



December 8, 2016

VIA ELECTRONIC DELIVERY

Mr. Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Use of Derivatives by Registered Investment Companies and Business Development Companies; 1940 Act Release No. 31,933; (File No. S7-24-15)

Dear Mr. Fields:

AQR Capital Management, LLC (“AQR”)¹ is pleased to provide additional comments on proposed Rule 18f-4 (the “Rule”)² under the Investment Company Act of 1940 (the “1940 Act”), specifically in response to the Division of Economic and Risk Analysis (“DERA”) memorandum dated November 1, 2016 regarding Risk Adjustment and Haircut Schedules (the “Memo”)³. These remarks supplement our original comment letter dated March 28, 2016, which highlighted a number of areas of concern and proposed modifications to the Rule.

AQR is a global asset management firm with over \$172 billion in assets under management across both traditional long-only equity strategies and alternative investment strategies, of which the firm is one of the world’s largest providers. We offer investors access to these investments through separate accounts, UCITS funds, pooled vehicles, and through sub-advised mutual funds and the AQR Funds, a family of open-end mutual funds registered under

¹ “We,” “us,” “our” and “ourselves” as used in this letter refer to AQR.

² See *Use of Derivatives by Registered Investment Companies and Business Development Companies*, 1940 Act Release No. 31,933 (Dec. 11, 2015), 80 Fed. Reg. 80,884 (Dec. 28, 2015), available at <https://www.gpo.gov/fdsys/pkg/FR-2015-12-28/pdf/2015-31704.pdf> (the “Release” or the “Rule”). Page references to the Release in the text of this letter are to the Release as published by the Commission and not to the Release as it appears in the Federal Register.

³ See *Memorandum from the Division of Economic and Risk Analysis regarding Risk Adjustment and Haircut Schedules* File S7-24-15 (Nov. 1, 2016), available at <https://www.sec.gov/comments/s7-24-15/s72415-260.pdf> (the “Memo”).

the 1940 Act.⁴ AQR has been providing diversifying strategies and their risk/reward benefits to pension plans and their beneficiaries for many years. Since January 2009, AQR has offered registered mutual funds that provide these same benefits to individual investors.

I. Comments on the DERA Risk Adjustment and Haircut Schedules Memorandum

We thank the Staff of DERA for the analysis and the results thereof in the Memo. We agree with the main points of the Memo: that industry and regulatory standardized risk adjustments to derivative notional amounts and collateral haircuts are roughly consistent with each other, and with relative realized risk both overall and in crisis periods. There was one exception noted, but our overall conclusion from the Memo is that the SEC could adopt risk adjustments and haircut schedules from a number of standardized sources, or come up with its own estimates based on historical analysis, with quantitatively similar effects.

While we would support the schedule in the Memo, one easy change that would improve accuracy would be to further subdivide fixed income derivatives on underlier of longer than five years into two groups or three groups, for example, replacing a 5+ year category with a 5-15 year group and a 15+ year group. A long bond future (15 to 25 years) has about 1.7 times the volatility of a 10-year treasury note future and the ultra bond future (25+ years) has about 2.3 times (the exact ratio depends on the time period used for estimation, but as with the other numbers in the report, is roughly comparable over different length periods and whether or not a crisis period is used). The new 15+ year group could be given twice the risk weight of the 5+ year group in the scheduled examined in the DERA study.

We hope the Commission and its staff find our comments above helpful, and we would be pleased to discuss any aspect of the letter with the Commission or its staff. Questions regarding this letter may be directed to Nicole DonVito (nicole.donvito@aqr.com) at (203) 742-3815 or Brendan Kalb (brendan.kalb@aqr.com) at (203) 742-3618.

Very truly yours,

/s/ Brendan R. Kalb

AQR CAPITAL MANAGEMENT, LLC

By: Brendan R. Kalb

Title: Managing Director and General Counsel

⁴ AQR is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940 and as a commodity pool operator and a commodity trading advisor with the Commodity Futures Trading Commission under the Commodity Exchange Act. Our investors, such as U.S. state and local pension plans, private pension plans, endowments, foundations, sovereign wealth funds, and financial advisors investing on behalf of their clients, typically seek to follow conservative investment strategies. As of September, 30, 2016, AQR and its affiliates had approximately \$172 billion in assets under management, of which \$47 billion consist of the AQR Funds and sub-advised mutual funds.



cc: The Honorable Mary Jo White, Chair
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner

David Grim, Director, Division of Investment Management
Diane Blizzard, Associate Director, Division of Investment Management
Mark J. Flannery, Director and Chief Economist, DERA
Scott W. Bauguess, Deputy Director and Deputy Chief Economist, DERA

