BLACKROCK

December 3, 2010

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Investment of Customer Funds and Funds Held in Account for Foreign Futures and Foreign Options Transactions, 75 Fed. Reg. 67,642 (Nov 3, 2010); RIN 3038-AC15

Dear Mr. Stawick:

BlackRock submits these comments on the Commodity Futures Trading Commission's Notice of Proposed Rulemaking entitled "Investment of Customer Funds and Funds Held in Account for Foreign Futures and Foreign Options Transactions, 75 Fed. Reg. 67,642 (Nov. 3, 2010) (the "Proposing Release"). Given market events over the past few years, we support the Commission's review of permitted investments for customer segregated funds pursuant to Section 4d of the Commodity Exchange Act ("CEA") and funds held in an account subject to Regulation 30.7. We appreciate the opportunity to comment on these potential changes.[1]

BlackRock is one of the world's leading asset management firms, managing approximately $3.45 trillion on behalf of institutional and individual clients worldwide, including governments, pension funds and endowments. We provide a variety of equity, fixed income, cash management, alternative investment and advisory products. At September 30, 2010, BlackRock advised or sub-advised money market mutual funds regulated under Rule 2a-7 of the Investment Company Act of 1940 with over $200 billion of assets.

Overview

We recognize the importance of and fully support the standards in Regulation 1.25 under the CEA ("Reg. 1.25") that require all permitted investments of customer funds by derivatives clearing organizations ("DCOs") and futures commission merchants ("FCMs") to be consistent with the objectives of preserving principal and maintaining liquidity. As noted in the Proposing Release, the permitted investments for customer segregated funds have been expanded from their

[1] We note that changes to Regulation 1.25 will also potentially affect the investment of customer segregated funds under the recently proposed rule for uncleared swaps which has not yet been published in the Federal Register. Given the lack of overlap between the end of the comment period for the Reg. 1.25 changes and the commencement of the formal comment period for the proposal on uncleared swaps, we believe a delay in finalizing any changes in Reg 1.25 is warranted to allow for consideration of any related comments in response to the uncleared swaps release in order to provide the required "meaningful opportunity" to comment.

original scope of U.S. government and municipal securities to now include a much larger universe of asset classes. We believe that diversification is an important tool in risk reduction, and encourage the CFTC to carefully weigh any changes that significantly reduce the scope or availability of permitted investments.

We have concerns that the CFTC's proposed asset and issuer -based concentration limits may not serve to most efficiently reduce systemic risk or ensure that market liquidity and principal protection are optimal during varying market conditions. In particular, as proposed, the rules would potentially create an over-reliance on US Treasury and government securities and when combined with a proposed portfolio weighted average maturity limit of 2 years may contribute to significant fluctuations in portfolio value resulting from interest rate changes. This result may undermine one of the principal objectives of Reg. 1.25 of maintaining principal protection.

We believe the inclusion of Rule 2a-7 regulated money market mutual funds (hereinafter "MMMFs") as permitted investments under CFTC regulations provide important benefits in protecting customer segregated funds. Revisions to Rule 2a-7 that went into effect in May 2010 have significantly strengthened MMMFs. In particular, new standards within Rule 2a-7 for portfolio liquidity, maturity, credit quality, risk management practices and investor transparency have improved the strength of MMMFs for investors seeking principal protection, liquidity, high levels of credit quality and diversification. As discussed in more detail below, we do not support the proposed MMMF asset based concentration limit of 10% or the 2% "issuer based" limit for a MMMF family of funds. We would recommend an alternative limit of 20% of any one FCM's customer segregated funds in any one MMMF, and such investment should not exceed 5% of the net assets of the MMMF. Additionally, we recommend that the CFTC consider the introduction of a requirement that investment decision makers perform periodic assessments of their MMMF providers.

Recognizing that the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") requires an agency to review its use in regulations of credit ratings in order to reduce reliance on such ratings, we caution that complete removal of ratings criteria as a risk filter may place undue responsibility on an FCM or DCO to complete a thorough risk assessment of an issuer's financial strength. While the onus should remain on the FCM or DCO to select appropriate investments and counterparties, unless and until an adequate substitute for credit ratings is widely adopted, complete elimination of ratings criteria could contribute to some firms taking on unnecessary risks in their investment decisions.

Discussion

We support the use of those asset-based and issuer-based concentration limits which serve to promote diversification.

We believe it is prudent for FCMs to follow certain asset and issuer-based limits together with restrictions on credit quality, portfolio average maturity and final maturity with respect to individual securities but that such limits should not apply to MMMFs except as we are suggesting below. As the proposed regulations are currently written we are concerned that the

Commission's objectives of achieving principal protection while maintaining liquidity will not be met. In particular we note that under certain market conditions impaired liquidity and/or valuations may occur in longer-dated maturities of any asset class including Treasury, agency, bank CDs, and municipal securities. We believe that the Rule 2a-7 framework for MMMFs is already specifically designed to mitigate interest rate and liquidity risk through diversification, credit quality and limited duration and thus would meet the Reg. 1.25 objectives of principal protection and liquidity.

Accordingly, we believe the limits on the use of MMMFs as permitted investments as set out in the Proposing Release (a 10% asset based limit and a 2% "issuer-based" limit at the "fund family" level) are unnecessary and would have unintended consequences. If the Commission were to impose issuer based concentration limits, we believe the better alternative would be to measure those limits on a per MMMF basis. Our concerns and our suggested alternative are discussed in more detail below.

As the Proposing Release notes, the SEC has recently adopted significant and extensive reforms to the regulations governing MMMFs. These changes are consistent with the objectives of Reg. 1.25 to preserve principal and maintain liquidity. We would like to briefly highlight some of these changes.

For the first time since Rule 2a-7 was enacted, the SEC has introduced liquidity provisions which are designed to ensure that MMMFs have sufficient liquidity for both benign and stressed market environments. In addition to establishing requirements for daily and weekly liquidity, the revisions also strengthened the liquidity framework by reducing permitted exposures to illiquid securities, introducing a general liquidity requirement based on the characteristics of a fund's investor base and requiring the adoption of stress testing procedures. We believe these new requirements have created a strengthened liquidity framework for MMMFs, which will support their resilience over future market cycles.

The revisions to Rule 2a-7 amended and introduced parameters designed to limit MMMF's exposure to interest rate and spread risk, and by extension, credit events. These include reductions in an MMMF portfolio's permitted weighted average maturity (WAM) from 90 to 60 days, and the addition of a new rule for weighted average life (WAL) which is designed to limit an MMMF's exposure to floating rate securities. We believe these changes create a stronger defense against interest rate shocks and other events. To promote diversification and credit quality, Rule 2a-7 now requires generally that MMMFs hold at least 97% of their assets in "first tier" (highest credit quality) securities with a 5% maximum exposure to any one first tier issuer. MMMFs must also limit their exposure to "second tier" securities to 3% of total fund assets. Further, no MMMF may acquire a second tier security with remaining maturity of greater than 45 days and no MMMF may invest more than 0.5% of its total assets in the second tier securities of any single issuer.

Under Rule 2a-7, each MMMF must adopt periodic stress testing procedures to test the ability of the fund to maintain a stable net asset value ("NAV") per share. While stress testing has been a key component of the risk management practices for BlackRock and other fund sponsors for some time, the introduction of a formal stress testing requirement should serve to increase the consistency of risk approaches across the industry, and improve the risk management framework

of the industry as a whole. In addition, Rule 2a-7 and new SEC filing forms now require increased disclosure of key portfolio information posted to an accessible website, and periodic calculation and dissemination of a "shadow" NAV. We believe this increased transparency will allow investors to have a greater understanding of the risks and dynamics of MMMFs than previously, and assist in their decision to invest (or not) in a particular fund.

We believe the amendments to Rule 2a-7 have significantly strengthened the risk framework for MMMFs and contribute to their continued suitability to meet the goals of principal protection and liquidity for permitted investments pursuant to Reg. 1.25.

Asset-Based Limitations. We do not believe that the asset class of MMMFs should be subject to any asset based concentration limits. MMMFs continue to be one of the few forms of short term investments that provide investors with professional management, diversification to global short term credit markets and economies of scale. The proposal to limit an FCM to a maximum investment of 10% of its total segregated assets into MMMFs would substantially reduce the use of MMMFs by many FCMs. At the same time, it would impose the burden of active management of segregated funds upon FCMs, some of which may not be staffed to undertake such activity. We believe the percentage limitations on MMMFs are most appropriately determined by each FCM since the MMMFs provide varying types of exposure to the short-term markets depending on their investment strategy, and determinations of credit quality and market liquidity in short-term markets change over time.

Given the credit quality of Treasury securities and consistent with the Commission's current proposal to permit unlimited investment in Treasury securities, we do not believe it is necessary to limit FCM investments in "Treasury MMMFs". [2] If the CFTC imposes asset-based limitations, Treasury MMMFs should be exempted from the limitations

Issuer-Based Limitations. We believe that reasonable issuer-based limitations can be used to mitigate this type of concentration risk, but are deeply concerned about the use of a "fund family"[3] as a concentration limit or as a measure of risk. MMMFs are separate legal entities typically issued within a trust or corporate series structure with no ability to rely on other funds in the "fund family" for liquidity or other purposes. Further, there is no correlation with the size of the "fund family" (measured by assets under management) and the risk such a grouping may create. Last, it is merely speculative to assume that an investment advisor or sponsor of a "family" with greater assets under management or more funds at risk would undertake more significant voluntary actions, such as supporting a dollar NAV through support agreements or the purchase of assets, relative to smaller asset managers. We also have concerns about the ability to monitor for the concentration limits, as MMMF complexes do not typically aggregate and publish consolidated "family" data on a daily basis.

[2] "Treasury MMMFs" are generally deemed to be MMMFs that under normal circumstances invest at least 80% of their assets in Treasury securities and/or repurchase agreements for such securities.

[3] We note that the Proposing Release does not define "fund family". If the Commission were to proceed with this constraint, we believe a definition is necessary. An investment advisory firm may act in one of two advisory capacities in relation to a MMMF, either as advisor or sub-advisor. Generally in the former capacity, the advisory firm is also the sponsor of the fund, in the latter generally it is not and its name or brand will not always be obvious to the investor.

We recommend that the CFTC address its concerns about concentration risk in MMMFs, by requiring FCMs to limit their customer segregated fund exposure not to any single fund family but to any single MMMF. We believe it would be appropriate to impose a limit (determined at time of investment) of 20% of the FCM's customer segregated funds in a single MMMF, with such investment being further limited to no more than 5% of the net assets of the MMMF. We believe the FCM is in a position to monitor the concentration across its entire portfolio and as a percentage of each individual MMMF[4], and would be able to ensure that additional investments in a single MMMF would not exceed the 5% net asset limit. We believe the imposition of such limits would address concerns about over exposure to any single MMMF, and would reduce the likelihood that trade volatility in an FCM's MMMF account could negatively impact other fund investors in the fund.

Due Diligence. We believe that the regulatory framework for MMMFs has been significantly strengthened by the recent amendments to Rule 2a-7. However, while the MMMF industry has become more conservative both through regulation and the investment decisions taken by fund managers, it is still critically important that FCMs conduct appropriate due diligence when selecting fund providers. During the credit crisis of 2008, it became apparent to regulators and investors that staffing levels focused on risk management and credit selection varied considerably by investment advisor. We believe it is paramount that FCMs appropriately assess the relative capabilities of MMMF providers. Therefore, we recommend that the Commission consider requiring minimum due diligence standards for FCMs, DCOs or any other entity subject to the requirements of Reg. 1.25 when assessing and selecting MMMFs.

Other Permitted Investments.

On behalf of its clients, BlackRock invests in many different types of fixed income securities. We offer the following comments on other proposed changes to permitted investments based on our investment experience and expertise.

US Treasury Securities. While the credit quality of these securities is not typically of primary concern, these securities can experience significant pricing volatility based on maturity and changes in interest rates. Depending on market conditions, and in particular the expectation of changes in interest rates, the value of Treasury securities of varying maturities will fluctuate. For example, a sudden rise in interest rates may negatively and materially impact the principal valuation of Treasury securities of all maturities, including bills, notes and bonds. Generally, securities with longer maturities would experience a greater impact. Should liquidity be required by an FCM holding a portfolio of Treasury securities during such market conditions, there may be a resulting loss in principal value. While we support the imposition of a WAM constraint, the Commission may wish to consider a more conservative WAM limit for FCM portfolios rather than the 2 year WAM limitation as currently proposed. We believe a WAM of 3 months is appropriately conservative.

[4] Institutional MMMFs publish daily information about the size of the fund (assets under management) and its yield. This information is delivered to current investors and is available on fund websites. Thus, the FCM is in a position to regularly monitor its total investment in any particular MMMF.

Government Sponsored Enterprises ("GSEs"). Wesupport the inclusion of GSE securities as permitted investments under Reg. 1.25 regardless of explicit or implicit federal guarantees. Investments in GSE debt instruments, whether carrying a full faith and credit guarantee or not, performed well in terms of value during the 2008 crisis and subsequently. We expect any change in the viability of these entities will be telegraphed well in advance resulting in minimal disruption to the credit markets (and direct investment in their debt instruments). We agree that GSE issuer-based exposure should be limited, to an amount that is not more than 30% from any GSE issuer.

Commercial Paper, Corporate Notes and Bonds. We believe that limiting the permitted investments under Reg. 1.25 to those securities that are guaranteed under the FDIC's Temporary Liquidity Guarantee Program ("TLGP") effectively eliminates the use of these securities for customer segregated funds. The TLGP is set to expire in 2012, limiting the ability to purchase securities backed by this program and current supply is very limited. More generally, in this category we support an individual issuer limit of 5% per issuer and the establishment of an aggregate limit to corporate obligations in a range of 25% to 50% of the FCM's customer segregated funds. We note, however, that lack of sufficient creditworthy supply may not be available to reach even the 25% limit.

Foreign Sovereign Debt. While it may be that the current investment of customer segregated funds in foreign sovereign debt is limited, we believe that there are opportunities to add diversification and liquidity by allowing their continued use as permitted investments. If the Commission decides to continue to permit this type of investment, we suggest a specific definition of foreign sovereign debt be included in the amendments to Reg. 1.25.

Other Issues

Use of Credit Ratings. While the Dodd-Frank Act requires that Federal agencies review their policies with respect to decreasing reliance on credit ratings, it does not mandate the elimination of credit ratings in determining the acceptability of a particular asset class or issuer. We believe that the rating is a worthwhile component of the many factors that are important in analyzing the credit-worthiness of a security or issuer. In the absence of a meaningful substitute, we recommend that the Commission not eliminate the use of ratings as a factor in permitted investments. At the same time, we believe that the CFTC should remind FCMs and DCOs that they remain responsible for diligence in the selection of appropriate permitted investments.

Marketability. We support the use of the term "highly liquid" as defined in the Proposing Release (i.e., having the ability to be converted into cash within one business day without material discount in value). We urge its adoption.

BlackRock appreciates the opportunity to provide its views on the investment of customer segregated funds. The confidence of customers that there are sufficient controls on the investment of their funds contributes to confidence in the futures market as a whole. At the same time, the Commission should be mindful that the goal should not be the elimination of all risks, but the appropriate management of risk.

If you have any questions, please do not hesitate to contact either of us.

Sincerely,

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Managing Director

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Managing Director