Meeting between Federal Reserve Board Staff
and Representatives of BlackRock, Inc.
February 28, 2012

Participants: Scott Alvarez, Anna Harrington, Christopher Paridon, and Mark Van der Weide (Federal Reserve Board)

Matthew Mallow, Barbara Novick, and Howard Surloff (BlackRock, Inc.); and William Sweet (Skadden, Arps)

Summary: Staff of the Federal Reserve Board met with representatives of BlackRock to discuss the restrictions on proprietary trading and hedge fund and private equity fund activities under section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (also known as the "Volcker Rule").

Among matters discussed in the meeting were BlackRock's views regarding the definition of "control" for purposes of the Volcker Rule, and the BlackRock representatives position that the definition of "control" in the proposed rule to implement single counterparty credit limit required to be established under section 165(e) should be applied to the Volcker Rule instead of the definition contained in the Bank Holding Company Act. BlackRock indicated that this definition of control made sense in light of the legislative history relating to the Volcker Rule in that it is targeted at banking entities that benefit from federal deposit insurance or discount window access. BlackRock provided the attached ViewPoint describing how its business managing assets on behalf of clients is structured.

BlackRock indicated a characteristics-based approach to defining "covered fund," as contemplated in the Financial Stability Oversight Council's study on the Volcker Rule, was preferable to the definition contained in the proposed rule, and expressed a concern with the proposed rule's application of the prohibition on a covered fund sharing the same name or a variation of the same name with a banking entity. BlackRock representatives also noted their concerns about the proprietary trading restrictions in the proposed rule implementing the Volcker Rule given the impact of these provisions on liquidity for BlackRock's clients, particularly with respect to fixed income securities.

BLACKROCK®

ViewPoint
June 2011

BlackRock
Worldwide Leader in Asset and Risk Management

While BlackRock is known as a large asset manager, our size says little about our structure and risk profile, our history, or how we function today. In this *ViewPoint*, we provide an overview of our organization and discuss the factors that differentiate BlackRock specifically, and the asset management industry more generally.

BlackRock Mission Statement:

Create a better financial future for our clients by building the most respected investment and risk manager in the world

BlackRock Overview

BlackRock was founded in New York City in 1988 by eight partners, five of whom remain active in the firm today. BlackRock has grown from a start-up to a market leader by attracting clients and employees, and by acquiring several other asset management companies. Key events in the firm's history are highlighted in the timeline in Figure 2.

Throughout this evolution, BlackRock has maintained its focus on managing assets on behalf of its clients, and providing them with risk management and advisory services. Clients of the firm include corporate, public and multi-employer pension plans, governments, insurance companies, official institutions, endowments, foundations, charities, corporations, banks, sovereign wealth funds, mutual funds, and individuals around the world.

As of 31 March 2011, BlackRock manages \$3.65 (or €2.59) trillion on behalf of clients. As highlighted in Figure 1, the assets under management (AUM) include cash, fixed income, equity, alternatives and multi-asset class mandates. In addition, the reported AUM reflects \$147 (or €104) billion in advisory assignments, which include monitoring, hedging, and liquidating troubled portfolios.

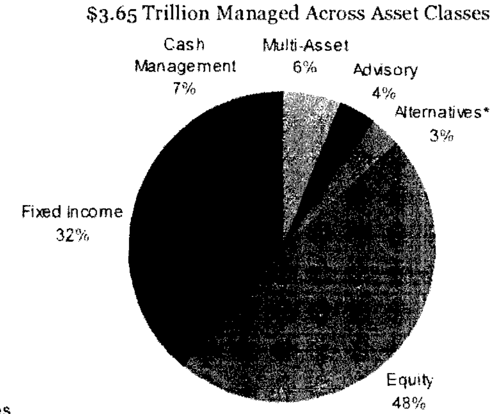
BlackRock is a global firm that combines the benefits of worldwide reach with local service and relationships. As highlighted in Figure 3, investment centers in 21 cities (including New York, London, San Francisco, Tokyo, and Hong Kong) facilitate access to major capital markets. Likewise, account managers in 74 offices across 24 countries (five in the Americas, six in Asia Pacific, and thirteen across Europe, the Middle East, and Africa) deliver global expertise to our diverse client base.

BlackRock is an independently managed public company with no single majority stockholder. The firm has been listed on the New York Stock Exchange under the symbol "BLK" since 1999. In April 2011, BlackRock was added to the S&P 500 Index, reflecting both the valuation of the company and the broad ownership of its stock. The PNC Financial Services Group, Inc. and Barclays PLC have minority ownership stakes in BlackRock with the remainder owned by institutional and individual investors, as well as BlackRock employees. Independent directors comprise a majority of the BlackRock Board of Directors.

Figure 1: BlackRock at a Glance

- Established in 1988
- NYSE: BLK
- \$3.65 (or €2.59) trillion assets under management
- Over 8,600 employees
- Approximately 1,600 investment professionals
- 21 investment centers
- 74 offices in 24 countries
- Clients in over 100 countries
- BlackRock Solutions® oversees \$9.50 (or €6.74) trillion in risk assets

\$3.65 Trillion Managed Across Asset Classes

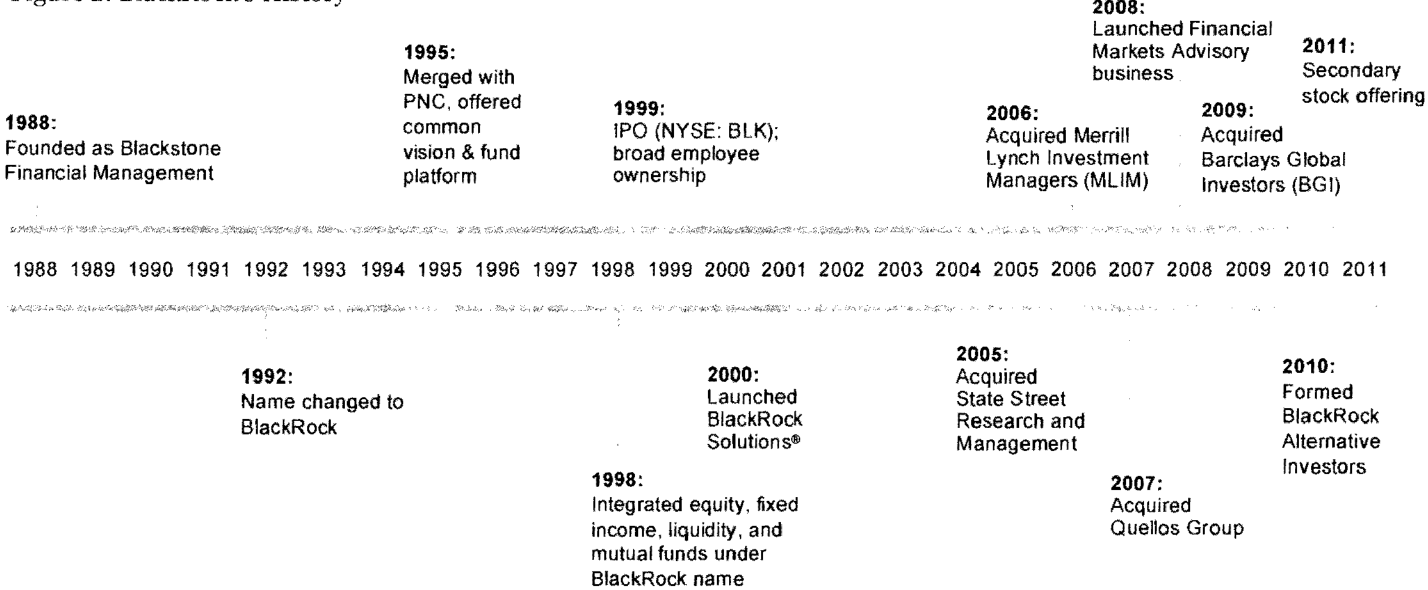


Data as of 31 March 2011

* Includes commodity and currency mandates

The opinions expressed are as of June 2011 and may change as subsequent conditions vary.

Figure 2: BlackRock's History



The Asset Management Business

The term "asset manager" is often misunderstood. Asset managers, also known as investment managers, are hired by clients to invest assets on their behalf. In this role, asset managers act as fiduciaries. Asset managers invest within the guidelines specified by their clients for a given mandate. This may include more or less risk-taking; however, the investment results, whether positive or negative, belong to the client.

Importantly, the "assets under management" are owned by clients. They are generally held by third-party custodians selected by, and under contractual obligation to, these clients. Typically, asset managers do not have physical control or direct access to clients' assets. Consequently, asset managers have small balance sheets relative to those of other financial services firms.

Asset managers are generally paid on a set schedule based on the amount of assets under their management. Unlike investment banks, revenue sources for asset managers are fees for services as opposed to income derived from lending or other balance sheet-based activities. The asset management fee structure generates a more stable income stream than that of a transaction-oriented financial institution. In addition, asset managers generally have little debt on their balance sheets.

Asset managers do:

- Invest on behalf of clients, not with their own assets
- Rely on a generally stable fee-based income stream
- Have oversight and regulation at both the manager and portfolio levels (in the US and EU regulatory regimes and elsewhere)

Asset managers do not:

- Invest with their own balance sheets (other than seed capital or small co-investments)
- Employ balance sheet leverage
- Guarantee investor principal, and there is no government guarantee or backing

What Distinguishes Asset Managers Within the Financial Industry?

While part of the financial services sector, asset managers are characterized by a business model that is fundamentally different than that of other financial institutions, such as commercial banks, investment banks, insurance companies and government-sponsored entities. Asset managers are different than most other financial firms in that they act as advisors or agents on behalf of their clients. While asset managers do not use their balance sheets to conduct business, other financial companies do engage in activities involving balance sheet risk. For example, investment banks act as principal in trading, market-making and prime brokerage; finance companies access the capital markets for funds and essentially re-lend these monies; and insurance companies provide long-term financing for real estate and other hard assets as part of their asset-liability management.

Another critical difference between a commercial bank and an asset manager is the absence of reliance on government guarantees or support. Banks accept deposits that, in the US, are then insured by the Federal Deposit Insurance Corporation and, in the European Union (EU), are obliged to participate in national Deposit Guarantee Schemes. Asset managers, meanwhile, clearly disclose to clients that investment performance is not guaranteed by the manager, the government, or any other party.

This distinction was critically important in shielding asset management companies from much of the turmoil that occurred during the financial crisis of 2008. Notably, no asset manager was among the 700 US financial institutions that received a direct investment under the TARP Capital Purchase Program or the thousands of institutions that received direct support through other programs implemented during the crisis.[1]

Regulation of Asset Managers

Asset managers are subject to comprehensive regulation that includes regular examinations and reporting and that requires managers to establish and maintain extensive risk management and compliance policies and procedures. In the US, the Securities and Exchange Commission (SEC) is the primary regulator of asset managers that are registered as investment advisers. Asset managers that operate trust banks are overseen by the Office of the Comptroller of the Currency (OCC) if federally chartered, and by state banking authorities if state-chartered.

In the US, many asset managers are also subject to regulation by the Department of Labor under the Employee Retirement Income Security Act (ERISA) for work on behalf of certain pension plans and by the Commodity Futures Trading Commission (CFTC) if they invest client funds in commodities and certain derivatives instruments. Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, introduced a host of new rules that provide for enhanced reporting, oversight and transparency for financial instruments and financial institutions, including asset managers.

In the EU, the vast majority of the legislation that underpins the regulatory environment for asset managers is agreed upon at the European level following co-decision by the EU Member States and the European Parliament. It is subsequently implemented at the domestic level. Common European rules create the legislative conditions for the Single Market in goods and services in the EU. Similar to the Dodd-Frank Act in the US, the European Market Infrastructure Regulation (EMIR) proposal establishes central counterparties and trade repositories and the forthcoming proposal to revise the Markets in Financial Instruments Directive Review (MiFID) is expected to include provisions to strengthen investor protection and increase transparency.

In Europe, the supervision of asset managers continues to be carried out by national authorities, such as the Financial Services Authority (FSA) in the UK, BaFin in Germany, and the Authority for Financial Markets (AFM) in the Netherlands. In the Asia Pacific region, regulatory agencies overseeing asset managers include, among others, the Financial Services Agency in Japan, the Securities and Futures Commission in Hong Kong, and the Prudential Regulatory Authority and the Securities and Investments Commission in Australia.

[1] US Government Accountability Office; Office of Special Inspector General for the Troubled Asset Relief Program; US Department of Treasury.

What Differentiates BlackRock?

BlackRock was founded as a stand-alone investment management company focused on providing asset management and risk management services to clients. The firm brings together expertise across capital market sectors, and asset allocation, portfolio management, financial modeling, and risk management disciplines. BlackRock's fiduciary culture differentiates it from sell-side firms.

Figure 3: BlackRock's Global Presence

Rank*	City	Country
Americas (over 5,000 employees)		
1	New York City, NY	United States
2	San Francisco, CA	United States
3	Plainsboro, NJ	United States
4	Wilmington, DE	United States
5	Boston, MA	United States
6	Seattle, WA	United States
7	Toronto	Canada
8	Charlotte, NC	United States
9	Chicago, IL	United States
10	Newport Beach, CA	United States
Europe (over 2,400 employees)		
1	London	United Kingdom
2	Edinburgh	United Kingdom
3	Peterborough	United Kingdom
4	St. Helier	Jersey
5	Munich	Germany
6	Amsterdam	Netherlands
7	Frankfurt	Germany
8	Milan	Italy
9	Zurich	Switzerland
10	Paris	France
Asia Pacific (over 1,300 employees)		
1	Tokyo	Japan
2	Singapore	Singapore
3	Gurgaon	India
4	Hong Kong	China
5	Sydney	Australia
6	Melbourne	Australia
7	Taipei	Taiwan
8	Seoul	South Korea
9	Dubai	United Arab Emirates
10	Brisbane	Australia

* Rank by number of full- and part-time employees. Data as of 30 April 2011.

An integral part of our fiduciary culture is BlackRock's core belief that rigorous risk management is critical to the delivery of high-quality asset management services. The firm's leaders identified a growing gap between the sell-side and the buy-side, and had a vision for a tool that asset managers needed to prudently manage risk. Having determined that no existing system adequately fulfilled this need, BlackRock designed and built a proprietary state-of-the-art system, which evolved into the risk-management technology platform known as BlackRock Solutions® (BRS). Please refer to the sidebar for additional details.

Today, portfolio managers throughout BlackRock have access to proprietary technology which enables them to make more informed decisions. These tools can analyze individual securities, aggregate a portfolio of securities, and compare that portfolio and its risk characteristics to an index or another relevant benchmark.

Conclusion

Asset managers act as fiduciaries; consequently, a focus on clients is central to the asset management business model. In recognition of this fiduciary responsibility, BlackRock has identified financial regulatory reform as a critical issue for our clients. We support the creation of 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. Historically, investors' participation in public policy debate has been limited. However, we believe the investor perspective is critical to consider. As a result, BlackRock has actively engaged in discussions with policymakers on a wide range of financial regulatory reform topics. A complete library of *ViewPoint* public policy papers, comment letters, and responses to consultations prepared by BlackRock is available at http://www2.blackrock.com/global/home/PublicPolicy/index.htm.

BlackRock Solutions

Comprehensive risk management requires the right tools to assess security- and portfolio-level risks, to make investment decisions in rapidly changing markets, and to execute transactions efficiently. As a result, BlackRock developed an integrated suite of investment management tools designed to be used by its investment professionals and, in 2000, began offering those risk management and trade processing tools, as well as advisory and transition services, to external clients under the BRS brand. Today, BRS employs more than 1,000 technology professionals and uses proprietary risk technology to monitor trades and to analyze assets, liabilities and derivatives for some of the world's largest institutions.

Within BRS, a specialized team, the Financial Markets Advisory (FMA) Group, advises clients in managing their capital markets exposure and businesses. The FMA practice focuses on helping clients address unique balance sheet challenges associated with a wide array of global fixed income asset and liability structures. Services provided by the Group include financial strategy development, asset disposition (typically for workout or long-term run-off portfolios) and valuation and risk assessments (typically for complex loan, security and derivative exposures). Our FMA clients include large financial institutions, central banks, finance ministries and public and private long-term investors around the world. The FMA team uses BRS' suite of data management, financial modeling and analytical tools in executing these customized advisory engagements.

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