



May 8, 2023

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Submitted via email to rule-comments@sec.gov

Re: Safeguarding Advisory Client Assets; File No. S7-04-23

BlackRock, Inc. (together with its affiliates, “**BlackRock**”) respectfully submits its comments to the Securities and Exchange Commission (“SEC” or “Commission”) in response to the Commission’s request for comment on a new safeguarding rule (proposed rule 17 CFR 275.223-1, the “safeguarding rule”) to replace its existing investment adviser custody rule (current rule 17 CFR 275.206(4)-2, the “custody rule”) and related amendments to the investment adviser recordkeeping rule (17 CFR 275.204-2) and to Form ADV (17 CFR 279.1) for investment adviser registration under the Investment Advisers Act of 1940 (the “Advisers Act”) (together, the “Safeguarding Proposal” or “proposal”).¹

As an investment adviser, safeguarding our clients’ funds and securities from loss, misuse, theft, and misappropriation is a critical and core function of our role as a fiduciary,² which is why BlackRock has always dedicated substantial efforts and resources to ensure that clients are appropriately protected from such jeopardy. Furthermore, we agree with the Commission that maintaining appropriate safeguarding standards and practices requires advisers to routinely consider changing economic conditions, technological advancements, evolving investor behavior, the development of new investment products, and other changes by an increasingly diverse set of market participants. We therefore appreciate the Commission’s goal of strengthening investor protections through a modified custody rule that is intended to address current—and future—market and technologic developments.

However, the Safeguarding Proposal, in its current form, imposes numerous consequential changes that could have far-reaching effects on investors in the form of higher costs, diminished returns, increased risk exposure, reduced availability of investment products, services, markets, and strategies and could have detrimental impacts on capital markets. There are, for example, several elements of the proposal

¹ SEC, Safeguarding Advisory Client Assets, Rel. No. IA-6240 (Feb. 15, 2023) available at <https://www.sec.gov/rules/proposed/2023/ia-6240.pdf>.

² BlackRock is one of the world’s leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world.

that could make numerous investment products and services difficult or costly to access by investors and leave them scrambling to identify effective substitutes.

While we find many aspects of the proposal worrisome, the proposed requirement to insert investment advisers—and certain prescriptive contractual terms—into established bilateral agreements between clients and their custodians is particularly troubling. We believe that this change would result in numerous unintended consequences and likely impair investors' ability to access custodian and advisory services.

Finally, we would note to the Commission that the current, less expansively applied, custody rule has itself presented significant implementation and interpretive questions over the years—as evidenced by the voluminous inventory of SEC issued Frequently Asked Questions and interpretive releases. Therefore, even an incremental change to the current custody rule—much less amendments of the magnitude proposed—should be approached with utmost care and in conjunction with comprehensive industry outreach to ensure that all potential implications and externalities are identified and sufficiently addressed by a final rule.

BlackRock therefore urges the Commission, before adopting a final rule that could potentially disrupt the marketplace for investment advisory services and investment products, to engage with market participants to obtain a full understanding of current custodial operational procedures and the way custodial relationships between clients, investment advisers and custodian are established, maintained, and documented. To aid this engagement with market participants, we also would ask that the Commission provide a more complete articulation of the concerns and issues it is seeking to address for each newly covered asset class/product and advisory activity before proposing such far-reaching and fundamentally transformative changes to the custodial services system as it exists today.

We also write to express our general support of many of the issues raised in the comment letters submitted, on or about May 8, 2023, by the Investment Company Institute (ICI), the Securities Industry and Financial Markets' Asset Management Group (SIFMA AMG), the International Swaps and Derivatives Association (ISDA), and the Managed Funds Association (MFA) regarding the Safeguarding Proposal. We believe that Commission should carefully consider the issues identified in each of these letters if it determines to continue to move forward with the proposal.

BlackRock thanks the Commission for the opportunity to comment on the Safeguarding Rule Proposal. We welcome any additional questions or further discussion.

Sincerely,

Samantha DeZur
Managing Director, Global Public Policy Group