BLACKROCK

July 11, 2011

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Commodity Futures Trading Commission
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Mr. Robert E. Feldman
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Mr. Alfred M. Pollard
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Attention: Comments/RIN 2590–AA45
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Re: BlackRock Comments on Proposed Margin Requirements for Uncleared Swaps

CFTC: Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants (RIN 3038-AC97)
CFTC: Capital Requirements of Swap Dealers and Major Swap Participants (RIN 3038–AD54)
Board: Margin and Capital Requirements for Covered Swap Entities [Docket No. R–1415] (RIN 7100 AD74)
FCA: Margin and Capital Requirements for Covered Swap Entities (RIN 3052–AC69)
FDIC: Margin and Capital Requirements for Covered Swap Entities (RIN 3064–AD79)
FHFA: Margin and Capital Requirements for Covered Swap Entities (RIN 2590–AA45)
OCC: Margin and Capital Requirements for Covered Swap Entities [Docket ID OCC–2011–0008] (RIN 1557–AD43)

BlackRock, Inc.[1] submits these comments in response to proposed rules relating to margin requirements for uncleared swaps and security-based swaps ("SBS") issued by the Commodity Futures Trading Commission ("CFTC" or "Commission") and the Board of Governors of the Federal Reserve ("Board"), the Farm Credit Administration ("FCA"), the Federal Deposit Insurance Corporation ("FDIC"), the Federal Housing Finance Agency ("FHFA") and the Office of the Comptroller of the Currency ("OCC" and, together with the Board, FCA, FDIC, and FHFA, the "Prudential Regulators").[2]

1 BlackRock is one of the world's leading asset management firms. We manage over $3.6 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.

2 "Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants," 76 Fed. Reg. 22,732 (April 28, 2011) (the "CFTC Proposal"); "Margin and Capital Requirements for Covered Swap Entities," 76 Fed. Reg. 27,564 (May 11, 2011) (the "Prudential Regulator Proposal" and, together with the CFTC Proposal, the "Proposals" or "Proposed Rules").

In these releases, the CFTC and the Prudential Regulators propose regulations to implement Section 731 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"); Section 731 requires the CFTC and the Prudential Regulators to adopt initial and variation margin requirements for certain swap dealers ("SDs") and major swap participants ("MSPs" and, together with SDs, "covered swap entities" or "CSEs").[3] BlackRock appreciates the opportunity to comment on this area of importance to our business and clients.

BlackRock supports the Dodd-Frank Act's objectives of creating a comprehensive regulatory framework for swaps that will reduce systemic risk, increase price transparency, and promote market integrity while maintaining liquidity. As the voice of and a fiduciary for our clients, BlackRock has a vested interest in the development of a sustainable and fair regulatory regime, including margin requirements that minimize risk to the financial system.

We endorse the well-reasoned and thorough comments that the Asset Management Group of the Securities Industry and Financial Markets Association ("AMG") has submitted to the CFTC and the Prudential Regulators.[4]

In this letter, we also express our view that the Proposed Rules would disadvantage market participants who need to use uncleared swaps (swaps that are sufficiently illiquid, not accepted for clearing or customized). The margin requirements set forth in the Proposed Rules would raise the cost of using these instruments to uneconomical levels while potentially over-collateralizing the market risk exposure in these trades. We also urge the Commission and the Prudential Regulators to grant market participants ample time to comply with any final rules in this area.

I. The Proposed Rules would make the cost of using the uncleared swap markets uneconomical while potentially over-collateralizing these trades.

BlackRock fully supports the Dodd-Frank Act's clearing mandate and looks forward to working with the CFTC and other regulators to ensure that over-the-counter swaps transition smoothly to the cleared environment. Clearing will help mitigate counterparty credit risk in the swap markets. However, the Dodd-Frank Act does not require all swaps to be cleared. Indeed, Congress enacted an end user clearing exemption that will allow many swap market participants not to clear swaps (that are otherwise required to be cleared) used to hedge risks associated with their business. In addition, many highly-customized or sufficiently illiquid swaps may prove unsuitable for clearing or otherwise not subject to the clearing mandate. In summary, there are conditions for which it is necessary for a viable uncleared swap market to continue to exist.

Although it is difficult to predict with certainty how margin requirements will compare between cleared and uncleared swaps, we believe the Proposed Rules would penalize market participants for using uncleared swaps by imposing substantially higher margin requirements on uncleared swaps than on cleared swaps. For example, both the CFTC and Prudential Regulators would allow a CSE to use a model when calculating initial margin ("IM") requirements for uncleared swaps. However, both sets of Proposed Rules require that the calculation cover at least 99% of the price changes over at least a

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3 The CFTC Proposal would apply to uncleared swaps entered into by SDs and MSPs for which there is no Prudential Regulator, while the Prudential Regulator Proposal would apply to uncleared swaps and security-based swaps entered into by SDs or MSPs that are regulated by a Prudential Regulator. For purposes of this letter, we use the term "swap" to refer to both "swaps" and SBS, where appropriate.

4 *See* AMG Comment Letter to CFTC and Prudential Regulators, Re: Comments on Proposed Rules Related to Margin for Uncleared Swaps.

ten-day liquidation time horizon.[5] This proposed 10-day time horizon is significantly longer than the time horizons that the CFTC has proposed for cleared swaps.[6] Although some uncleared swaps may take longer to liquidate than cleared swaps in certain circumstances, we do not believe that a 10-day time horizon is justified for all uncleared swaps. For a majority of swaps, a shorter time horizon would provide sufficient time to allow a swap counterparty to replace a swap or otherwise mitigate or hedge its risk on any particular swap transaction, particularly in light of the 99% confidence interval that the CFTC has proposed.[7] We are concerned that the swap markets that will remain as uncleared due to constraints such as liquidity and non-standard terms or swaps that have yet to migrate to eligible cleared swaps will become uneconomical for investors taking away an essential hedging mechanism.

We believe the margin levels set in the Proposed Rules are extremely conservative and respectfully recommend that the CFTC and the Prudential Regulators adopt final rules that set margin requirements at appropriate levels to allow for an orderly close out or other risk mitigation of swap positions. We also would recommend a narrower difference in time periods to calculate margin levels between cleared and uncleared swaps. Further, we believe migration of uncleared swaps to cleared swaps will be supported and encouraged not only by margin rules (which do not have to be punitive in nature) but also by various other market forces such as standardization, liquidity of swaps, acceptance of a particular type of swap for clearing, the mandatory clearing requirement and reduction in counterparty risk.

In an effort to illustrate the impact of the Proposed Rules on end users of the uncleared swap markets we have created the following two hypothetical examples:

(i) The following example demonstrates the impact of margin rules on a hypothetical cleared swap portfolio.

Current Face*	Swap description	Coupon	Maturity	DV01
(12,700,000)	SWP: USD 0.625000 17-JUN-2013	0.625	2 yr	(2,195)
(3,100,000)	SWP: USD 4.191250 22-MAR-2041	4.19125	30 yr	(5,302)

In this sample portfolio consisting of two cleared swaps, using the IM calculation methodology used by a major clearing house, the IM required would be approximately $225,000. The net asset value ("NAV") of this hypothetical, but representative portfolio is approximately $80MM, and the interest rate risks (represented by a DV01 calculation) of these positions are of moderate size. $225,000 IM is 28 bps which, on a portfolio expected to earn the yield of the Barclays Aggregate Index

5 *See* CFTC Proposal at 23,746 (Proposed Rule 23.155(b)(2)(vi)); Prudential Regulator Proposal at 27,590. The CFTC Proposal explains that the liquidation time horizon refers to the time period needed to replace a swap. *See* CFTC Proposal at 23,744 (Proposed Rule 23.150).

6 The Commission has previously proposed a one-day time horizon for DCM-traded cleared swaps and a five-day time horizon for other cleared swaps such as those executed on swap execution facilities ("SEFs"). *See* BlackRock comment letter dated March 21, 2011 on the Proposed Rule entitled Risk Management Requirements for Derivatives Clearing Organizations, 76 Fed. Reg. 3698, 3720 (Jan. 20, 2011) where BlackRock also requested that the CFTC not raise the cost of executing swaps on SEFs by imposing a longer time horizon for SEF-executed swaps than for swaps executed on DCMs.

7 The Proposals also would raise the cost of uncleared swaps to market participants in other ways. Both Proposals would limit the portfolio-based reductions of IM available to a counterparty, thereby adding an additional layer of cost to market participants who wish to use uncleared swaps.

(approximately 250 bps), would be a potential annualized performance drag of 0.70 bps. Along with the performance drag there is also the additional opportunity cost of locking up this capital.

(ii) Example demonstrating the impact of margin requirements on a hypothetical swap portfolio consisting of cleared swaps and uncleared swaptions.

	Current Face*	Sec Desc	Coupon	Maturity	DV01	IM Estimate*	IM Portfolio	IM Proxy*	Opportunity Cost	Replicating DV01 in futures
	Portfolio 2						3,419,174			1,704,317
		Swaps								
							2,917,180	2,917,180	223,039	
	-188,200,000	SWP: USD 0.851280 12-JAN-2013	0.85	12-Jan-13	(28,367)	538,973		106,370	5,318	
	-103,000,000	SWP: USD 1.002500 22-FEB-2013	1.00	22-Feb-13	(15,486)	294,234		58,069	2,903	
	196,000,000	FSWP: USD 1.245000 08-DEC-2013	1.25	08-Dec-13	39,003	1,170,090		146,252	7,313	
	57,000,000	FSWP: USD 2.200000 22-AUG-2016	2.20	22-Aug-16	27,225	1,225,125		407,038	20,352	
	25,000,000	SWP: USD 3.250000 12-MAY-2021	3.25	12-May-21	20,880	1,127,520		162,511	8,126	
	-35,000,000	**SWP: USD 3.770000 01-JUN-2021**	**3.77**	**01-Jun-21**	**(29,937)**	**1,616,598**		**233,003**	**11,650**	
	50,000,000	SWP: USD 3.061250 13-JUN-2021	3.06	13-Jun-21	41,177	2,223,558		320,485	16,024	
	50,000,000	SWP: USD 3.035000 13-JUN-2021	3.04	13-Jun-21	41,120	2,220,480		320,041	16,002	
	30,000,000	SWP: USD 3.060000 13-JUN-2021	3.06	13-Jun-21	24,704	1,334,016		192,274	9,614	
	4,200,000	SWP: USD 3.100000 15-JUN-2021	3.10	15-Jun-21	3,464	187,056		26,961	1,348	
	-37,600,000	SWP: USD 3.456000 17-AUG-2040	3.46	17-Aug-40	(58,255)	1,106,845		944,176	47,209	
		Swaptions					771,803	771,803	38,590	
	75,000,000	**YR RTR 3.150000 01-AUG-2011 10**	**3.150**	**01-Aug-11**	**32,551**	**618,469**		**79,392**	**3,970**	
	100,000,000	10 YR RTP 3.625000 02-DEC-2011 10	3.625	02-Dec-11	(26,814)	509,466		65,399	3,270	
	100,000,000	10 YR RTR 3.625000 02-DEC-2011 10	3.625	02-Dec-11	58,516	1,111,804		142,721	7,136	
	-100,000,000	10 YR RTR 3.565000 01-JUN-2012 10	3.565	01-Jun-12	(44,245)	840,655		107,914	5,396	
	-100,000,000	10 YR RTP 3.565000 01-JUN-2012 10	3.565	01-Jun-12	38,573	732,887		94,080	4,704	
	-125,000,000	10 YR RTR 4.475000 28-MAR-2013 10	4.475	28-Mar-13	(71,400)	1,356,600		174,145	8,707	
	-125,000,000	10 YR RTP 4.475000 28-MAR-2013 10	4.475	28-Mar-13	33,474	636,006		81,643	4,082	
	15,000,000	10 YR RTR 4.835000 06-MAY-2016 10	4.835	06-May-16	6,529	274,218		15,924	796	
	15,000,000	10 YR RTP 4.835000 06-MAY-2016 10	4.835	06-May-16	(4,340)	182,280		10,585	529	

Assumptions:

*** Current Face**
A negative number for swaps notional represents a pay-fixed position. A negative number for a swaption represents a short of the option.

*** Independent IM Est Assumptions**
The outright DV01 of each line item was used to compute clearing house IMs. In reality, clearing house calculators require a bucket-by-bucket profile and takes into account offsets between positive & negative durations.

The IM estimates are for each trade in isolation, so any errors should be minor. However, forward swaps always show both + and - durations in partial breakdowns. Swaption IMs are estimated using their swap DV01s only, without taking into account vega or gamma.

*** IM Proxy Assumptions**
Distributes the IM across line items based on key rate DV01 distributions

*** Opportunity Cost**
Assumes the yield on the Barclays Aggregate index is 5% on the Barclays Long Duration index

*** Replicating DV01 in Futures**
We replicate the duration of the package in ten-year (TYA) futures contracts considering current DV01 of both swaps and swaptions
For the 10y contract (TYA) IM numbers are $1485 per contract and $1100 per contract, respectively. In our example we use the larger IM.

This sample portfolio contains both cleared swaps and uncleared swaptions, with varying DV01 exposures. The assumption made is that the swaps would all be eligible for clearing but the swaptions would not be clearing eligible. Using the IM calculation methodology used by a major clearing house, the IM for the cleared swap positions would be approximately $2.917MM and $0.771MM for the swaption positions. If clients are allowed to post margin based on the overall risk of their swap portfolio (cleared and uncleared) with a minimum requirement of the IM required for their cleared swap positions, then this creates a mechanism of giving some margin offsetting relief to clients without increasing risk to the overall system. The highlighted items in this example demonstrate one such offset where the DV01 of the 10 year Swaption position is offset by its DV01 equivalent in a 10-year swap (i.e. its "delta"). Such an offset would reduce the margin required on the combined package.

II. Sequencing and Implementation.

Market participants should receive ample time to bring their operations into compliance with final margin rules and, in any event, final rules should not take effect until Dodd-Frank's clearing mandate takes effect.

The Proposed Rules would impose significant burdens on market participants. For example, CSEs will need time to establish margin collection and posting systems, develop margin models and test new account procedures. CSEs may also need to negotiate new or amended documentation with each of their counterparties. To avoid swap market disruption, the Commission and Prudential Regulators should provide market participants sufficient time to complete these tasks before making final rules effective.

We also suggest that margin rules should not take effect until the Dodd-Frank Act's clearing requirements make equivalent cleared swaps available to trade. Sequencing effective dates in this manner is appropriate because a principal goal of the Dodd-Frank Act was to encourage clearing of swaps through central counterparty clearing platforms. As the proposed margin requirements will impose higher margin requirements for uncleared swaps than would apply to cleared swaps, it is likely that market participants will prefer to use cleared swaps if granted the opportunity. However, if the margin rules for uncleared swaps take effect before the equivalent cleared swaps are made available to trade, market participants will not be given an opportunity to use the more margin efficient instrument to express risk positions. Also an unintended consequence may be that uncleared swaps are over-collateralized due to the high margin levels proposed, locking away capital that would otherwise be available for investment by funds or accounts, consistent with their investment strategy to enhance returns for their investors. The cost of the higher margin requirements would therefore ultimately be paid by the investors as their performance returns may be impacted because funds posted as collateral cannot be invested to generate returns.

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We thank the Commission and the Prudential Regulators for the opportunity to comment on the proposed margin requirements for uncleared swaps. If you have any questions or would like further information, please contact any of us.

Sincerely,

Jack Hattem

Joanne Medero

Richard Prager

Supurna VedBrat