

BLACKROCK

June 3, 2013

Submitted via email to rule-comments@sec.gov

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: SEC Credit Ratings Roundtable, BlackRock Comments; File No. 4-661

Dear Ms. Murphy:

BlackRock appreciates the opportunity to provide comments as a follow up to the Credit Ratings Roundtable ("the Roundtable") that was held on May 14, 2013.

BlackRock is one of the world's leading asset management firms. We manage \$3.936 trillion (as of March 31, 2013) on behalf of institutional and individual clients worldwide through a variety of strategies including equity, fixed income, cash management, alternative investment, real estate and advisory products. Our client base includes corporate, public, multi-employer pension plans, insurance companies, endowments, foundations, charities, corporations, official institutions, banks, and individuals around the world. As a manager of assets for this wide range of institutional and retail clients, BlackRock is interested in ensuring that our clients can implement investment strategies that will provide the returns needed to meet their requirements over time.

As a fiduciary for our clients, 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 such, we commend the SEC for holding the Roundtable to fully understand market participants' views of the reforms addressed in the SEC staff's Report to Congress on Assigned Credit Ratings, which was required by Section 939F of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") as well as alternatives to the proposed reforms.

A. How Investors Use Credit Ratings

Before discussing potential reforms, it is helpful to have an understanding of how investors use credit ratings. For the purpose of this discussion, we break "investors" into "asset managers" and "end investors". We define "asset managers" as entities who buy and sell individual securities on behalf of their clients, whereas we define "end investors" as the clients of asset managers. This can get somewhat confusing since the "asset manager" is sometimes an investment management firm and sometimes an insurance company or a plan sponsor.

Asset managers are responsible for making investment decisions regarding individual securities. Ratings are one of many inputs in this process. Third party credit ratings provide a benchmark or a reference point. These ratings should represent independent and standardized opinions of credit across asset classes. These criteria serve as a preliminary screen and do not replace the responsibility of an asset manager to conduct its own credit analysis both prior to a security's inclusion in an end investor's portfolio and throughout the holding period.

End investors use credit ratings (i) to compare portfolios, and (ii) to define minimum investment criteria. As such, many end investors have investment guidelines which limit their

holdings to instruments that carry third party ratings or funds that invest primarily in such instruments. The end investors' criteria may be driven by internal risk guidelines or may be related to risk-weighted capital rules. Minimum investment criteria that reference third party ratings provide direction to asset managers as to what securities the end investor considers appropriate for portfolio inclusion.

B. Credit Ratings in Investment Guidelines

During the Roundtable, a number of the panelists suggested that the SEC should take action to have references to third party ratings removed from investment guidelines. BlackRock does not support this suggestion. An NRSRO rating provides a useful first level filter for an independent credit assessment (see our response to Release No. IC-29592; File No. S7-7-11). References to third party ratings in investment guidelines play an important role in ensuring that end investors' expectations with respect to how their assets are to be managed are clearly communicated. The absence of independent ratings would leave end investors exposed solely to the assessment of the manager. Furthermore, investment guidelines are contractual arrangements between investment managers and their clients. Regulatory changes to investment guidelines would, therefore, require intervention in private contractual agreements. We do not believe that this course of action is appropriate to achieve the intended objectives of reform for the credit rating process.

C. Potential Reforms

When considering potential reforms for the credit rating process and compensation model, it is important to clearly define the objectives of such reform efforts. BlackRock believes that reform should focus on enhancing transparency, ensuring that conflicts of interest are identified and managed, and reducing issuers' ability to solicit feedback from rating agencies prior to engaging the agency to rate the issue, commonly referred to as "ratings shopping".

- *15E(w) System is not the best approach to achieve reform objectives.*

The first panel of the Roundtable addressed a number of questions regarding the feasibility and advisability of the Credit Rating Assignment System (the "15E(w) System"). In particular, the questions of whether the 15E(w) system would "mitigate the conflict of interest associated with the issuer-pay model" and "what potential disadvantages, including potential unintended consequences, could arise from creating such a system?" were discussed.

The 15E(w) system would eliminate "ratings shopping"—a practice that contributes to both perceived and real conflicts of interest associated with the issuer-pay model. However, we do not believe that implementation of the 15E(w) System is the best approach to achieve the objectives of credit rating reform and would result in a host of unintended consequences. In particular, we are concerned about the quality of ratings that would result from a public or private utility or self-regulatory organization assigning nationally recognized statistical rating organizations (NRSROs) to rate structured finance products.

Structured finance products encompass a wide array of securities from pools of residential mortgages, commercial mortgages, home equity loans, auto loans, credit card receivables, student loans, equipment loans, among others. Analysis of the different types of structured finance products is complex and requires a high level of expertise in each type of collateral. As such, we are concerned that the 15E(w) system could potentially result in the assignment of an NRSRO that does not have the necessary level of expertise in a particular collateral type to rate a security. Moreover, the 15E(w) system could potentially foster a system which misaligns incentives and interferes with the efficient issuance of structured products.

- *End “ratings shopping” by requiring NRSROs to be engaged to rate a security prior to conducting a detailed review of collateral pool information.*

Alternatively, ratings shopping could be minimized by requiring that an NRSRO must be engaged to rate a deal prior to conducting a detailed review of collateral pool information. Aside from eliminating the potential unintended negative consequences of the 15E(w) system, this approach would require far fewer resources to implement. We believe that compliance with this rule could be reviewed as part of each NRSRO's annual SEC examination.

- *Enhance the 17g-5 system by generally requiring disclosure of information to investors on underlying collateral for securitized transactions*

The second panel of the Roundtable addressed a number of questions regarding the SEC's current Rule 17g-5 system, including the current system's effectiveness, potential improvements that could mitigate conflicts of interest associated with the issuer-pay model, and whether information on the 17g-5 websites should be made available to investors. BlackRock strongly supports increasing transparency to investors with regard to the credit rating process and we believe that this could be accomplished via enhancements to the 17g-5 system.

Specifically, we believe that information on underlying collateral for securitized transactions should be disclosed to investors. While inside information relating to corporate ratings must be kept confidential, there is extensive collateral data which could be made available for securitized assets and we believe such information received by the rating agency during the rating process should be disclosed to investors. Ideally, the industry would move to standardized disclosure for each type of collateral for the initial pool of assets, and issuers and/or servicers would update information regarding the performance of the assets in the pool over the life of the transaction to facilitate ongoing surveillance of the securities.

Disclosure of this information to investors could be accomplished in a variety of ways and potentially through the websites required by the Rule 17g-5 system. We believe that this could be implemented via the addition of a provision to Rule 17g-5 requiring the disclosure to investors of all information received by the rating agency via the 17g-5 websites (or another mechanism), subject to appropriate protection of proprietary and confidential information.

This enhanced transparency would allow investors to review the data underlying ratings opinions, allowing better insight into a rating agency's process, the applicability of its methodology to the particular asset class, and the accuracy of its data analysis. We believe that this provision will also facilitate regulatory oversight of NRSROs and incentivize a more robust and objective credit rating process. This approach would likely put more eyes on the analysis.

Additionally, disclosure to investors of information on underlying collateral for securitized transactions would serve to reduce over-reliance on credit ratings as investors would have the information needed to conduct their own credit rating analysis.

- *Continue to audit business practices of NRSROs to ensure compliance with stated ratings processes and procedures and to ensure potential conflicts of interest are adequately managed and disclosed, where applicable.*

We encourage a regular examination process which audits compliance with the specified ratings process. Moreover, we commend the SEC for implementing rules requiring NRSROs to establish and enforce procedures to manage conflicts of interest through Rule 17g-5 and establishing the Office of Credit Ratings pursuant Dodd-Frank Section 932, which requires that an examination of each NRSRO be conducted at least annually. We believe that these changes will continue to improve NRSRO business practices as well as public confidence in the credit rating process.

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We appreciate the opportunity to provide comments on this important issue.

Sincerely,

Barbara Novick
Vice Chairman

Kevin G. Chavers
Managing Director

cc: Thomas J. Butler, Director, Office of Credit Ratings, SEC
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