BLACKROCK

20 September 2013

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

Submitted via email to baselcommittee@bis.org

Re: Consultative Document on the Revised Basel III leverage ratio framework and disclosure requirements

Dear Sirs,

BlackRock welcomes the opportunity to respond to the June 2013 Consultative Document from the Basel Committee on Banking Supervision (BCBS) for a revised Basel III leverage ratio framework and related disclosure requirements (the Consultation).

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At 30 June 2013, BlackRock's assets under management were $3.86 trillion (€2.96 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.

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 a regulatory regime that increases transparency, protects investors and facilitates responsible growth of capital markets, while preserving consumer choice and assessing benefits versus implementation costs.

As an investor and counterparty on behalf of our clients, BlackRock is supportive of increased public disclosure by banking entities of information such as the leverage ratio, and the use of a common template, as suggested by the Consultation, to allow comparison across institutions.

Globally consistent disclosure of such information will enhance BlackRock's ability to make investment decisions and to protect our clients' interests by providing additional information regarding the financial condition of the financial institutions to which our clients may be exposed in a variety of transactions.

BlackRock supports the BCBS in its adoption of a leverage ratio as a means to reinforce risk-based requirements with a simple, non-risked based "backstop" measure. However, as a fiduciary for our clients and a major participant in global markets, we are concerned that the leverage ratio, as proposed to be calculated will lead to adverse market impacts and

unintended consequences. Investment decisions are heavily dependent on a liquidity factor input—investment strategies and decisions require that not only the initial procurement of the securities is considered, but that there also needs to be a degree of confidence that the securities can be sold in a timely, cost-effective manner. The manner in which the Consultation proposes the liquidity ratio is to be calculated is likely to reduce liquidity for certain securities, particularly government securities.

We believe that this reduced liquidity will raise the cost of borrowing for the US Treasury and potentially further disrupt the Federal Reserve's Large Scale Asset Purchase Program.

BlackRock supports the market's move towards dynamic haircuts on securities financing transactions (SFTs) and moving more transactions to central clearing platforms. We believe that dynamic haircuts and central clearing should be given more consideration by the BCBS as alternatives to the liquidity ratio.

The proposal appears to disregard the exposure-reducing effects of collateral received in connection with derivative contracts, even though regulators have imposed collateral requirements on these transactions, because collateral does in fact reduce exposures. The liquidity ratio should reflect that the receipt of initial and variation margin for derivatives reduces exposures.

We are concerned that for SFTs (as defined in the Consultation to include securities lending and repo) the proposal to apply a gross rather than net measure will discourage banking entities from engaging in SFTs. As proposed in the Consultation banks acting as principal in a SFT will not receive the benefit of netting the collateral or proceeds received for purposes of calculating the Exposure Measure even if they otherwise could net under the applicable accounting treatment.

BlackRock is concerned about this proposal on two counts. First, calculating the Exposure Measure in a different manner than otherwise shown on banks' financial statements creates an inconsistency in the accounting treatment of SFT transactions and could cause confusion regarding the financial condition of the subject banks to their detriment. Second, the possible negative impact of such treatment can be expected to greatly reduce the attractiveness of repo and of borrowing of securities by banks by making these transactions more expensive for them from a capital perspective.

The impact of this change will be decreased liquidity in those markets, such as government securities, that are typically financed by SFTs. As liquidity dissipates, investment strategies become more limited, and returns to investors are reduced by wider spreads and higher transaction costs. Diminished returns impact the ability of investors, such as pension funds, to meet their obligations to their participants and beneficiaries, and also negatively impact savers.

We have already seen the effects of new and proposed capital and liquidity standards on the market for investment grade securities, with dramatic declines in the inventory of corporate bonds and agency debt held by primary dealers, and the resulting illiquidity in markets for these types of securities. Imposition of a leverage ratio that is not appropriately measured will further contract banking entity balance sheets, to the detriment of global markets. Banks should be able to continue to use Fin 41 for both financial reporting and capital calculation purposes.

Investors, such as pension plans and other savers, will experience diminished returns as a result of lower liquidity and wider spreads, fewer investment opportunities for safe cash

investments, in the case of repo, and reduced demand for borrowing of securities, in the case of securities lending. We suggest that the BCBS gather additional information on the possible impact on investors that will result from the proposals before such changes are implemented.

We appreciate the opportunity to comment on the issues raised by the Consultation. We 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,

Richie Prager
Managing Director

Gerald Pucci
Managing Director

Joanne Medero
Managing Director