

BLACKROCK

April 29, 2011

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

Re: Clearing Agency Standards for Operation and Governance 17 CFR Part 240
(File No. S7-08-11; RIN 3235-AL13)

Dear Ms. Murphy:

BlackRock, Inc.¹ is pleased to provide these comments on the Securities and Exchange Commission's (the "Commission" or the "SEC") proposed rules (the "Proposed Rules") concerning Clearing Agency Standards for Operation and Governance. The eight Proposed Rules are designed to enhance the regulatory framework for the supervision of security-based swap clearing agencies ("SB Swap Clearing Agencies") by setting standards (including risk management standards) for the operation and governance of SB Swap Clearing Agencies. The Commission requests comment on all aspects of its proposal.

BlackRock fully supports the objectives of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") to establish a comprehensive regulatory framework to reduce risk, increase transparency for both price and liquidity, and promote market integrity with respect to security-based swap ("SB Swap") transactions. The Commission believes that applying certain rules to all clearing agencies would promote financial stability, one of the goals of the Dodd-Frank Act, by facilitating prompt and accurate clearance and settlement of all securities transactions consistent with Section 17A of the Exchange Act while promoting the Dodd-Frank Act's stated aims of accountability and transparency.

As an asset manager representing many different types of clients, investment vehicles, and separate accounts, we offer these comments to assist the Commission in adopting final rules that benefit all market participants, including our clients, by mitigating risk in SB Swap Clearing Agencies and promoting the success of cleared derivatives as they migrate from the over-the-counter bilateral market.

Our comments focus on the proposed rules that address membership requirements and the dissemination of SB Swap pricing information. BlackRock believes that rules pertaining to SB Swap Clearing Agency membership should be designed to encourage many different types of market participants to become clearing members. We support the access requirements in Proposed Rule 17Ad-22, particularly the net capital requirement of \$50

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.

million. We also believe that, in the interest of promoting transparency and efficiency, the Commission should require SB Swap Clearing Agencies to make publicly available end-of-day settlement prices for each contract it clears at no charge. We request that the Commission modify Proposed Rule 17Aj-1 to require this functionality.

I. Proposed Rule 17Ad-22: Standards for all Clearing Agencies

BlackRock supports Proposed Rule 17Ad-22(b), which would set forth standards that are applicable to clearing agencies that provide CCP services. Specifically, the proposed rule would (i) provide standards with respect to measurement and management of credit exposures, margin requirements, financial resources, and annual evaluations of the performance of the clearing agency's margin models; and (ii) require membership access to SB Swap Clearing Agencies for persons that are not dealers or SB Swap dealers, prohibit the use of minimum portfolio size and minimum volume transaction thresholds as a condition for membership at a SB Swap Clearing Agency, and permit membership access to a SB Swap Clearing Agency by persons with net capital equal to or greater than \$50 million. This net capital requirement would be scalable so that the risks posed by the participant's activities to the SB Swap Clearing Agency are proportional to its capital requirement.² Moreover, SB Swap Clearing Agencies would be prohibited from denying membership on fair and reasonable terms to otherwise qualified persons solely by virtue of the fact that they do not perform the services of a SB Swap dealer.

The Commission's proposal will promote more inclusive SB Swap Clearing Agency participation requirements, which will benefit the markets by reducing SB Swap Clearing Agency concentration risk, increasing the diversity of market participants involved in SB Swap Clearing Agency governance, enhancing competition, and lowering the costs for customers of clearing members. We therefore support Proposed Rule 17Ad-22(b). In particular, we believe that the \$50 million net capital requirement, subject to risk adjustment, will allow a wide array of market participants to qualify for SB Swap Clearing Agency membership without jeopardizing the stability of these important entities. We encourage the Commission to evaluate carefully any application by a SB Swap Clearing Agency to impose a higher net capital requirement in order to ensure such requests do not limit participation unnecessarily.

BlackRock also believes that meaningful buy-side representation is a critical component of sound governance practices for SB Swap Clearing Agencies. Proposed Rule 17Ad-22(d)(8) would require SB Swap Clearing Agencies to establish, implement, maintain and enforce written policies and procedures reasonably designed to have governance arrangements that are clear and transparent, and to promote the effectiveness of the SB Swap Clearing Agency's risk management procedures by creating an oversight framework that focuses on the critical role of risk management in promoting prompt and accurate clearance and settlement.

As noted in the Proposed Rules, the key components of a SB Swap Clearing Agency's governance arrangements include the SB Swap Clearing Agency's ownership structure, the composition and role of its board, the structure and role of board committees, reporting lines between management and the board, and the processes that ensure management is held accountable for the SB Swap Clearing Agency's performance. The role of governance

² In addition, a SB Swap Clearing Agency could provide for a higher net capital requirement as a condition for membership only if the SB Swap Clearing Agency demonstrates to the SEC that such a requirement is necessary to mitigate risks that could not otherwise be managed effectively by other measures and the SEC approves the higher net capital requirement as part of a rule filing or SB Swap Clearing Agency registration application.

arrangements in promoting effective risk management has also been a focus of rules recently proposed by the Commission to mitigate conflicts of interest at SB Swap Clearing Agencies ("Proposed Conflicts Rules").³

BlackRock agrees that the composition and role of operating committees, whether structured as committees of the board or not, are key components of a SB Swap Clearing Agency's governance. As noted in our comment letter in response to the SEC's Proposed Conflicts Rules on April 29, 2011, BlackRock believes that the committees responsible for the day-to-day operations of SB Swap Clearing Agencies should include input from all market participants and that no one class of participant should dominate these committees.⁴ The Commission should ensure that buy-side market participants have a meaningful voice on these operating committees, as such representation is critical to promoting robust governance arrangements to serve the best interests of our clients as well as the interests of the U.S. financial system.

II. Proposed Rule 17Aj-1: Dissemination of Pricing and Valuation Information by SB Swap Clearing Agencies that Perform CCP Services

In the interest of promoting price transparency and efficiency in the SB Swap market, BlackRock requests that the SEC require SB Swap Clearing Agencies to distribute pricing and valuation information for SB Swap transactions to all market participants simultaneously. Accordingly, we suggest two modest modifications to Proposed Rule 17Aj-1.

In its current form, Proposed Rule 17Aj-1 would require SB Swap Clearing Agencies that perform CCP services to make publicly available the same pricing and valuation information required by the CDS Clearing Exemption Orders.⁵ Specifically, Proposed Rule 17Aj-1 would require each SB Swap Clearing Agency that performs CCP services to make available to the public, on terms that are fair, reasonable and not unreasonably discriminatory, all end-of-day settlement prices and any other prices for SB Swaps that the SB Swap Clearing Agency may establish to calculate its participants' mark-to-market margin requirements and any other price or valuation information with respect to SB Swaps that is published or distributed by the SB Swap Clearing Agency to its participants.

Today, clearing agencies operating pursuant to the CDS Clearing Exemption Orders generate model end-of-day settlement prices for CDS, which they in turn provide to clearing members and use to establish margin requirements for member positions. Pursuant to the terms of the CDS Clearing Exemption Orders, these clearing agencies also make pricing and valuation available to the public. Public availability of such information and other related pricing data has helped to improve fairness, efficiency, and market competition by making available to all market participants data that may otherwise be available to only a limited subset of market participants.

³ See Exchange Act Release No. 63107, 75 FR 65882 (Oct. 26, 2010).

⁴ See BlackRock Comment Letter dated November 15, 2010 entitled "Ownership Limitations and Governance Requirements for Security-Based Swap Clearing Agencies, Security-Based Swap Execution Facilities, and National Securities Exchanges With Respect to Security-Based Swaps Under Regulation MC 17 CFR Part 242 (File No. S7-27-10; RIN 3235-AK74)."

⁵ See, e.g., the CDS Clearing Exemption Order relating to ICE Trust. "[T]his temporary extension is conditioned on ICE Trust, directly or indirectly, making available to the public on terms that are fair and reasonable and not unreasonably discriminatory: (i) all end-of-day settlement prices and any other prices with respect to Cleared CDS that ICE Trust may establish to calculate mark-to-market margin requirements for ICE Trust clearing members; and (ii) any other pricing or valuation information with respect to Cleared CDS as is published or distributed by ICE Trust." Exchange Act Release No. 63387 (November 29, 2010) 75 FR 75502 (December 3, 2010).

We believe that fairness, efficiency and market competition would be further enhanced if the Commission required SB Swap Clearing Agencies to distribute pricing and valuation information to the public at the same time they make it available to their clearing members. This rule would mean that clearing members and their customers receive pricing and valuation information simultaneously. This will improve operational efficiency as asset managers, such as BlackRock, will not otherwise have direct access to pricing and valuation information, which is necessary to calculate vital information, such as net asset value, in a timely manner for the funds and accounts that they manage. A simultaneous distribution will mean that customers will not have to wait to receive pricing and valuation information from clearing members. We believe the Commission should adopt a simultaneous distribution requirement.

BlackRock is also concerned about the costs that Proposed Rule 17Aj-1 will impose on market participants. Consistent with CDS Clearing Exemption Orders, Proposed Rule 17Aj-1 does not prohibit charges that may be assessed with respect to SB Swap Clearing Agencies making pricing and valuation information available to the public as long as such charges are fair, reasonable, and not unreasonably discriminatory. Because pricing and valuation information is essential to the calculation of net asset value, we believe such information should be provided at no cost to customers who are being mandated into the clearing system as a result of Dodd Frank.

Thank you for the opportunity to share our views on this important issue. If you would like to discuss further, please contact any of us.

Sincerely,

Joanne Medero
Richard Prager
Supurna VedBrat