Financial Services Authority

FINAL NOTICE

To:	BlackRock Investment Management (UK) Limited
Of:	12 Throgmorton Avenue, London EC2N 2DL
FSA Reference Number:	FRN 119293
Date:	11 September 2012

1. ACTION

1.1 For the reasons given in this notice, the FSA hereby imposes on BlackRock Investment Management (UK) Ltd ("BIM" or "the Firm") a financial penalty of £9,533,100 in accordance with section 206 of the Financial Services and Markets Act 2000 ("the Act").

1.2 BIM agreed to settle at an early stage of the FSA's investigation. BIM therefore qualified for a 30% (stage 1) discount under the FSA's executive settlement procedures. Were it not for this discount, the FSA would have imposed a financial penalty of £13,618,800 on BIM.

2. SUMMARY OF REASONS

2.1. The Firm breached Principle 10 of the FSA's Principles for Businesses (the "Principles") and Client Assets Sourcebook ("CASS") 7.8.1R and its predecessor rule by failing to arrange adequate protection for certain client money when it was responsible for it, by failing to comply with the requirement to provide appropriate notification and obtain acknowledgement of the trust status of client money placed on money market deposits in the period between 1 October 2006 and 31 March 2010 ("the Relevant Period"). Such trust letters were not in place during the Relevant Period with a number of the banks with which client money was deposited, with the consequence that client money was at risk in the event of the insolvency of the Firm. The average daily balance of money market deposits at risk with those banks was over £1.36 billion.

2.2. In addition, the Firm breached Principle 3, by failing during the Relevant Period to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems, in relation to the identification and protection of that client money. The Firm also breached CASS 7.3.2R by failing to introduce adequate organisational arrangements to minimise the risks to the client money as a result of inadequate administration.

2.3. The Firm's breaches arose from a series of organisational and systems changes which took place after its acquisition by BlackRock group ("BlackRock") on 29 September 2006. These changes resulted in a weakening of the Firm's client money oversight and compliance arrangements. The consequential departure of certain members of staff with institutional knowledge contributed to the Firm's delay in identifying, and then addressing, these issues.

2.4. The principal objective of the Client Money Rules is to ensure that client money is adequately protected whilst firms are responsible for it. Where client money is deposited with third parties, these third parties must be aware of the status of the money to ensure it is protected in the event of the insolvency of the firm. Firms holding client money are therefore required by the Client Money Rules to obtain acknowledgement of trust status in writing from all third parties which hold client money on their behalf. This is achieved by the firm giving written notice to the bank where client money has been deposited, requesting the bank to acknowledge in writing (by means of a "trust letter") that (i) all money standing to the credit of the account is held by the firm as trustee and that the bank is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account in respect of any amount owed to it on any other account of the firm; and (ii) the title of the account sufficiently distinguishes that account from any account containing money that belongs to the firm. If the bank does not provide the required acknowledgement within 20 business days of the notice, the firm is required to withdraw all money standing to the credit of the account and to deposit it elsewhere.

2.5. By issuing a notification and obtaining an acknowledgement of trust in the form of a trust letter from the bank holding its client money, a firm is taking reasonable steps to ensure that, in the event of its own insolvency, client money is (i) ring-fenced from the firm's own assets, (ii) readily identifiable and (iii) more promptly returned to clients without incurring an undue risk of litigation between competing creditors or claims for rights of set-off and consequential delay. Such steps are required for the firm to arrange adequate protection for client money.

2.6. In the Relevant Period the Firm did not obtain trust letters in respect of a number of its client money market deposits and did not identify the absence of such letters during nearly 3 ½ years, in breach of the Client Money Rules, exposing its clients to some risk in the event of the Firm's insolvency. If BIM had become insolvent during the Relevant Period, there would have been a lack of clarity at the banks as to whether the money in money market deposits placed by the Firm without trust letters being in place was in fact client money. No debts were owed by BIM to any banks with which MMDs were placed throughout the Relevant Period, such that the risk of set-off was correspondingly substantially reduced. Nonetheless in the event of BIM's insolvency, competing claims over the client money might have needed to be resolved by the

administrator or liquidator of the Firm before any disbursements could have been made to clients. This might have significantly complicated and delayed the process of recovering such money for the Firm's clients, who may therefore have incurred costs and not have recovered their money in full.

2.7. BlackRock is one of the largest asset managers in the world, with over $3.5 trillion of assets under management. The FSA views the Firm's failings as serious because:

(a) The Firm is a pre-eminent asset management firm and a premier provider of investment management, risk management and other advisory services, with significant operations in the United Kingdom and globally. It is one of the largest managers of third party money in the UK;

(b) Throughout the Relevant Period, the average balance of client money which the Firm failed to protect adequately was approximately £1.36 billion per day;

(c) The FSA sent an industry-wide Dear Compliance Officer letter regarding adequate arrangements to protect client money in March 2009, and later expressly highlighted acquisitions as leading to a high risk of non-compliance with the CASS Rules, in the Client Money and Assets Report sent out with an industry-wide Dear CEO letter of January 2010; and

(d) Despite this contact, the Firm did not recognise and fully remediate the breaches during the Relevant Period.

2.8. In determining the level of financial penalty, the FSA has taken into account the following mitigating factors:

(a) The Firm's conduct was not deliberate or reckless;

(b) BlackRock self-reported the error and remedied the lack of trust letters;

(c) The Firm has fully cooperated with the FSA's investigation and has committed significant resources to conducting an internal investigation;

(d) There has been no actual loss to clients;

(e) BIM did not have any overdrafts or credit facilities with the relevant banks so that any risk of set-off was correspondingly substantially reduced;

(f) The Firm has implemented both the recommendations of an external adviser's report and changes resulting from the Firm's own internal remediation exercises. It has made significant investment in its compliance programme with respect to the Client Money Rules, including strengthening client money expertise through training and hiring new staff. BlackRock now has in place a clearly documented and well understood oversight framework and a dedicated client money and assets team;

(g) The Firm has no previous disciplinary history with the FSA; and

(h) The Firm did not profit from the breaches or avoid loss.

3. DEFINITIONS

3.1. The definitions below are used in this Final Notice:

(a) "the Act" means the Financial Services and Markets Act 2000;

(b) "BlackRock" means the BlackRock group

(c) "BIM" or "the Firm" means BlackRock Investment Management (UK) Limited;

(d) "CASS" means the Client Assets sourcebook contained in the FSA Handbook;

(e) "Client Money Rules" means, from 1 November 2007, the CASS 7 section of CASS (as defined above), and CASS 4.1-4.3 prior to 1 November 2007;

(f) "Dear CO letter" means Dear Compliance Officer letter

(g) "DEPP" means the FSA's Decision Procedure & Penalties Manual;

(h) "EG" means the FSA's Enforcement Guide;

(i) "ENF" means the FSA's Enforcement Manual;

(j) "the FSA" means the Financial Services Authority;

(k) "IMA" means Investment Management Agreements;

(l) "MLIM" means Merrill Lynch Investment Managers Limited;

(m) "MMD" means money market deposit;

(n) the "Monitoring Report" means the BlackRock Client Money and Assets Monitoring Report dated 25 June 2010;

(o) the "Principles" means the FSA's Principles for Businesses; and

(p) "trust letter" means the written acknowledgment of the status of client money deposited with third parties required by CASS 7.8.1R and CASS 4.3.48R prior to 1 November 2007.

4. FACTS AND MATTERS

Background

4.1. BlackRock was founded in 1988. It grew following a series of mergers and acquisitions.

4.2. On 29 September 2006, BlackRock acquired Merrill Lynch Investment Managers Limited ("MLIM"). MLIM was renamed BlackRock Investment Management (UK) Limited ("BIM").

(A) MLIM PRE-ACQUISITION

MLIM and Money Market Deposits

Investment Management Agreements

4.3. MLIM clients each entered into an Investment Management Agreement ("IMA") with MLIM, permitting MLIM to act as an investment manager on behalf of the client. The terms of the IMA dictated the nature of the investments the investment manager was permitted to make on behalf of the client. The permitted investments included money market deposits.

Money market deposits

4.4. An MMD is a short term deposit made to obtain a return on the uninvested cash in a client's investment portfolio and to diversify credit risk from the client's custodian. MMDs were made with particular counterparty banks for a fixed rate of return. As set out below, certain banks were approved by MLIM to accept MMDs ("approved banks"). MLIM had put in place procedures to add new banks to its list of approved banks, and controls to ensure that MMDs were made with approved banks only.

MLIM's procedure for making MMDs

4.5. MLIM placed MMDs for some of its clients that were client money. MLIM was the principal to the MMD and acted as trustee for the underlying clients to whom the MMDs related. As set out below, MLIM had in place various controls to ensure that these MMDs were placed in accordance with the Client Money Rules. Amongst other matters, throughout the Relevant Period those Rules required that trust letters be in place, whereby any third party bank with whom client money was deposited acknowledged its status as client money.

Recording of MMDs

4.6. Once an MMD had been placed, the transaction would be recorded on MLIM's transaction recording system.

MLIM's client money controls

Role of MLIM Compliance

4.7. The Credit and Control Committee at MLIM was responsible for determining the banks with which MLIM could enter into transactions on behalf of clients. This included establishing a list of "approved banks", i.e. those banks with which the relevant transactions (in this case, MMDs) could be placed. Compliance was responsible for oversight of the coding of the details of the approved banks onto MLIM's transaction recording systems.

4.8. A senior representative of Compliance attended the Credit and Control Committee and therefore had notice of: (i) the banks which MLIM had approved to receive MMDs; and (ii) the banks whose inclusion on the list of approved banks was being considered. Compliance staff had knowledge and experience of the Client Money Rules and

understood the need for trust letters to be in place with banks with which MMDs might be placed. Compliance ensured that trust letters were in place for the approved banks, before such banks were coded onto MLIM's transaction recording systems as being approved to accept MMDs. They also ensured that hard copy versions of trust letters were kept in a file, and performed ad hoc checks to ensure that trust letters were in place for banks with which MMDs were placed.

4.9. Compliance also had responsibility for coding restrictions relating to banks or individual clients onto the monitoring system that operated in conjunction with MLIM's transaction recording system. If an MMD was made with an unapproved bank, or with a bank which a client had not approved to hold MMDs on its behalf, the monitoring system should have generated an electronic warning or flag. Compliance monitored this system and responded to electronic flags which indicated a potential client money issue.

4.10. Compliance understood the Client Money Rules, exercised oversight throughout the client money transaction process, and had responsibility for ensuring that client money controls operated effectively to ensure compliance with the Client Money Rules.

(B) BIM POST ACQUISITION

4.11. As noted above, on 29 September 2006, MLIM was acquired by BlackRock and was renamed BIM. The acquisition resulted in a number of governance, organisational and operational changes at BIM which affected oversight and responsibility for approving new banks with which MMDs could be placed and thereby affected compliance with the Client Money Rules. The departure of certain personnel after the acquisition resulted in some loss of institutional knowledge in connection with the Client Money Rules and related compliance controls.

System changes

4.12. From the time BlackRock acquired MLIM, all MLIM client portfolios were migrated to BlackRock's operating system. The transfer to the BlackRock system began on 1 October 2006 and was completed on 30 August 2007.

4.13. Under the BlackRock operating system, MMDs were confirmed with the counterparty banks with whom they were placed by means of messages that contained an alpha-numerical identifier specific to each client.

Changes to client money oversight and compliance

4.14. Soon after BlackRock's acquisition of MLIM, the Credit and Control Committee was disbanded. Under the new procedure, requests for new banks to be added to the list of approved banks were input directly by traders into an application in BlackRock's operating system. The responsibility for controlling the approval of banks moved from the Credit and Control Committee to BlackRock's Credit Research team. BIM Compliance was not involved in the process of approving banks for credit purposes, however it was intended that it would continue to be informed or consulted about changes to the list of approved banks to ensure that trust letters were in place. The addition of a new bank to the approved list had been an infrequent event, and post-September 2006, Compliance wrongly assumed that since it was not being consulted,

new banks were not being added to the list of approved banks. The lack of consultation meant that Compliance was no longer aware of any new bank being approved, and was therefore unable to ensure that any new trust letter was arranged.

4.15. BlackRock's operating system did not indicate whether trust letters were in place with a particular institution that held MMDs that were client money. The Firm's client money compliance procedures were still reliant on Compliance ensuring that newly approved banks were sent trust letters where required, and monitoring that client money was not placed with banks without trust letters. However, as noted above, post acquisition, Compliance was no longer directly involved in the new bank approval process and as a result these procedures became ineffective.

Staff Departures

4.16. Following the acquisition, there were certain staff departures which led over time to institutional knowledge, and experience of the application of the Client Money Rules to the business, being lost. These departures contributed to the delay in identifying that, following the acquisition, certain approved banks did not have trust letters in place where required.

Changes to the list of approved banks

4.17. Prior to its acquisition of MLIM, BlackRock had relationships with a number of counterparty banks ("pre-merger banks") but did not hold client money with these pre-merger banks and therefore did not have trust letters in place with them.

4.18. Following BlackRock's acquisition of MLIM, the pre-merger banks were combined with MLIM's list of "approved banks", creating a newly expanded list of "approved banks". This expanded list was coded onto the relevant application in the operating system, allowing BIM traders to place MMDs with MLIM's approved banks and BlackRock's pre-merger banks, for which trust letters were not in place and never had been in place.

4.19. The Firm did not recognise that trust letters might not be in place for the pre-merger banks or the risk that this posed for clients. Throughout the Relevant Period, regular client money reviews undertaken by external advisers did not raise any client money compliance issues relating to MMDs.

Identification of the issue

4.20. In July 2008, some Compliance staff queried whether trust letters needed to be updated to reflect the change of name from MLIM to BIM. The conclusion reached was that the migration to the BlackRock operating system which used messages that contained individual client identifiers meant that trust letters were no longer required and as a result checks of trust letter documentation ceased.

4.21. In March 2009, BIM received an FSA industry-wide Dear CO letter regarding the arranging of adequate protection of clients' assets and money. The Dear CO letter specifically highlighted the acknowledgement of trust requirements contained in CASS. The Dear CO letter also explained that the FSA had identified that firms were

failing to hold client money in accordance with these requirements and others in CASS.

4.22. In response to the Dear CO letter, a gap analysis was prepared by BIM's compliance department which was intended to be a comprehensive analysis of BIM's arrangements for the protection of client money. In April 2009, this analysis identified that further work was required in relation to the designation of MMDs and eventually led BIM's compliance department to review trust letter documentation in January 2010 and conclude that it needed updating.

4.23. On 19 January 2010, BIM received the FSA's industry-wide "Dear CEO" letter which emphasised the importance of ensuring that firms were in compliance with the client money rules.

4.24. Enclosed with the Dear CEO letter was the FSA's "Client Money and Asset Report" which explained that the FSA's recent industry-wide work in the client money area had revealed "*poor management oversight and control*" and "*incomplete or inaccurate records, accounts and reconciliations*." The report concluded:

"*We found that the risk of non-compliance was higher during periods of change. For example, following internal restructuring or acquisitions, where a firm transferred to a new reporting and reconciliation system, or when it merged different systems*."

4.25. The Dear CEO letter required BIM to confirm that the content of the letter and report had been properly considered. It also required BIM to confirm that the Firm was in compliance with its obligations regarding the protection of client money and assets.

4.26. BlackRock began a full review of its client money arrangements (the "Monitoring Review") in February 2010. BlackRock had determined in mid-2009, in view of an impending significant merger, that such a review should be undertaken after that merger. The first step in the Monitoring Review was to identify the extent to which CASS applied to various entities within BlackRock. At the outset of this Monitoring Review, compliance staff noted that BIM's trust letter documentation had not been updated to reflect the change in name from MLIM to BIM, which led to new trust letters being put in place with counterparty banks with which BlackRock placed MMDs in February 2010.

4.27. In March 2010, the Firm engaged an external adviser to advise on client money arrangements generally, and to assist the Firm in relation to the Monitoring Review.

4.28. On 1 April 2010, BlackRock formally notified the FSA that certain trust letters had not been in place during the Relevant Period, for some of the money the Firm had identified as client money.

4.29. The Firm then began a remediation programme throughout 2010, to ensure that all MMDs it had identified as client money were being held in accordance with the Client Money Rules. In June 2010, BIM provided the FSA with a copy of the Monitoring Review, which set out their findings that trust letters were not in place for a number of banks with which MMDs were placed. A copy of the external adviser's report was also provided to the FSA at this time.

4.30. By August 2010, BlackRock reported to the FSA that all banks had been identified that did not have trust letters in place, and that this issue had been fully remediated by means of further trust letters being issued.

4.31. By September 2010, BlackRock had updated and improved its procedures in relation to the placing of money market deposits as part of its remediation plan so as to ensure appropriate systems and controls were in place to protect client money on deposit with third party banks.

FSA Investigation

4.32. In response to the Monitoring Review, the FSA appointed investigators to investigate possible breaches of its Principles and Client Money Rules.

4.33. As part of the FSA's investigation, four of the counterparty banks, with whom BIM placed the majority of MMDs during the Relevant Period without the required trust letters being in place, were approached. The majority of these banks have confirmed that they identified the Firm as being the legal owner of the MMDs, and that, given the absence of any written confirmation or trust letters they had no reason to believe that the deposits constituted client money. Had the Firm become insolvent, the majority of these banks stated that they would have sought to exercise a right of set-off or counterclaim against these MMDs in the event that there were any sums owed to them on any other account by the Firm, or would have delayed returning the funds until instructions were received from the administrator or liquidator.

5. FAILINGS

5.1. The statutory and regulatory provisions relevant to this Final Notice are referred to in Annex A.

5.2. BlackRock's acquisition of MLIM was followed by internal restructuring which led to a breach by BIM of the Client Money Rules and non-compliance with Principle 10 and Principle 3 in relation to the placing of MMDs. Specifically, the acquisition led to: (i) the loss of client money oversight and control, after the disbanding of the Credit and Control Committee and the removal of Compliance from the credit approval process; (ii) a loss of trained and experienced staff with knowledge of the application of the Client Money Rules; and (iii) operational failings, relating to the monitoring, reporting and identification of potential client money problems. These failings meant that client money controls became ineffective.

5.3. The acquisition and subsequent changes led to a lack of institutional awareness of the Client Money Rules and how these applied to the merged business, and, as a result, contributed to the breakdown in the compliance process designed to meet the requirements surrounding trust letters for MMDs. This meant that not only did trust letter failings persist over a period of time, but also the Firm missed opportunities to ensure that client money placed as MMDs was adequately protected.

Breach of Principle 10 and CASS 7.8.1R/CASS 4.3.48R

5.4. Principle 10 requires a firm to arrange adequate protection for client money while it is responsible for it. CASS sets out the requirements placed on firms to ensure that such adequate protection is in place for client money and assets.

5.5. CASS 7.8.1R and its predecessor, CASS 4.3.48R (in force prior to 1 November 2007), require a firm that opens a client bank account (i) to request the bank to acknowledge in writing the trust status of the money in the account and (ii) to withdraw all money from the account if such acknowledgement is not received from the bank within 20 business days. This is a key requirement in order to ensure that client money is adequately protected.

5.6. The process of migrating MLIM clients' investment portfolios to BlackRock's operating system, which began on 1 October 2006, resulted in certain client money being placed on deposit with banks with which trust letters were not in place and had never been in place. BIM's organisational arrangements were inadequate to ensure that the absence of the trust letters was promptly identified. This failure persisted until remediation work was undertaken by BIM during 2010 to ensure that the necessary trust letters were put in place.

5.7. The Firm's failure to have trust letters in place for all MMDs during the Relevant Period exposed clients whose funds were so invested to a risk of delay in recovering their funds or the possible loss of some of those funds. Although no debts were owed by BIM to any banks with which MMDs were placed throughout the Relevant Period, such that the risk of set-off was correspondingly substantially reduced, clients were at risk of incurring costs securing the return of their funds in the event of BIM's insolvency and therefore may not have recovered their money in full. In the event, no client money was lost as a consequence of the breach by the Firm.

Breach of Principle 3 and CASS 7.3.2R

5.8. Principle 3 requires a firm to ensure it has organised its affairs responsibly and effectively, with adequate risk management systems.

5.9. CASS 7.3.2R requires a firm to introduce adequate organisational arrangements to minimise the risk of the loss or diminution of client money, or of rights in connection with client money, as a result of misuse of client money, fraud, poor administration, inadequate record keeping or negligence.

5.10. As detailed further below, the FSA's investigation has identified several systems and control failings during the Relevant Period. These failures stemmed from the changes which followed on from the Firm's acquisition by BlackRock, which resulted in:

(a) ineffective oversight and compliance controls as these related to client money placed as MMDs;

(b) the loss of experienced and trained staff with knowledge of the application of the Client Money Rules to the business, and a failure by management to recognise or remediate this loss; and

(c) a general assumption that business was operating effectively which meant there was a failure to check that key client money controls were operating effectively.

5.11. The Firm failed to recognise that its internal restructuring and re-organisation were weakening critical client money controls.

Failings relating to client money oversight and compliance

5.12. The removal of Compliance's role in the formal credit approval process for new banks undermined its ability to exercise oversight for client money compliance in respect of MMDs and led to a loss of control concerning the notification and acknowledgement of trust letters. As a result, the Firm did not have adequate systems to monitor whether new trust letters had been put in place for banks that were being added to the "approved list".

5.13. The Firm failed to understand or recognise the effect of removing Compliance from the formal credit approval process for new banks. The Firm failed to assure itself that appropriate governance structures were in place to identify and manage the risks relating to client money compliance.

Loss of institutional knowledge and client money experience

5.14. The Firm failed to recognise and mitigate the risks arising from the departure of experienced and qualified personnel after the acquisition.

5.15. Management failed to identify promptly the gaps in institutional knowledge that were created after staff departures and as a result did not ensure that the gaps in that knowledge were filled, for example, through appropriate education and training programmes, in order to minimise the impact of the loss of client money knowledge to the Firm and its clients.

Delay in identifying the absence of trust letters

5.16. The Firm failed to adequately manage integration risk to client money procedures or conduct a specific post-acquisition review of its processes for dealing with client money compliance which may have identified the client money control failings. Senior management did not take the necessary steps to obtain assurance that the Firm was in compliance with the client money rules and that it had correctly identified money as having, or not having, the status of client money.

5.17. Consequently, the Firm failed to question whether client money was held in accordance with the Client Money Rules. A check of trust letter documentation in July 2008 resulted in the mistaken conclusion that trust letters were no longer required as a result of the change in systems, with no further work being done.

5.18. In addition, although some work was done on client money controls after receipt of the industry-wide Dear CO letter in March 2009, the absence of trust letters was not fully identified for ten months after receipt of the Dear CO letter.

5.19. Once the issue with trust letters was identified, several more months elapsed before its extent was fully realised and remediated and improved systems and controls put in place.

6. SANCTION

6.1. The FSA's policy on the imposition of financial penalties and public censures is set out in the FSA's Decision Procedure & Penalties Manual ("DEPP"). In determining the financial penalty, the FSA has had regard to this guidance. The FSA has also had regard to the provisions of the FSA's Enforcement Manual ("ENF") which were in force during part of the Relevant Period.

6.2. The principal purpose of a financial penalty is to promote high standards of regulatory conduct by deterring firms who have breached regulatory requirements from committing further contraventions, helping to deter other firms from committing contraventions and demonstrating generally to firms the benefits of compliant behaviour.

6.3. For the reasons set out above, the FSA considers that the Firm breached CASS Rules 7.8.1R and its predecessor and 7.3.2R, and failed to comply with Principles 3 and 10. In determining that a financial penalty is appropriate and proportionate in this case, the FSA has considered all the relevant circumstances.

6.4. The FSA's new penalty regime applies to breaches which take place on or after 6 March 2010. However, most of the Relevant Period falls under the old penalties regime, and so the old regime has been applied in assessing the appropriate penalty. The FSA considers the following factors to be particularly important.

Deterrence (DEPP 6.5.2G(1))

6.5. The FSA has always viewed compliance with its client money requirements as of significant importance. The FSA considers there to be a need to send a strong and robust message to the industry that firms must handle client money in a way which is compliant with the Principles and the Client Money Rules.

6.6. The principal objective of CASS Rule 7.8.1R is to ensure that client money is protected by requiring a firm, which holds client money as a trustee for its clients, to obtain from the third party banks where such client money is held a written acknowledgement that the money standing to the credit of such accounts is not the firm's money, but money held by the firm as trustee. The required acknowledgement is obtained by the firm giving a written notice to the bank with which client money has been deposited, requesting the bank to acknowledge the trust status of all the funds in the account. This acknowledgment must be provided by the bank within 20 business days, failing which the firm must withdraw all of the money in the account and deposit it elsewhere.

6.7. By securing the bank's written acknowledgement that the funds in the account are subject to a trust, the firm mitigates so far as reasonably practicable the risk that, in the event of the firm's insolvency, the bank will seek to exercise over the funds in the account any contractual rights of set-off, combination or counterclaim which may exist pursuant to other banking arrangements with the firm. This is a crucial

protection afforded to client money under the Client Money Rules which is intended to help facilitate the prompt identification and return of client money to a firm's clients in the event of the firm's insolvency.

6.8. Failure to have an appropriate trust letter in place unnecessarily increases the risk that, in the event of a firm's insolvency, the return of client money will be significantly delayed or even prevented by competing claims over the funds. In such circumstances, the third parties by whom the funds are held might delay returning funds to customers until instructed to do so by the liquidator or by a court order. Further, they may seek to set off the funds against debts owed by the insolvent firm.

6.9. In this instance, no debts were owed by BIM to any banks with which MMDs were placed throughout the Relevant Period and so the risk of set-off was correspondingly substantially reduced. Nonetheless, the Firm's failure to obtain trust letters in respect of a number of client money market deposits for nearly 3 ½ years posed a risk to its clients. The likelihood of such clients recovering their money promptly in the event of the insolvency of the Firm would have been significantly reduced. As it happens, no client money was lost as a consequence of the breach by the Firm.

Nature, seriousness and impact of the breach (DEPP 6.5.2(2))

6.10. The FSA has had regard to the seriousness of the breaches, including the nature of the requirements breached and the number and duration of the breaches. The FSA considers the Firm's breach of Principle 10 and CASS Rule 7.8.1R and its predecessor to be serious for the following reasons:

(a) the average amount of client money without adequate protection throughout the Relevant Period was over £1.36 billion;

(b) the risk to client money created by the absence of necessary trust letters remained undetected for 3 ½ years;

(c) the protection of clients' money and assets is of critical importance to BlackRock as an investment manager;

(d) the importance of the Firm in the market place, particularly as the breaches covered a period of extreme market instability and risk within the money markets which while not within BIM's control should have prompted BIM to take greater care; and

(e) the fact that the breaches arose from an acquisition which, as a key part of BlackRock's strategic development, should have been more effectively managed.

The extent to which the breach was deliberate or reckless (DEPP 6.5.2(3))

6.11. The FSA does not consider that the Firm committed the breaches deliberately or recklessly.

The size, financial resources and other circumstances of the firm (DEPP 6.5.2(5))

6.12. In deciding on the level of penalty, the FSA has had regard to the size of the financial resources of the Firm.

6.13. The FSA has no evidence to suggest that BIM is unable to pay the financial penalty.

The amount of profits accrued or the loss avoided (DEPP 6.5.2(6))

6.14. The Firm did not profit from the breaches or avoid loss.

Conduct following the breach (DEPP 6.5.2(8))

6.15. BIM identified and reported the breaches to the FSA and, during 2010, implemented a remediation programme to address these breaches.

6.16. BIM has fully co-operated with the FSA, and has committed significant resources to conducting an internal investigation. BlackRock also has made significant investment in its compliance programme with respect to the Client Money Rules, including strengthening its client money expertise through training and hiring new staff. In 2011, a skilled person's investigation focusing on compliance with the Client Money Rules concluded that BlackRock has, since the Relevant Period, put in place a clearly documented and well understood oversight framework and a client assets team (including a dedicated individual responsible for CASS oversight), and now secures appropriate involvement from the business, legal and compliance staff in key issues related to Client Money Rules compliance.

Disciplinary record and compliance history (DEPP 6.5.2(9))

6.17. BIM has not previously been the subject of FSA enforcement action.

Other action taken by the FSA (DEPP 6.5.2(10))

6.18. The FSA has had regard to previous cases involving the failure adequately to protect client money.

Conclusions

6.19. The FSA considers that the seriousness of the Firm's failings merit a very substantial financial penalty. In determining the proposed financial penalty, the FSA has considered the need to send another clear message to the industry of the need to ensure that client money is properly protected in accordance with the Client Money Rules and that firms must have in place at all times adequate oversight, systems and controls to manage the risks to client money. Failure to ensure that an appropriate acknowledgement of trust is in place in respect of all client bank accounts will result in severe consequences.

6.20. The FSA considers, taking into account the applicable Stage 1 discount for early settlement, that a financial penalty of £9,533,100 is appropriate. This figure has been arrived at by reference to all of the factors referred to above, including the aggravating factor of the substantial sums of client money that were at risk, the length of time

during which the risk subsisted, and the Firm's failure to detect the lack of trust letters for 3½ years, during which time the Firm received the Dear CO letter. The penalty imposed is equivalent to 1% of the estimated average amount of unprotected client money held by the Firm during the Relevant Period, prior to the discount for early settlement.

7. PROCEDURAL MATTERS

Decision maker

7.1 The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

7.2 This Final Notice is given under, and in accordance with, section 390 of the Act.

Manner of and time for Payment

7.3 The financial penalty must be paid in full by BIM to the FSA by no later than 25 September 2012, 14 days from the date of the Final Notice.

If the financial penalty is not paid

7.4 If all or any of the financial penalty is outstanding on 26 September 2012, the FSA may recover the outstanding amount as a debt owed by BIM and due to the FSA.

Publicity

7.5 Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.

7.6. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

7.7 For more information concerning this matter generally, contact Nick Bayley (direct line: 020 70665342 /fax: 020 70665343) of the Enforcement and Financial Crime Division of the FSA.

Matthew Nunan
FSA Enforcement and Financial Crime Division

ANNEX A

1. STATUTORY AND REGULATORY PROVISIONS

1.1. The FSA is authorised, pursuant to section 206 of the Financial Services and Markets Act 2000, if it considers that an authorised person has contravened a requirement imposed on him by or under the Act, to impose on such person a penalty in respect of the contravention of such amount as it considers appropriate in the circumstances.

1.2. Pursuant to section 2(2) and section 3 of the Act, one of the FSA's statutory objectives is maintaining confidence in the financial system.

1.3. Principle 10 of the Principles states that:

> *"A firm must arrange adequate protection for clients' assets when it is responsible for them."*

1.4. Client Asset Rule 4.3.48R, in force from 1 October 2006 to 31 October 2007 states that:

> *When a firm opens a client bank account, the firm must give or have given written notice to the bank requesting the bank to acknowledge to it in writing:*
>
> *(1) that all money standing to the credit of the account is held by the firm as trustee (or if relevant, as agent) and that the bank is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account in respect of any sum owed to it on any other account of the firm; and*
>
> *(2) that the title of the account sufficiently distinguishes that account from any account containing money that belongs to the firm, and is in the form requested by the firm.*

1.5. During the same period, a client bank account was defined for the purposes of CASS 4 as:

> (a) *an account at a bank which:*
>
> *(i) holds the money of one or more clients;*
>
> *(ii) is in the name of the firm;*
>
> *(iii) includes in its title an appropriate description to distinguish the money in the account from the firm's money; and*
>
> *(iv) is a current or a deposit account; or*
>
> (b) *a money market deposit of client money which is identified as being client money.*

1.6. During the same period, client money was defined for the purposes of CASS 4 as "subject to the client money rules, money of any currency which, in the course of carrying on designated investment business, a firm holds in respect of any investment agreement entered into, or to be entered into, with or for a client, or which a firm treats as client money in accordance with the client money rules".

1.7. Client Assets Rule 7.8.1R, in force from 1 November 2007 onwards states that:

> *(1) When a firm opens a client bank account, the firm must give or have given written notice to the bank requesting the bank to acknowledge to it in writing that:*
>
> *(a) all money standing to the credit of the account is held by the firm as trustee (or if relevant, as agent) and that the bank is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account in respect of any sum owed to it on any other account of the firm; and*
>
> *(b) the title of the account sufficiently distinguishes that account from any account containing money that belongs to the firm, and is in the form requested by the firm.*
>
> *(2) In the case of a client bank account in the United Kingdom, if the bank does not provide the required acknowledgement within 20 business days after the firm dispatched the notice, the firm must withdraw all money standing to the credit of the account and deposit it in a client bank account with another bank as soon as possible.*

1.8. A client bank account is defined, for the purposes of CASS 7, as

> *(a) an account at a bank which:*
>
> *(i) holds the money of one or more clients;*
>
> *(ii) is in the name of the firm; and*
>
> *(iii) is a current or a deposit account; or*
>
> *(b) a money market deposit account of client money which is identified as being client money.*

1.9. Client money is defined as "*money of any currency*:

> (a) *that a firm receives or holds for, or on behalf of, a client in the course of, or in connection with, its MiFID business; and/or*
>
> (b) *which, in the course of carrying on designated investment business that is not MiFID business, a firm holds in respect of any investment agreement entered into, or to be entered into, with or for a client, or which a firm treats as client money in accordance with the client money rules."*

1.10. Principle 3 of the Principles states that:

> *"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems."*

1.11. The FSA's approach to exercising its main enforcement powers is set out in the Enforcement Guide ("EG").