MMF Reform Client Communication
June 6, 2013

The Securities and Exchange Commission ("SEC") has voted unanimously to propose structural changes to the way that money market funds ("MMFs") operate in order to improve the resiliency of MMFs during times of stress. The proposed reforms are detailed in a 698-page document released on June 5, 2013, and reflect extensive consultation with the MMF industry and other parties interested in MMFs, including BlackRock.

We would note that at this stage these are just proposals and are subject to change prior to being finalized. The SEC release contains many questions for industry participants and other regulatory bodies and it is premature to draw any conclusions as to what will be included in the final rule. From a timing perspective, comment letters will be due in September, the SEC will review these letters and finalize a rule for the Commissioners to vote. Once a rule is passed, there will be a one to two year transition period.

The SEC release contains proposals for structural reforms of MMFs as well as proposed enhancements to disclosure, portfolio construction and stress-testing requirements for these funds. The proposed reforms are primarily focused on "prime" funds which hold substantial amounts of commercial paper. The proposals also introduce a number of ideas related to differentiating between funds for "institutional" and "retail" investors. While most of the media has represented the SEC release as solely a proposal to float the net asset value ("NAV"), the release includes three potential structural approaches and requests input on dozens of questions. With respect to structural reform, the SEC proposed three alternatives:

I. **Floating the Net Asset Value ("NAV") for Prime Institutional MMFs –** Under this alternative, prime institutional MMFs would be required to transact at a floating NAV as opposed to the current stable share price. Daily share prices of these funds would fluctuate along with changes, if any, in the market-based value of their portfolio securities.

II. **Liquidity Fees and Redemption Gates –** Under this alternative, MMFs would continue to transact at a stable share price, but would be able to impose liquidity fees and redemption gates in times of stress.

III. **A Combination of Floating the NAV for Prime Institutional MMFs and Introducing Liquidity Fees and Redemption Gates –** The SEC is considering whether to combine the floating NAV and the liquidity fees and gates proposals into a single reform package.

As noted earlier, the proposals attempt to differentiate between retail and institutional funds. The SEC proposes to define retail funds as those funds that limit daily redemptions to $1 million. The proposal asks for comments on this definition, the $1 million limit, and a series of alternative approaches. In addition, the proposal defines government funds as holding at least 80% of their assets in cash and government securities, leading some to speculate that a "government plus" category for $1.00 NAV funds may emerge with a limit of 20% on commercial paper.

The SEC proposals also introduce a number of potential non-structural enhancements to the existing Rule 2a-7, including daily disclosure of market-based NAV, weekly liquid asset levels, certain changes to portfolio diversification rules, and prescribes additional stress testing scenarios that must be analyzed for each MMF.

At BlackRock, we believe that MMFs play an important role in our economy, with benefits to both investors and borrowers. We have been deeply engaged in detailed and constructive discussions with the SEC, the Financial Stability Oversight Council and other money market fund industry participants on how best to strengthen MMFs. We continue to believe that any structural reforms should satisfy a two-part test by preserving the benefits of the product for investors and preserving the functioning of the short-term funding markets and providing a mechanism for managing mass client redemptions.

The SEC has set a 90-day period for comments on the proposals, and BlackRock plans to submit a formal comment letter following our more detailed review and after consulting with our clients and other industry participants. Over the coming weeks, we will be seeking feedback from clients on the SEC's proposals and intend to reflect our findings appropriately in our formal comment letter.

As always, we are happy to discuss your cash management needs and the options available to you and we welcome your comments on the proposals. Please do not hesitate to contact your BlackRock account manager with any questions you may have or to discuss the proposals in further detail.