizations such as the Financial Industry Regulatory Authority.

Asset managers are subject to regulation by the Department of Labor under the Employee Retirement Income Security Act ("ERISA") for work on behalf of certain pension plans. ERISA imposes certain duties on persons who are fiduciaries under ERISA, prohibits certain transactions involving ERISA plan clients and imposes excise taxes for violations of these prohibitions, mandates certain required periodic reporting and disclosures and requires managers to carry bonds ensuring against losses caused by fraud or dishonesty.

Asset managers who invest in commodities and certain derivative instruments are registered with the Commodity Futures Trading Commission (the "CFTC") and are members of the National Futures Association. Each of these regulators enforces and administers compliance with a regulatory framework, which has been significantly enhanced by the Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), covering commodities, futures contracts and various other financial instruments, including swaps, in which certain clients may invest.

A number of asset managers offer collective trust investments through federally-chartered national trust banks, which are examined and supervised by the Office of the Comptroller of the Currency (the "OCC") and subject to various banking laws and regulations enforced by the OCC. Additionally, asset managers are directly examined and supervised by the Federal Reserve if there is a significant interest held by a bank or bank holding company.

Asset managers are subject to similarly extensive regulation in each non-U.S. jurisdiction in which they may choose to operate. For example, the U.K. Financial Services Authority currently regulates asset management activities in the United Kingdom, and European operations are subject to the pan-European regime established by the Markets in Financial Instruments Directive, which regulates the provision of investment services throughout the European Economic Area. Asset managers doing business in Japan, Hong Kong and Australia are subject to regulation by, respectively, the Japanese Financial Services Agency, the Hong Kong Securities and Futures Commission, the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority for operations in those respective countries, and by comparable regulators in many other non-U.S. jurisdictions where an asset manager may choose to conduct business.

In sum, existing regulation of asset managers is extensive and strict. The fiduciary standard to which asset managers are held imposes the most significant obligations, undertakings and duties of any in the financial services industry. For these reasons, we do not believe that further regulation by the Council would provide additional protections to investors or to taxpayers.

Other new provisions of regulatory reform will provide further oversight and transparency for the asset management industry.

In addition to the existing oversight and regulation, the Dodd-Frank Act introduces a host of new rulemaking that is certain to provide more oversight and transparency, and the aggregate affect of these new rules will add important protections to the financial system that will benefit all participants. The CFTC and the SEC are actively adopting rules that will transform the over-the-counter derivatives market. The SEC has also issued a proposed rule governing enhanced reporting for funds, including liquidity funds, hedge funds and private funds. All of this data will be provided by asset managers, regardless of whether or not they are designated as SIFIs. And, importantly, new capital requirements for banks under Basel III will further strengthen the overall financial system. Given the importance of the banks as lenders, as holders of insured deposits and as entities that use their balance sheets, their capital base is critical to the strength and stability of the financial system.

Lack of meaningful SIFI designation criteria increases uncertainty and impacts business planning.

We believe it is important that the FSOC proceed promptly to define the criteria for identifying SIFIs, as uncertainty and speculation about the potential for designation affects financial institutions – their business plans (including plans for expansion and new hiring), their customers and investors and the market as a whole. As the Dodd-Frank Act was debated in Congress, it was clear that the intention was that SIFI designation authority was to be used sparingly. This is also consistent with recent statements made by Secretary Geithner and Chairman Bernanke. While we appreciate that the FSOC may desire to retain as much flexibility as possible, we urge the FSOC to reaffirm the Congressional intent to use this designation sparingly and to clarify the intention to apply the SIFI designation to financial institutions that place their balance sheets at risk as these entities have demonstrated their ability to create systemic risk. We also urge the Council to clarify its intentions with regard to asset managers given the business model differences outlined above, the lack of balance sheet assets or exposures and the extensive regulatory oversight already in place for asset management activities.

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BLACKROCK

We thank the Council for providing BlackRock the opportunity to express its views on the criteria and process for the designation of nonbank financial companies as SIFIs. We are prepared to assist the Council in any way we can, and we welcome a continued dialogue on these important issues. Please contact either of the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

Barbara G. Novick	Robert P. Connolly
Vice Chairman	Senior Managing Director and General Counsel

cc: Chairman Timothy F. Geithner, Secretary of the Treasury
Sheila C. Bair, Chairman of the Federal Deposit Insurance Corporation
Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System
Edward DeMarco, Acting Director of the Federal Housing Finance Agency
Gary Gensler, Chairman of the Commodity Futures Trading Commission
Debbie Matz, Chairman of the National Credit Union Administration
Mary L. Schapiro, Chairman of the U.S. Securities and Exchange Commission
John Walsh, Acting Comptroller of the Currency
William Haraf, Commissioner, California Department of Financial Institutions
John Huff, Director, Missouri Department of Insurance, Financial Institutions, and Professional Registration
David Massey, Deputy Securities Administrator, North Carolina, Department of the Secretary of State, Securities Division

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