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Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland.

International Organization of Securities Commissions
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28006 Madrid
Spain

BlackRock
12 Throgmorton Avenue
London, EC2N 2DL
United Kingdom

28 September 2012

Re: Margin Requirements for Non-Centrally Cleared Derivatives Consultative Document

Dear Sirs,

BlackRock welcomes the opportunity to respond to the initial policy proposals emerging from the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) joint Working Group on Margining Requirements (WGMR).

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At 30 June, 2012, BlackRock's AUM was $3.56 trillion (€2.74 trillion). BlackRock offers products that span the risk spectrum to meet clients' needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®.

Our client base ranges from sovereign wealth funds and official institutions to financial institutions, foundations, corporations, charities and pension funds. The mainstay of our client base is represented by pensioners and savers. BlackRock pays due regards to its clients' interests and it is from this perspective that we engage on all matters of public policy. BlackRock supports regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analyses, preserves consumer choice.

We are broadly supportive of the responses made by the AIMA, IMA, ABI and SIFMA AMG but have outlined our central views below as these may not always correspond precisely to all three trade bodies.

Our detailed responses to the questions in the consultation follow but we would highlight that BlackRock is supportive of the creation of a comprehensive regulatory framework for OTC derivatives that will reduce systemic risk, increase price transparency, and promote market integrity while maintaining liquidity. We have a very material interest in the development of a sustainable and fair regulatory regime, including margin requirements that minimise risk to the financial system.

To summarise our responses to the consultation's specific questions, we believe that a phase-in period for the implementation of margin requirements in line with the clearing obligation under both the Dodd-Frank Act and EMIR is necessary. We are of the view that "two way" margining for both

initial and variation margin is more fair and prudent than a "one way" posting of collateral. We support both a universal standardised model and a more flexible proprietary model approach for the calculation of initial margins for the reasons we develop in our attached response.

Also, we strongly recommend that posted Initial Margin be secure and bankruptcy remote in order to protect investors from a counterparty or custodial default. However, we would see some benefits in the re-use of posted Initial Margin as long as parties are fully informed of the risk and give their consent.

Finally, we continue to recommend an exemption of FX transactions from the margin requirements to ensure a level playing field with the Dodd Frank Act and to take due account of the specific nature of FX OTC derivatives when establishing collateral obligation.

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We appreciate the opportunity to address and comment on the issues raised by this consultative document. We are prepared to assist IOSCO in any way we can, and welcome continued dialogue on these important issues. Please contact any of the undersigned if you have comments or questions regarding BlackRock's views.

Yours faithfully,

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BlackRock Response to BCBS-IOSCO Margin Requirements for Non-Centrally Cleared Derivatives Consultative Document

ELEMENT 1

A) Phasing (Q1)

We would support a phased approach to implementation of margin requirements in line with the clearing obligation under both the Dodd-Frank Act and EMIR. This would limit regulatory arbitrage and alleviate the pressure of collective compliance. The objectives of incentivizing central clearing are not met by mandating bilateral margin requirements where the contract or a suitable alternative is not available for clearing.

Market participants may choose to implement voluntarily ahead of the bilateral requirements. Variation Margin is typically exchanged on a daily basis and Independent Amounts are used where there is concern around the financial stability of the counterparty. The new capital requirements under Basel III are also likely to incentivise the exchange of collateral regardless of a mandatory margin requirement resulting in the objective of mitigating systemic risk being achieved.

B) Scope of coverage – Instruments subject to the requirements (Q2/3)

We do not support the inclusion of FX transactions in the margin requirements. Neither of the objectives of incentivizing clearing or reducing systemic risk are met by the imposition of a collateral requirement on this asset class.

In our experience the FX market has already attained the goals sought by Dodd-Frank and EMIR in terms of transparency, liquidity, financial security and efficiency. Additionally our view is that FX forwards and swaps are qualitatively different to other products falling within the definition of "swap". Most FX contracts are short-term instruments used to address a specific business requirement. Most importantly, settlement rather than counterparty risk is the largest area of concern for these contracts and has already been addressed through the use of payment versus payment systems such as CLS.

Requiring the exchange of collateral against FX contracts could potentially increase systemic risk as market participants currently using these assets to reduce exposure to currency fluctuations on underlying assets (hedged share classes etc.) are forced to reduce their positions or remain unhedged where required collateral is unavailable.

We view the FX asset class as unique in this respect so would not extend the exemption to any other products.

ELEMENT 2

C) Scope of coverage – Scope of applicability (Q4/5/6/7/8/9/10/20)

BlackRock agrees with the principle of two way margining for both initial and variation margin. Non-systemic market participants such as pension funds and insurance vehicles do not generally post initial margin currently due to the low probability of a default by them and the impact if such a default did occur being minimal. It would seem perverse then to require 'one way' posting of collateral from a low risk entity to a higher risk counterparty such as a market broker.

However, given that the systemic risk caused by the default of a bank is significant it would seem prudent to require the exchange of collateral from both sides of an uncleared transaction to a third party. The impact of such an exchange on liquidity and the cost to various market participants of such a requirement would need to be investigated thoroughly before requirements become effective.

Thresholds and Minimum Transfer Amounts are sensible and efficient ways of minimizing operational costs without materially impacting systemic risk. The levels of these should be agreed by the two parties bilaterally potentially subject to a maximum threshold or review by the relevant regulatory authority. Any maximum threshold amount should take into account counterparty type and credit quality as well as the asset type. Collateral scope and associated haircuts should also be subject to bilateral negotiation. Where both parties are required to post collateral, there is a mutual incentive to set these levels and collateral scope at robust and efficient levels which do not substantially increase counterparty risk. This incentive is not created where only one party to the trade is required to pay collateral.

ELEMENT 3

D) Methodologies for Initial Margin (Q13/14/15)

We see the benefits of both a universal standardized model and a more flexible proprietary model approach. The latter would allow for a more accurate bespoke evaluation of the risk of a certain asset thereby avoiding conservatively high initial margin calculations. However, multiple internal models would give rise to material operational challenges and costs. A universal standardized model, whilst likely to led to overall higher levels of collateral, would be more transparent and replicable by market participants.

A standardized model which more accurately reflects the risk of both the asset and counterparty would necessitate a more sophisticated calculation than % of notional but would allow for transparency without greatly increasing cost.

Margin calculations should not be limited to a specific asset class but should be evaluated across all OTC transactions within the portfolio. The loss of netting efficiencies for offsetting and inversely correlated positions brought about by limiting margin calculations to a single asset class would result in a substantial and unnecessary increase in the collateral requirement which would impact portfolio returns for the end user. Additional cost would come about through the requirement to calculate and post multiple daily margin movements for each portfolio.

ELEMENT 5

E) Treatment of Provided Margin (Q22/24)

Given the significant increase in the amount of initial margin that would be posted, it is essential that initial margin be secure and bankruptcy remote in order to protect investors from a counterparty or custodial default. Allowing rehypothecation of assets posted as initial margin, whilst potentially reducing the costs associated with posting bilateral initial margin, would undermine the systemic benefits and introduce a new form of counterparty credit exposure.

Re-use of posted initial margin could potentially be allowed where parties are fully informed of the risks, give their consent and clearly document each party’s rights and obligations at each point in time. This may alleviate liquidity concerns around certain instruments as well as improving returns for underlying investors.