BLACKROCK

February 22, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Core Principles and Other Requirements for Designated Contract Markets; Proposed Rule; 75 Fed. Reg. 80,572; RIN 3038-AD09

Dear Mr. Stawick:

BlackRock, Inc.[1] is pleased to provide these comments on the Commodity Futures Trading Commission's proposed rule concerning core principles and other requirements for designated contract markets (the "Proposed Rule"). The Proposed Rule sets forth guidance and acceptable practices which would apply to the designation and operation of designated contract markets ("DCMs").

BlackRock fully supports the objective of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") to provide regulators with the information necessary to identify potential systemic risks. We understand and support the CFTC's goal to set forth guidance and acceptable practices for DCMs. We understand that Core Principles are generally supposed to be flexible regulatory objectives that each DCM has discretion to implement in a manner than best fits the operations of its markets, subject to CFTC oversight. We are however concerned with the effects of core principle 9 ("CP9") entitled "Execution of Transactions," which would restrict block trades and other types of transactions executed outside the centralized market ("block trades").

To summarize, BlackRock has three concerns with the Commission's proposal. First, block trading is of great importance to buy-side market participants. Artificial restrictions on the ability of buy-side participants to select the best means to execute their transactions, whether on DCMs, Swap Execution Facilities (SEFs) or bi-lateral systems, should be avoided. Second, as written, the proposed CP9 restrictions are ambiguous. We are uncertain whether the proposal's limits are calculated based on the number of transactions, number of contracts or notional amount. The Commission should be clear in its final rules that the limits apply to the number of transactions. Third, the Commission's 85% requirement for centralized DCM trading should be lowered to 75% thereby allowing for a 3-1 ratio for centralized and non-centralized transactions on a DCM.

Background

As amended by the Dodd-Frank Act, CP9 calls for DCMs to "protect the price discovery process in the centralized market" by providing "competitive, open and efficient" means for executing transactions. At the same time, CP9 also allows DCMs to authorize, for "bona fide business purposes," the execution of transactions, such as block trades, outside the

[1] BlackRock is one of the world's leading asset management firms. We manage over $3.54 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, third-party mutual funds, endowments, foundations, charities, corporations, official institutions, banks, and individuals around the world.

central market so long as the transactions are executed and reported to the DCM in accordance with DCM rules.[2]

The Proposed Rule imposes a "Minimum Centralized Market Trading Requirement" as an absolute limitation on DCM discretion in complying with CP9. Under the Proposed Rule, 85% of annual trading on a DCM in a swap or futures contract must take place on the central market.[3] Conversely, no more than 15% of the trading in a swap or futures contract on a DCM in any one year period may be conducted under block trading rules. The CFTC makes this proposal in order to ensure that block trading in a contract on a DCM does not become the "exception" that overrides the "central, open and competitive market" rule.[4]

Block Trading is of Great Importance to Buy-Side Market Participants.

The importance of block trading to buy-side market participants can not be overstated. It is essential that market participants seeking large hedges or market exposures be able to transact in futures and swaps without revealing information of their intent to trade in size to the whole market, as such disclosure would be detrimental to the pricing and liquidity of the trade. As the International Organization of Securities Commissions ("IOSCO") has recently observed, "[t]ransacting large-sized orders in an order-driven exchange market may create significant execution costs for the executing party, absent block trade mechanisms or other protocols designed to reduce such execution costs."[5] In other words, without effective block trading rules, the liquidity providers (dealers) will transfer the risk premium to the investor in the form of wider bid/ask spreads. Moreover, block trading benefits the market generally by avoiding market fragmentation.

Just as BlackRock supports the availability of Request for Quote Platforms on SEFs, BlackRock also supports the efforts of DCMs to offer alternatives to their central limit order book when appropriate. The Commission's Proposed Rule imposes artificial limits on the amount of trading that could occur on a DCM through blocks and other approved, bona-fide private bi-lateral transactions. The CFTC's proposed implementation of CP9 restricts unnecessarily the ability of market participants to use blocks to execute trades of size at a single negotiated price for bona-fide business reasons.

Limiting the buy-side's ability to execute bona fide block trades should be reconsidered by the CFTC. It will only hurt the economic interests of investors in funds and beneficiaries in pension plans, among others. Professional asset managers should be able to exercise their discretion to determine when and whether a central market or block trade execution would best serve their client's interests. A DCM should be trusted to strike the right balance in creating block trading rules, subject to CFTC oversight. If any particular DCM is compromising price discovery through its block trading rules, the CFTC has more than adequate powers to rectify the matter.

Asset Managers transact for many different investors linked to an investment strategy. As such, managers may need to transfer significant risks (trade in size) on behalf of their clients. In order to minimize the transaction costs for their investors, managers may execute these trades as a block. If block trades are restricted to 15% of annual DCM trading, then market participants may need to execute overall orders of size in smaller pieces so as not to cause market disruption, which could potentially cause prices to move

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[2] *See* Proposed Rule 38.500 (Proposing Release at 80,615).
[3] *See* Proposed Rule 38.502 (Proposing Release at 80,616).
[4] *See* Proposing Release at 80,588-89.
[5] *See* Technical Committee of the International Organization of Securities Commissions, Report on Trading of OTC Derivatives, 28 (Feb. 2011).

sharply against the overall order. The slicing of large orders carries liquidity risk that will be transferred to the investor, however; it also translates into increased transaction costs and operational risks. Block trades, from an asset manager's perspective, allow for more efficient and orderly trading and less price volatility. Put in another way, block trades support transparency as they give insight into two dimensions of transparency, trade price and depth of market. For these reasons, BlackRock does not support setting block trade size at levels that are too high as well as limiting the availability of block trades on DCMs.

The CFTC also has proposed "mandatory delisting" procedures if trading in a futures contract or swap on a DCM fails to meet the 85% requirement. The alternatives the CFTC sets out, including transferring trading to a new, unaffiliated SEF, should be reconsidered. Bifurcation of trade execution could become very costly for investors as they would need to ensure their infrastructure is implemented to support trade execution on both DCMs and SEFs.

Any Limits the Commission Imposes Should Be Based on Transactions, not Volume of Contracts Traded.

The Commission's proposal applies its limits in some places to the "amount of off-exchange transactions" and in other places to the "total volume" of contracts traded.[6] BlackRock believes the Commission intended its limits to apply to "transactions" and not "volume." Resolving this ambiguity in favour of "transactions" is critical to making sure that buy-side market participants will be able in appropriate circumstances to invoke a DCM's block trading protocols. Otherwise one super-sized block trade for a massive number of contracts could consume all the annual block trading capacity a DCM would be afforded under the Commission's rules. Any limits the Commission sets to ensure sufficient centralized trading on a DCM therefore should be tied to the number of separate transactions that are executed through the centralized system when compared to the number of transactions that occur through DCM-approved block trading.

The Proportion of Block Transactions Allowed on a DCM Should be Higher than the Commission Proposed.

BlackRock does not believe that the Commission should impose any limits on how much block trading may occur on a DCM. If the Commission decides it must impose a limit, we suggest that the CFTC consider initially setting the allowable percentage of traded contracts outside a central market at a significantly higher number than 15%. For now, we would recommend a 75%-25% limitation, roughly a 3-1 split in central market versus block trading executions.

Thank you for the opportunity to share our views on this important issue. If you would like to discuss further, please contact any of us.

Sincerely,

Joanne Medero

Richard Prager

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[6] *Compare* 75 Fed. Reg. at 80,588 (referring to transactions) *with* 75 Fed. Reg at 80,616 (referring to volume).