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November 1, 2010

VIA ELECTRONIC MAIL

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Comments on Proposed Rulemaking on Mutual Fund Distribution Fees and Confirmations (File No. S7-15-10)

Dear Ms. Murphy:

BlackRock is pleased to comment on the proposals by the Securities and Exchange Commission (the "Commission") to: (i) rescind Rule 12b-1 under the Investment Company Act of 1940, as amended (the "1940 Act"); (ii) adopt new Rule 12b-2 under the 1940 Act; (iii) amend Rules 6c-10 and 11a-3 under the 1940 Act; (iv) amend Form N-1A under the 1940 Act and the Securities Act of 1933, as amended (the "Securities Act"); (v) amend Regulation S-X under the Securities Act; (vi) amend Rule 10b-10 and Schedule 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and (vii) make various technical changes to the rules and forms thereunder. BlackRock commends the Commission on its efforts to protect investors and preserve investor choice, as we share these goals with the Commission. However, we do have a number of comments and concerns about the potential impact of the Commission's proposals on investor choice and about the cost and potentially disruptive unintended consequences of the proposals.

About BlackRock

BlackRock is one of the world's largest asset management firms. We manage $3.15 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. In the United States, BlackRock is the sponsor of over 150 open-end mutual funds (including money market funds) with assets of over $320 billion, 98 closed-end funds with assets of $37 billion, and over 200 exchange-traded funds ("ETFs") with assets of $363 billion, each as of

June 30, 2010. BlackRock distributes its mutual funds principally through third parties, and has selling arrangements with over 1,000 broker-dealers and other financial intermediaries.

Background on Rule 12b-1

As noted in the release proposing changes to how funds finance distribution,[1] the Commission adopted Rule 12b-1 in 1980 to permit a fund to use fund assets to pay broker-dealers and others for providing services that are "primarily intended to result in the sale of the fund's shares." Before the Rule's adoption, the Commission generally had opposed the use of fund assets for the purpose of financing the distribution of mutual fund shares. However, after initiating public comments and holding hearings, the Commission decided that there may be circumstances in which it would be appropriate for a fund to bear at least some of its own distribution expenses. Due to concerns about the inherent conflicts of interest between the fund adviser and the fund, the Rule sought to minimize the role of the adviser and its affiliates in establishing both the amount and uses of fund assets to support distribution. The Rule requires the fund's board of directors, and in particular the "independent" directors, to evaluate the level of the fund's distribution charges and how to spend amounts collected. The Rule also requires a fund to adopt a written plan (a "12b-1 plan") describing all material aspects of how the fund will finance the distribution of its shares. The 12b-1 plan must be approved initially by the fund's board of directors as a whole, and separately by the "independent" directors who have no financial interest in the operation of the plan.[2] The Rule does not specify the level of fees that may be paid under the plan, and it does not detail the types of activities that are primarily intended to result in the sale of shares. In addition, the Rule does not prohibit a fund from paying for non-distribution expenses under a 12b-1 plan. Instead, the Rule requires directors to find that there is a reasonable likelihood that the plan will benefit both the fund and its shareholders. In order to make an informed business decision, the directors must request and evaluate such information as is reasonably necessary. Once a 12b-1 plan is approved, the directors must review quarterly reports from the fund's distributor regarding all amounts expended under the plan and the purposes for which the expenditures were made, and must annually re-approve the 12b-1 plan based on the same criteria initially used to adopt the plan.

The Proposals

As detailed in the Proposing Release, the Commission has proposed changes to how funds finance their distribution activities. According to Chairman Schapiro, the proposals "are intended to provide clarity and fairness to a mutual fund distribution system that has become confusing and potentially anti-competitive. At the same time, they are designed to preserve investor choice in selecting distribution

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[1] Mutual Fund Distribution Fees; Confirmations, Investment Company Act Release No. 29367 (July 21, 2010) (the "Proposing Release").

[2] If the 12b-1 plan is adopted after the fund is offered to the public, it also must be approved initially by a vote of at least a majority of the fund's voting securities (as defined in the 1940 Act). Any material increases in the amounts paid under the plan must be approved by the fund's board, the fund's independent directors, and the fund's shareholders.

methods and to minimize operational disruptions and expensive system changes."[3] The objectives of the proposals are to:

- Protect investors by limiting fund sales charges;
- Improve transparency of fees for investors;
- Encourage retail price competition; and
- Revise fund director oversight duties.

Despite these good intentions, BlackRock is concerned that the proposals may inadvertantly reduce choice and increase costs without providing clear benefits to investors or more effective and efficient oversight by fund boards.

The Current Market for Mutual Funds

Mutual funds offer investors the advantages of professional management and portfolio diversification. Smaller investors enjoy funds' low investment minimums and the opportunity to pool their assets with other investors, affording them access to opportunities that may otherwise be unavailable to them. To facilitate broad distribution, many funds offer a variety of pricing options, each with a different combination of sales charges, ongoing expenses and other features (such as different account minimums and service levels). Since different pricing is available for different share classes, multiple share classes provide retail and institutional investors a choice that offers them the best combination of expenses and services. Moreover, investors have numerous choices when purchasing funds, both in terms of what they can buy and from whom. An investor can buy a mutual fund from a broker-dealer, from an adviser, from a mutual fund supermarket or directly from some mutual fund companies. Investors also indirectly invest in mutual funds through wrap accounts, 401(k) plans, 529 plans and similar vehicles.[3]

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[3] Speech by Chairman Schapiro, Opening Statement at the SEC Open Meeting—12b-1 Fees (July 21, 2010).

[3] In the Proposing Release, the Commission cites Investment Company Institute ("ICI") data showing that "More than 87 million Americans, representing slightly less than half of all households, own mutual funds." In addition, again citing ICI data, the Commission indicated that "There are over 9,000 funds available to investors, offering a variety of investment strategies to suit different investment needs. Investors can select among many types of intermediaries from which they can purchase fund shares, and have choices as to how they pay for the services of those intermediaries." (Internal citations omitted.)

Funds commonly offer the following share classes:

	Class A	**Class B**	**Class C**	**Class R**	**Class I (Inst'l)**
Sales Charge	Up to 5.75% front-end (usually waived for wrap accounts)	4% contingent deferred (amount declines over time; converts to Class A after 6-10 years)	1% front-end (does not convert to Class A)	None	None
12b-1 Fee	None	75 bps	75 bps	25 bps	None
Service Fee	25 bps	25 bps	25bps	25 bps	None
Minimum Investment	Under $5000	Under $5000	Under $5000	None	$1 million or more
Common distribution channels	Broker-dealers and other intermediaries; wrap accounts, defined contribution plans and smaller institutional investors (load waived)	Broker-dealers and other intermediaries (NB: many fund companies have discontinued offering Class B shares)	Broker-dealers and other intermediaries; small defined contribution plans	Defined contribution plans	Institutional investors; large defined contribution plans

In addition, some fund families offer Class S (Service) shares, which are similar to load-waived Class A shares in that there is no sales charge and a 25 bps service fee, and Class K shares, which are typically lower cost institutional shares designed for very large defined contribution plans and other large institutional investors.[4] In addition to traditional mutual funds, investors can buy exchange-traded funds ("ETFs"), which offer yet another fee structuring option. These varied pricing options reflect the

[4] Under current Financial Industry Regulatory Authority ("FINRA") regulations, total front-end and back-end sales charges cannot exceed 8.5% of the initial investment. The ICI has reported that most funds charge far less than the maximum. "No-load" funds are distributed directly by some investment companies and, therefore, do not charge a commission or sales charge (although they may charge a distribution or service fee of up to 25 basis points and still be considered "no load" under applicable FINRA rules). Under the FINRA rules, 12b-1 fees are considered "asset-based sales charges" and thus, when combined with other sales charges, are subject to the 8.5% maximum sales charge cap.

decades-long evolution of mutual funds as important investment vehicles for a diverse group of investors. The industry has successfully been able to offer innovative pricing structures tailored to the needs and preferences of different investors, effectively expanding the choices available and, where appropriate, instituting the common market practice of offering volume discounts in the form of lower cost/higher minimum investment share classes, rights of accumulation and other means.

With the help of Rule 12b-1, mutual fund shares have become widely available and widely used by investors, as the variety and accessibility of mutual funds has increased dramatically since the Rule was adopted. In BlackRock's view, the Rule has been a success, and our comments reflect the concerns we have about the potential impact of the proposals on funds. Rather than discussing all of the specifics of each proposed change or rule, we believe that it would be useful to consider whether the proposals are likely to achieve the four goals articulated by Chairman Schapiro in announcing the proposals.

Objective 1: Limit Fund Sales Charges

The first objective of the Commission's proposals is to limit fund sales charges by restricting cumulative ongoing sales charges to an amount equal to the maximum front-end load charged by any class of the relevant fund. A typical mutual fund's Class C share (level load) carries a 25-basis-point ongoing fee for shareholder services and a 75-basis-point ongoing distribution and sales support (12b-1) fee. This fee compensates brokers for their ongoing client service. As an example under the proposals, if these funds also offer Class A shares with a sales charge of 5.25%, the Class C shares could charge the 75 basis points for 7 years, and would then have to convert to a class that is akin to load-waived Class A shares.[5] For investors with a shorter investment horizon, this structure may not present an issue as they will redeem their shares before this cap is met. However, for longer-term investors, brokers will no longer earn the ongoing 75 bps of revenue, which may impact service levels for Class C investors. The elimination of these fees would result in revenue losses for broker-dealers, which they would likely seek to replace through other sources. In the most likely scenario, many clients would move to advisory programs ("wrap accounts"), which pay ongoing "wrap" fees to the broker-dealer that encompass both investment advisory fees and sales compensation on the purchase and sales of wrap account investments, including mutual funds and ETFs.[6]

Wrap accounts typically are designed for investors who are seeking discretionary investment advice from their financial intermediary. In BlackRock's experience, wrap account investors tend to have larger account balances than typical fund investors, and appear to be more willing to pay for professional investment advice. Investors who enter into wrap accounts typically pay 1% or more based on the

[5] The 25-basis-point service fee applicable to Class C shares would also remain in effect during this 7-year period, and after conversion, the shares will remain subject to a service fee on the new share class.

[6] Alternatively, some broker-dealers may require increased revenue sharing from fund sponsors, which will result in distribution costs becoming less transparent to investors, which is directly counter to the second stated objective of the proposals. In addition, the shift to increased revenue sharing will eliminate some of the board oversight relief that was the fourth objective of the proposals, as boards will need to spend additional time reviewing revenue-sharing arrangements as part of the annual 15(c) contract renewal process. These issues are discussed elsewhere in the comment letter.

assets under management for as long as the investment is in the account, in addition to the cost of the underlying funds and other investments in the wrap account. Smaller investors will be especially harmed by this shift from commission-based fees to asset-based fees, as their wrap account fees will likely exceed the 12b-1 fees they are now paying, both annually and over the life of their investment. According to Cerulli Associates, the average annual wrap advisory fee is 1.14%, though listed prices can be as much as 1.5% and higher. This compares to the typical Class C share aggregate service and 12b-1 fee of 1%. In addition, unless they are in a nondiscretionary wrap program, these investors may no longer retain discretion over their portfolios, as the terms of the wrap agreement may delegate discretion to the broker. As a result, investors who seek advice, but do not want to grant discretion to the broker via a wrap account, will face reduced choice. At the extreme, smaller investors may find themselves shut out of an advice model, as wrap accounts typically have a higher minimum investment requirement than A shares or C shares. Statistics gathered by Cerulli Associates show that minimums for mutual fund advisory and rep-as-adviser platforms range from $10,000 to $50,000, with most minimums around $25,000 and an overall asset-weighted average minimum of roughly $39,000. By contrast, most mutual funds in a general brokerage arrangement offer initial investment minimums of as low as $1,000. Ultimately, small investors may be left to do their own fund research and manage their portfolios without the benefit of professional advice. It is also worth noting that, when investing via a mutual fund supermarket, an individual investor would, in some cases, incur transaction costs of up to $75 on both the purchase and the sale of fund shares, in addition to any applicable fund sales charges.

In the current retail marketplace, investor choice abounds. Investors willing to pay for discretionary investment advice and able to meet the higher minimums that typically apply, often choose to invest in funds through wrap accounts. For smaller investors who want assistance from financial intermediaries but who can not afford to invest through a wrap account, are still able to access financial intermediaries using C shares. If the proposed rules take effect, this model will be impacted, and smaller investors either will be driven to wrap account programs that are more expensive than C shares, or may be forced to forego professional investment assistance entirely if C share programs are phased out.

Participants in defined contribution (401(k)), deferred compensation (457) and college savings (529) plans will feel the affects of the fee changes as well, with smaller plans (under $10 million) impacted the most. Today, mutual funds are the vehicle of choice within the 401(k) marketplace, especially within micro, small and mid-sized plans. This model reflects the need of smaller firms to minimize the administrative work and operational costs of offering retirement plans. As with direct sales of mutual funds, the varying share class structures and their differing expense ratios provide plan sponsors with flexibility in how and how much they pay for services provided to their plan and its participants. According to Strategic Insight, about 50% of funds in retirement plans charge 12b-1 fees of 25 basis points or more (with some as high as 1%), while the remaining funds charge fees of 0.25% or less. In the aggregate, Strategic Insight estimates that $100 billion of participant assets will be affected by the proposed fee changes.

Under the current fee structure, plan sponsors can offer 401(k) plans without incurring costs, as the costs of servicing participants are passed on to the participants in the form of 12b-1 and service fee payments. We anticipate that the proposed changes designed to limit the maximum sales charge paid

by investors would require substantial operational and back-office retooling–costs incurred by service providers that would be ultimately recouped from plan sponsors. As noted previously, larger plans tend to use Class I shares (with no 12b-1 fee), while the smallest plans tend to use Class C shares, which enables them to offset the costs of administering their plans. These costs are continual and need to be covered year after year; therefore, any change that caps fees or curtails fees after a certain period of time will directly impact the ability of plan sponsors to offer these plans. Given the increased work and the inability to pass through costs to participants as they can under the current cost structure, plan sponsors may decide not to offer defined contribution plans to employees.

Objective 2: Increased Fee Transparency for investors

The second objective of the proposals is to improve transparency for investors by renaming 12b-1 fees and adding sales charge disclosure to transaction confirmations so investors are better able to understand the fees they will be paying. We fully support renaming 12b-1 fees, as the current name is not inherently meaningful nor is it descriptive for the investor. A new name such as "ongoing marketing and service fees" that encompasses both distribution and service payments would be more intuitive, and should be combined with additional disclosure in the prospectus to help investors understand the ongoing services they are to be receiving in exchange for such fees.

While we support in principle the concept of providing additional sales charge information to mutual fund investors, we fear that the implementation of a requirement to add this information to transaction confirmations will present many challenges and may be impractical and costly. First, the source for this information is the fund prospectus and statement of additional information (SAI). Unfortunately, there is no systematic way for broker-dealers or other financial intermediaries to update fee changes and sales charge breakpoints in many different databases. Second, there is the question of precisely what fee must be disclosed on the confirmations. Without the benefit of a prospectus-type explanation, a simple number in basis points or dollars will be more confusing than helpful. How would an investor interpret a 4% front-end load and compare it to the cost of a C-share fee arrangement? Additionally, under the proposals, the confirmation would disclose the maximum sales charge the investor could incur, although the actual sales charge paid will vary depending on how long the investor holds the funds. This approach may confuse investors rather than help them to make better, more informed decisions since the confirmations are designed to be post-sale documents that enable investors to confirm the details of a completed transaction. Under the current rules, where broker-dealers send investors the prospectus within three days of the trade, investors have access to more complete information than could be provided on a transaction confirmation. For example, the prospectus includes expense examples that compare the cost of an investment in each class of shares included in the prospectus over 1-, 3-, 5- and 10-year periods.

Objective 3: Promote Competitive Pricing

The third proposal introduces a new type of pricing designed to encourage price competition among broker-dealers. Under this proposal, mutual fund companies would be able to sell shares that are not subject to a sales charge at the fund level through broker-dealers at commission rates established by the

broker-dealers rather than the funds. In the Commission's view, this would introduce price competition since some broker-dealers would reduce commissions in order to capture market share. We would argue that, in today's marketplace, price competition already exists in that investors can buy mutual funds through supermarkets or through broker-dealers or financial advisers, or even directly from some fund companies. In addition, investors willing to pay for discretionary investment advice can access funds through wrap accounts.

While this new provision may be interesting to some distributors, implementation of this proposal is likely to require significant and costly operational changes for distributors and for mutual fund companies. Due to the costs involved, this proposal is likely to favor scale players who can bear the infrastructure costs this proposal will entail over smaller firms that have fewer resources available to them, once again resulting in reduced choice for some investors. In addition, it will be cumbersome to apply a different sales charge rate to each purchase and is likely to substantially drive up costs of sub-accounting and transfer agent services, especially where omnibus accountholders currently enjoy the benefits of scale. Moreover, with different firms charging different sales charges for the same funds, recordkeeping will be complicated in instances where financial advisers and/or their clients leave one firm for another. Even with explicit rulemaking by the Commission, the industry will need to develop mechanisms to track not just share purchase dates, but also historical sales charge rates charged during the life of the investment (which may include different rates applied by different firms at different times of the investment's life). The systems to track these amounts do not currently exist, so the cost of implementing these changes is unknown. Coupled with the broker and investor confusion likely to result during any transition period from the current pricing scheme to any new scheme, BlackRock believes that these factors will not result in the desired price competition.

With the existing competition in the market and the array of pricing choices described earlier, both in our comment letter and in the Proposing Release, combined with the potential administrative and systems costs associated with this proposal, the value of yet another fee structure is unclear. Ultimately, this proposal is likely to expand the number of available share classes (particularly during the grandfather period), leading to confusion for both shareholders and brokers. Finally, as with the first proposal, this proposal is likely to lead smaller investors into wrap accounts that are designed primarily for investors who are willing and able to pay for discretionary advice, thus reducing their flexibility and possibly increasing their total costs. In our view, the costs of implementing this pricing proposal appear likely to outweigh the benefits of any increased competition that may result.

Objective 4: Revised Duties for Directors

The fourth objective would revise mutual fund directors' duties by proscribing limits on sales charges and eliminating the need for directors to spend time reviewing detailed data about 12b-1 fees. Theoretically, this would allow mutual fund directors more time to focus on oversight of other aspects of mutual fund operations. Under current rules, boards spend a significant amount of time reviewing and approving 12b-1 arrangements and related payments even though the boards play only a limited role in setting distribution and related fees.

As the Commission noted in the Proposing Release, the current operation of Rule 12b-1 no longer reflects the realities of the current fund marketplace. Therefore, we believe that there is a need to eliminate extensive and repetitive 12b-1 reviews. Regardless of whether or not the other proposals move forward, this aspect of the proposals would improve oversight by mutual fund boards.

Unfortunately, as noted previously, several aspects of the the proposals may have the unintended effect of shifting fund director focus from 12b-1 fees to overall distribution costs, particularly as it relates to the oversight of ongoing sales charges and the annual Section 15(c) profitability review process performed by fund boards. This will certainly be the case if the current economic model of how mutual fund distribution is financed is overturned, and broker-dealers and other financial intermediaries pursue revenue sharing arrangements as a way to make up for lost 12b-1 fee revenue. Even with clearer guidance from the Commission on what factors the boards should weigh in considering distribution expenses and revenue sharing arrangements, it is unclear that the boards will realize significant benefits in terms of their required oversight of fund expenses. In our view, directors will always exercise their business judgment in considering these matters, and it is unclear that the proposals, in the aggregate, will measurably improve director oversight of funds.

Recommendations

While BlackRock favors increased transparency and protection of investors, we also support preserving consumer choice, assessing the benefits of the proposed changes versus the likely implementation costs, and maintaining a level playing field across products. Accordingly, we believe that the Commission should consider the following recommendations:

Take a Comprehensive Approach to Regulatory Reform

We are concerned that the proposed changes, along with a variety of other related regulatory changes (such as the Department of Labor's Rule 408(b)(2) interim final rule) will fundamentally impact investors' ability to choose the products they want and to pay for mutual funds as they choose. We believe these proposals need to be reviewed together, with the impact that all reforms collectively would have on the industry being carefully considered. Ultimately, the goal of such review should be to avoid the unintended consequences of reducing investor choice and/or increasing costs to shareholders. We fear that increased operational costs that will result from the proposed changes will either be passed along to consumers in the form of higher fees, or will result in a lowering of service levels or both. Smaller investors and smaller retirement plans will be especially harmed as distributors assess and adjust the revenues and expenses of their business models. Finally, such a comprehensive change will have unknown implications for jobs at distributors and asset management companies. Attrition in the industry resulting from revenue-driven cost reductions could lead to reduced services and inferior results for clients, all of which is directly counter to the Commission goal of enhancing investor protection.

Thoughtfully Work to Improve Disclosure

We believe in full and fair disclosure. However, inundating plan sponsors or investors with voluminous data can be a source of confusion rather than a help. We favor adding meaningful disclosure, with an emphasis on "plain English" verbiage over legalese. This is particularly true as it relates to terms such as the more precise "ongoing marketing and service fees" versus the more nebulous "12b-1 fees." Similarly, to the extent the overhaul of fund distribution results in expanded revenue sharing arrangements, it is likely that fee disclosure will be even more opaque unless additional Commission guidance is forthcoming. With respect to the proposed fee disclosures to investors, if additional, helpful information can be supplied without requiring excessive systems implementation costs and fundamental changes to the way funds and broker-dealers make fee and other information available to investors, we are fully supportive. However, the costs and burdens imposed by any new disclosure requirements should not outweigh the benefits intended to be derived from the disclosure enhancements.

Preserve Investor Choice

Investor choice has been at the heart of the mutual fund industry since its earliest days. The current multi-share class, multi-fee system allows investors to choose among an array of options suited to their individual needs. The proposed changes will reduce product choice, especially for smaller investors and smaller defined contribution plans. Equally important is investor choice when it comes to investment advice and services, and how to pay for each. Assuming robust and fair standards of disclosure, we believe investors should be free to choose their investment intermediary and how best to compensate them for their services.

Overall, we recommend a reform approach that minimizes disruption to the fund industry and emphasizes clear guidelines for allowable fees and improved disclosure for investors. We would discourage the Commission from making any changes in the name of investor protection that instead would have the unintended consequence of undermining the solid foundation on which mutual funds have been distributed and thrived over the many decades since their introduction.

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We thank the Commission for providing BlackRock the opportunity to provide comments and suggestions regarding the rule proposals. We share the Commission's concerns regarding investor protection, and are prepared to assist the Commission in any way we can to ensure that any rule changes will benefit investors by increasing transparency and improving disclosure, while at the same time preserving investor choice and not unduly burdening the fund industry and its distribution partners. Please contact the undersigned if you have any questions or comments regarding BlackRock's views.

Sincerely,

/s/ Barbara Novick

Barbara Novick
Vice Chairman
BlackRock, Inc.

cc: The Honorable Mary L. Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
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