



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551
April 23, 2009

BEN S. BERNANKE
CHAIRMAN

The Honorable Alan Grayson
House of Representatives
Washington, D.C. 20515

Dear Congressman:

This is in response to your letter of March 10, 2009, concerning the role of BlackRock, an investment management firm, as manager of assets held by three special purpose vehicles (the Maiden Lane entities), which were formed by the Federal Reserve Bank of New York (FRBNY) to purchase assets relating to the acquisition of Bear Stearns by JPMorgan Chase and relating to the American International Group, Inc. (AIG). Specifically, you reference a New York Times article that named BlackRock as an investor of a firm that is purchasing delinquent mortgages and other non-performing assets that may be similar to those held by the Maiden Lane entities. You have asked whether there are protections and policies in place at the Federal Reserve to prevent any conflict of interest by BlackRock and other entities that serve as investment manager or agent for assets on behalf of the Federal Reserve.

The investment management agreements between the FRBNY and BlackRock relating to the Maiden Lane entities contain provisions that safeguard against conflicts of interest and the use by BlackRock of information it has gained in its role of investment manager for its own benefit. BlackRock is prohibited from using confidential information it receives in its role as investment manager for the Federal Reserve to engage in any transaction unrelated to its role as investment manager for the Federal Reserve except in certain limited circumstances involving aggregate sales or purchases. Employees assigned to managing the assets of the Maiden Lane entities must be segregated from those personnel who work on BlackRock's trading and sales activities or any other transactions that could be in conflict with BlackRock's role as investment manager. BlackRock must limit access to information relating to the assets of the Maiden Lane entities to only those personnel who need to know the information in order to fulfill BlackRock's duties as investment manager for the Federal Reserve. These personnel are required to acknowledge in writing that they must keep such information confidential. Information related to the management of Maiden Lane entities' assets must not be shared with BlackRock personnel who work on trading and sales activities or other activities that raise potential conflicts. Also, without the approval of the FRBNY, BlackRock is prohibited from knowingly purchasing any assets for the Maiden Lane entities from any account or portfolio for which BlackRock serves as investment advisor or knowingly selling any asset of the Maiden Lane entities to any account or portfolio for which BlackRock serves as investment adviser.

BlackRock is also obliged to keep confidential all information it gains as investment manager over the assets of the Maiden Lane entities. Without the consent of the Federal Reserve Bank of New York, BlackRock may not disclose any non-public information to third parties, except to the extent necessary to manage the Maiden Lane assets. Similar contractual restrictions apply to the four investment management firms, including BlackRock, that have been retained by the FRBNY to manage the assets acquired under the Federal Reserve's Mortgage-Backed Securities Purchase Program.

The Honorable Alan Grayson

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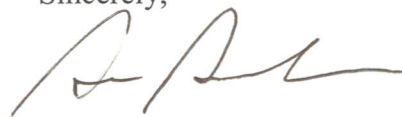
The FRBNY, the Board of Governors, and appropriate audit personnel may audit BlackRock's compliance with the requirements of the investment management agreement, including its valuation methodology. Audits of the Maiden Lane entities were recently completed by an independent auditing firm, and will be made public once the reports are complete. The Maiden Lane entities are required to follow GAAP accounting, including with respect to fair value accounting.

You also inquired about how BlackRock was selected as manager of the Maiden Lane entities' assets. BlackRock was selected under the FRBNY's Acquisition Guidelines. These guidelines recognize that exigent circumstances may require an exception to the normal competitive bidding process, subject to senior management approval. In light of the unique time pressures associated with the unexpected and rapid collapse of Bear Stearns and AIG, decisions to support JPMorgan's acquisition of Bear Stearns and to extend credit to the AIG-related Maiden Lane entities in order to remove immediate cash drains on AIG were necessary in time frames too short to follow the ordinary bidding process. Consequently, senior management at the FRBNY carefully considered the issue and determined that an exception to the competitive bidding provisions of the Acquisition Guidelines was appropriate with respect to the selection of an investment manager. BlackRock was selected to manage the proposed collateral portfolios for its technical expertise, operational capacity, and track record.

Finally, you asked about the steps the Federal Reserve is taking, in addition to the development of a new website, to inform the public regarding the management of the economy. The Federal Reserve is committed to being as transparent as possible with regard to its monetary policy decisions. In addition to the new website, which brings together the full range of existing and additional information on Federal Reserve credit and liquidity facilities, the Federal Reserve has recently taken steps to increase transparency of monetary policy, such as moving up the publication of minutes of policy meetings and adopting the practice of providing longer-term projections of the evolution of the economy on a quarterly basis. In addition, under section 129 the Emergency Economic Stabilization Act of 2008, the Federal Reserve provides reports to Congress on each of its emergency lending facilities under section 13(3) of the Federal Reserve Act. Finally, I have asked Vice Chairman Kohn to lead a committee to review current publication and disclosure policies relating to the Federal Reserve balance sheet and lending activities, guided by a presumption in favor of public disclosure, with nondisclosure affirmatively justified only by clearly articulated criteria for confidentiality, like reasonable claims to privacy, the protection of supervisory information, and the effectiveness of policy.

I hope this information has been helpful.

Sincerely,

A handwritten signature in black ink, appearing to be 'A. Grayson', written in a cursive style.