BLACKROCK®

16 May 2013

Mr. Alp Eroglu
International Organization of Securities Commissions
Calle Oquendo 12
28006 Madrid
Spain

Re: Consultation Report CR04/2013 on Principles for Financial Benchmarks

Dear Mr. Eroglu:

BlackRock welcomes the opportunity to respond to the International Organization of Securities Commissions' (IOSCO) consultation on financial benchmarks. BlackRock is a leader in providing investment management, risk management and advisory services for institutional and retail clients worldwide. As of 31 March 2013, BlackRock's assets under management totalled $3.936 trillion across equity, fixed income, cash management, alternative investment and multi-asset and advisory strategies including the iShares® exchange traded funds ("ETFs").

BlackRock uses an extensive list of rate benchmarks (such as LIBOR) and market indices (such as the S&P 500) in managing portfolios on behalf of our clients. BlackRock has an "index business" in which we construct and manage portfolios that are designed to track market indices. In managing client assets, we use both publicly available rate benchmarks such as LIBOR, EURIBOR, EONIA, SONIA, and the Overnight Index Swap ('OIS') and privately owned market indices such as MSCI, FTSE, Russell, S&P/Dow Jones, STOXX, Markit iBoxx, Barclays, S&P/Dow Jones GSCI and DJ-UBS. In the case of the privately owned market indices, we license these benchmarks from the relevant index provider.

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BlackRock believes that it is important to differentiate between "rate benchmarks" such as LIBOR and EURIBOR, which are currently based on subjective estimates, and "market indices," which are either wholly or largely based on financial transactions, as there are many distinctions among them that call for markedly different regulatory approaches.

The proposed high-level Principles constitute a robust set of good practices for benchmark administrators. However, BlackRock remains particularly cautious about a far reaching regulatory regime for market indices since this would likely result in significant additional cost for index providers. The cost would ultimately be passed onto the end-investor, undermining the core benefits of low cost passive funds, whilst presenting barriers to entry for new market participants, thereby undermining the healthy competitive environment which already exists in the market index space today.

BlackRock would agree with IOSCO that a set of high-level Principles might be appropriate for all benchmark administrators. Whilst a set of more tailored principles to address benchmarks with specific risks arising from reliance on submissions and/or ownership structures (such as LIBOR and EURIBOR) could be justified, the same Principles should not apply where market indices are derived in substantial part from observable prices ("transaction data") and / or administrators have less discretion than with rate benchmarks, especially when indices are constructed from multi-participant, rather than single-participant, valuations.[1] This approach makes a distinction between subjective estimate-based approaches and more robust observable data whilst also addressing a possible

[1] BlackRock generally advises its fixed income clients to adopt indices which are constructed from multi-participant valuations. This advice is in line with client interests since it represents best practice where possibility of conflicts of interest between index provider and index consumer is mitigated.

conflict of interest between single participant market index valuators where the same entity may be marketing transactions based on that index.

Most equity, fixed income and commodity future indices are derived in substantial part from transaction data and / or are constructed from modelled or multi-participant valuations:

- Equity indices are generally constructed using data from trading platforms, such as stock exchanges, and data providers such as Bloomberg. They are calculated based on real transactions completed at a particular point in the trading day, generally the closing pricing mechanism of the exchange or trading platform.

- Fixed income indices can be based on real transaction data, as well as modelled or multi-participant estimated prices. As fixed income instruments trade over-the-counter ("OTC"), the same bond can therefore have different prices in different index providers' indices. In addition, some fixed income instruments can trade very infrequently or by appointment only. In such cases, indicative or model derived prices may be used in the relevant indices. Such indicative or model derived prices may more closely reflect market value at the relevant time than "stale" real transaction data.

- Commodity futures indices tend to use actual prices, quantities and data which may be considered objective and verifiable. The data typically comes from commodity futures exchanges and from national and supranational organisations responsible for producing fundamental data on commodity markets (in particular world production quantities used for index weightings). In contrast, physical commodity market price benchmarks can involve elements of subjectivity as they often require price submissions from physical players (e.g. Brent crude oil pricing). There is hence a unique element to commodity benchmarks that separates them from equities and fixed income – the fact that there are physical and financial markets.

Such a distinction is additionally appropriate since providers of market indices are commercially incentivised to ensure that their index tracks the relevant market as closely as possible, thereby aligning their interests with direct users and end investors. Direct users of indices and end-investors in strategies making use of indices are invited by index providers to provide feedback on changes to methodologies and new indices and direct users have extensive choice in the selection of an index provider.

BlackRock has stated in previous submissions to IOSCO and other policy making bodies[2] that reform objectives for rate benchmarks could be best delivered by augmenting subjective submission data with the use of transaction data where appropriate, as opposed to solely being based on transaction data. BlackRock also supports reforms aimed at greater regulatory and supervisory oversight over the rate benchmark setting process and governance. Above all, end-investors would be best served if there were to be an orderly transition in achieving the reform objectives.

We note that the U.S. Financial Stability Oversight Council ("FSOC") recently issued its 2013 Annual Report (the "FSOC Report").[3] The FSOC Report was organized around seven key themes, one of which was a focus on reforms of reference interest rates, such as LIBOR. With respect to LIBOR, the FSOC Report stated that "[FSOC] members believe that in the absence of both an explicit and transparent link between LIBOR and market transactions and strong governance of reference rates, price signals for capital and risk allocation and risk measurement may become distorted, possibly leading to misallocation of capital and risk and a mis-measurement of risk." While the FSOC Report also acknowledged that the international regulatory community is moving to reform the governance and integrity of LIBOR and to consider transitions towards alternative benchmarks, the FSOC Report did not also include FSOC recommendations to reform market indices. BlackRock commends the FSOC's recognition for the need to promptly identify interest rate benchmarks that are anchored in

[2] BlackRock has commented previously on regulatory reform of benchmarks. See responses to the Wheatley Review of LIBOR (September 2012), the European Commission (November 2012), ESMA-EBA and IOSCO (both February 2013). BlackRock has also published two public policy ViewPoints on benchmarks in July 2012 and March 2103 – available at: http://www2.blackrock.com/global/home/PublicPolicy/PublicPolicyhome/index.htm

[3] The 2013 Annual Report is available at: http://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2013-Annual-Report.aspx

observable transactions and are supported by appropriate governance structures, and to ensure a smooth and orderly transition to alternative benchmarks.

BlackRock is willing to work collaboratively to develop alternatives to LIBOR or EURIBOR but does not believe that any particular rate benchmark should be mandated for specific activities. Different investors and different borrowers have different needs and preferences and these evolve over time. Accordingly, participants should be allowed to select benchmarks or indices that meet the needs of borrowers and lenders. However, for both rate benchmarks and market indices, BlackRock strongly supports an enhanced transparency and disclosure regime whereby investors are provided with sufficient information such that they can make an assessment as to whether the relevant benchmark/index is fit for purpose to achieve their investment objective and sanctions for the manipulation for any benchmark/index.

Finally, BlackRock underlines the importance of global consistency in this regulatory reform effort. Financial markets are global and our clients are increasingly global in perspective, hence we attach great importance to the outcome of IOSCO's work in this space. We particularly applaud IOSCO for recognising that one size does not fit all when it comes to the regulation of benchmarks and urge national regulators to reflect this in their own domestic initiatives that may follow this exercise. More specific comments in response to IOSCO's questions follow.

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IOSCO asked four questions in its consultation report. By way of overall response, BlackRock believes that IOSCO's draft Principles are broadly appropriate for benchmark administrators hence additional Principles to address additional issues, risks or conflicts of interest need not be developed at this time (question 4).

Regarding the application of the Principles (question 1) rather than dis-apply certain Principles to equity indices, BlackRock believes that a distinction is more appropriately drawn between (a) benchmarks, where rates are set by single participant estimation and survey; and (b) market indices that are derived in substantial part from observable prices (or "transaction data") and/or multi-participant estimation, regardless of the asset class underlying the benchmark. We note policy makers' concerns regarding the reliability of OTC data where the observable price would be currently based on activity in the OTC market, such as fixed income. BlackRock supports enhanced transaction reporting for fixed income trades, which should assist in reducing the risk of over-reliance on less observable pricing mechanisms.

It should be noted that in the case of the index and ETF businesses, the only significant costs incurred by the user is for the market data provided by data aggregators and providers, such as exchanges as well as the licensing fee. Instead of IOSCO making explicit reference to market data provided by "exchanges", it would be more appropriate to refer in the Principles simply to "transaction-based data", especially as this could be delivered from sources other than exchanges.

Regarding additional measures to address risks resulting from submission-based benchmarks or ownership control structures (question 2), BlackRock recommends that IOSCO make a distinction within the notion of "ownership" to recognise that asset managers, pension funds and insurance companies could well invest their clients' assets in the securities of the index providers as part of broader passive and/or active investment strategies. Such investments could be described as "fiduciary shareholdings" where the objective is not to own the stock to exert influence on the index providers' commercial decision making and/or product offering, but rather to achieve a return on the security in line with the investment objective of the client.

Finally, in respect of IOSCO's proposal regarding expert judgement (question 3), it should be noted that asset managers generally take an active interest in the construction of market indices and provide feedback to various index providers through index consultations and on index committees, where applicable. Furthermore, while BlackRock is not currently in a position to verify the construction or accuracy of an index (including whether such benchmark is reliable) nor guarantee that a chosen index will be appropriate for any given investor, BlackRock does carry out certain validation exercises in respect of the market data used to construct indices. BlackRock also closely monitors index turnover as part of the daily portfolio management process to the extent reasonably possible.

Therefore, BlackRock would support IOSCO Principles requiring administrators to briefly describe and publish summary information with each benchmark assessment to the extent it facilitated users' validation processes and did not lead to significant additional cost for providers, since the cost would ultimately be passed onto the end-investor, undermining the core benefits of low cost passive funds.

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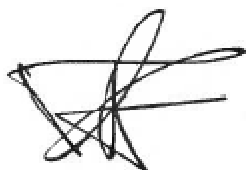
BlackRock does not believe that it is desirable to restrict the use of rate benchmarks or market indices or to introduce unnecessary regulation of rate benchmarks or market indices. Market participants should be allowed to select benchmarks or indices that meet the needs of borrowers and lenders. Different investors and different borrowers have different needs and preferences and these evolve over time.

However, for all indices (rate benchmarks and market indices) BlackRock strongly supports an enhanced transparency and disclosure regime whereby investors are provided with sufficient information such that they can make an assessment as to whether the relevant index is fit for purpose to achieve their investment objective.

We are prepared to assist IOSCO in any way we can, and welcome continued dialogue on these important issues. Please contact any of the undersigned if you have comments or questions regarding BlackRock's views.

Sincerely,



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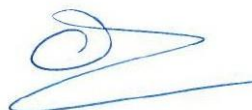

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