



MEMORANDUM

TO: File No. 4-661

FROM: Chris Valtin
Office of Credit Ratings

DATE: June 19, 2013

SUBJECT: Meeting with BlackRock

On June 19, 2013, staff of the Securities and Exchange Commission ("Commission") met with representatives of BlackRock to discuss issues addressed at the Commission's Credit Ratings Roundtable (Release No. 34-69433). Participating on behalf of the Commission were Chris Valtin and Diane Audino. Attending from BlackRock were Barbara Novick, Kevin Chavers, and Alexis Rosenblum.

Credit Ratings Reform

Discussion with the Securities and Exchange Commission

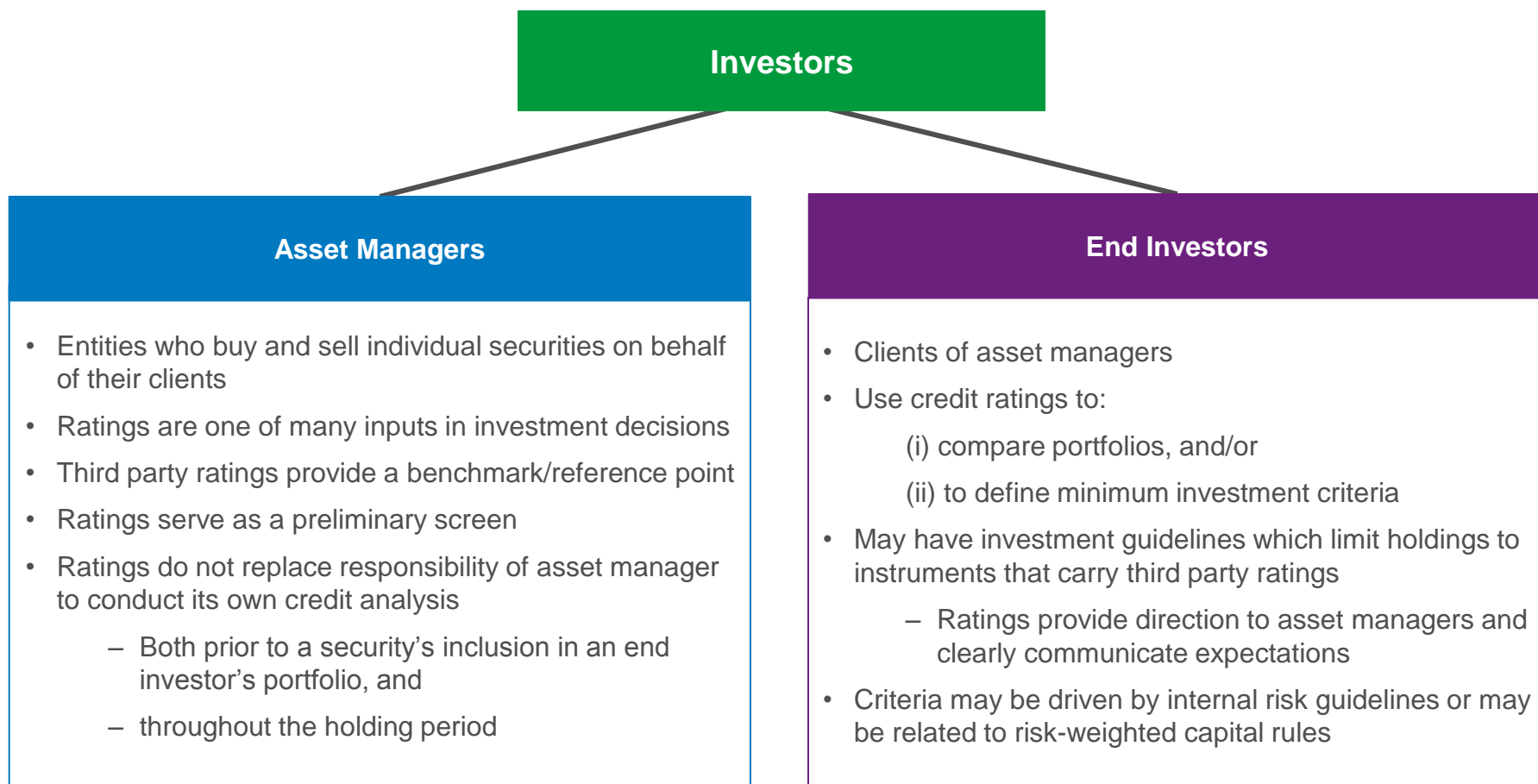
June 19, 2013

Opinions expressed are as of June 19, 2013 and may change as subsequent conditions vary

How investors use credit ratings

What are we referring to when we use the term “investors”?

- ▶ For the purpose of discussion, we break “investors” into “asset managers” and “end investors”



Objectives of credit rating reform

When considering potential reforms for the credit rating process and compensation model, it is important to clearly define the objectives of such reform

BlackRock believes that credit rating reform should focus on the following objectives:

- ▶ reducing “ratings shopping”,
- ▶ enhancing transparency, and
- ▶ ensuring that conflicts of interest are mitigated, identified and managed

Role of credit ratings in investment guidelines

We do not believe that regulatory changes to investment guidelines are appropriate to achieve intended reform objectives

References to ratings in investment guidelines serve as a preliminary screen and do not replace an asset manager's responsibility to conduct its own credit analysis

References to ratings in investment guidelines ensure end investors' expectations are clearly communicated

Without independent ratings end investors would be exposed solely to manager's assessment

Investment guidelines are private contractual agreements

- ▶ Regulatory changes to investment guidelines would require intervention in private contractual agreements

Reducing “ratings shopping”

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

“Ratings shopping” contributes to perceived and real conflicts of interest with the issuer-pay model

Credit Rating Assignment System (the “15E(w) System”) would eliminate “ratings shopping”

However, we believe the 15E(w) System is not the best approach to achieve reform objectives

- ▶ We are concerned about the quality of ratings that would result from the 15E(w) System
 - Analysis of different structured finance products is complex and requires expertise in each collateral type
 - We are concerned that the 15E(w) system could 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
- ▶ Could foster a system that misaligns incentives and interferes with efficient issuance of structured products

Ratings shopping could be minimized by requiring an NRSRO to be engaged to rate a deal prior to conducting a detailed review of collateral pool information

- ▶ Eliminates the potential unintended negative consequences of the 15E(w) system
- ▶ Would require far fewer resources to implement
- ▶ 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

Information on underlying collateral for securitized transactions should be disclosed to investors*

- ▶ Disclosure of this data to investors could be accomplished through the websites required by Rule 17g-5

Ideally, the industry would move to standardized disclosure for each type of collateral

- ▶ Both 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

Enhanced transparency would have a number of benefits including:

- ▶ Allowing investors to review the data underlying ratings opinions gives better insight into NRSRO's process, methodology, and accuracy of data analysis
- ▶ Potentially reducing over-reliance on credit ratings
 - Investors would have the information needed to conduct their own credit rating analysis
- ▶ Incentivizing a more robust and objective credit rating process
 - Would likely put more eyes on the analysis
- ▶ Facilitating regulatory oversight

Identifying and managing conflicts of interest

We encourage a regular examination that audits compliance with the specified ratings process and ensures potential conflicts are adequately managed and disclosed

We commend the SEC for taking important steps to improve credit rating process

- ▶ Implemented rules requiring NRSROs to establish and enforce procedures to manage conflicts of interest
- ▶ Established Office of Credit Ratings
- ▶ Annual examinations of NRSROs

These changes will continue to improve business practices and public confidence in the credit rating process

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