BLACKROCK

February 28, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Confirmation, Portfolio Reconciliation, and Portfolio Compression Requirements for Swap Dealers and Major Swap Participants; Proposed Rule; 17 CFR Part 23; RIN 3038-AC96

Dear Mr. Stawick:

BlackRock, Inc.[1] is pleased to provide these comments on the Commodity Futures Trading Commission's proposed rule (the "Proposed Rule") concerning the confirmation, portfolio reconciliation, and portfolio compression requirements for swap dealers ("SDs") and major swap participants ("MSPs"). The Proposed Rule prescribes standards for the timely and accurate confirmation of swaps, as well as the requirements for portfolio reconciliation and portfolio compression for SDs and MSPs, all of which have been recognized as important post-trade processing mechanisms for reducing risk and improving operational efficiency.

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 that would reduce risk, increase price and liquidity transparency and promote market integrity. The Proposed Rule seeks to accomplish this goal by establishing procedures to promote legal certainty regarding swap transactions, early resolution of valuation disputes, an enhanced understanding of a counterparty's risk exposure to another, reduced operational risk and increased operational efficiency.

We understand and support the CFTC's goals in the Proposed Rule. However we do not believe that proposed rule 23.503 goes far enough in reducing operational risk and increasing operational efficiency. Specifically, we would recommend that (i) the CFTC require SDs and MSPs to engage in bilateral and multilateral compression exercises with non-SD/MSP counterparties if the counterparties choose to do so, and (ii) that the CFTC promote compression of substantially similar, but not fully offsetting, swaps.

Portfolio compression is an important, post-trade processing and netting mechanism that can be an effective and efficient tool for the timely and accurate processing and netting of swaps by all market participants and not just SDs and MSPs. Proposed rule 23.503 mandates that SDs and MSPs (i) participate in multilateral compression exercises that are offered by those DCOs or self-regulatory organizations of which the SD or MSP is a member, (ii) terminate bilaterally all fully offsetting swaps between them by the close of business on the

[1] BlackRock is one of the world's leading asset management firms. We manage over $3.54 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.

business day following the day the parties entered into the fully offsetting swap transaction, and (iii) engage annually in bilateral portfolio compression exercises with counterparties that are also SDs or MSPs.[2]

Proposed rule 23.503 does not go far enough in reducing operational risk and increasing operational efficiency because it limits portfolio compression exercises for swaps outstanding only between a SD or a MSP and counterparties that are neither SDs nor MSPs may not have an option available for compression. Instead, SDs and MSPs are only required to maintain written policies and procedures for periodically terminating all fully offsetting swaps and periodically engaging in compression exercises with such counterparties.

Portfolio compression is an important risk management tool used by asset managers such as BlackRock.

Asset managers, such as BlackRock, that manage multiple investment funds and accounts use trade compression to help manage their risks more efficiently. To utilize effectively portfolio compression, identical or substantially similar swap transactions (described below) are often compressed or collapsed. The benefits of trade compression include:

(i) reduced costs associated with maintaining fewer trades and increased capital liquidity by reducing the gross notional value of outstanding swaps and associated margin;

(ii) efficient risk management from a reduced number of transactions which may lessen systemic risk and enhance the overall stability of the markets by providing more accurate information on the size and composition of the market;

(iii) more efficient pricing for investors as the compressed transaction is most likely a spot market swap which is more liquid than off-market swaps; and

(iv) operational efficiency as there are fewer trades or swap transaction line items to maintain, process and risk-manage.

BlackRock requests that the CFTC mandate SDs and MSPs to engage in bilateral and multilateral compression exercises, particularly with respect to transactions where the counterparty is not a SD or MSP, if the counterparty chooses to do so.

The CFTC should encourage compression of similar, while not identical, swaps.

Portfolio compression takes place on a bilateral basis (two swap counterparties to the same transactions) or multilateral basis (multiple swap counterparties) for each individual fund where some or all outstanding swaps are replaced with a smaller number of swaps whose combined notional value may be less or more than the notional value of the original swaps included in the exercise in order to keep the transaction risk neutral. Portfolio compression or trade collapses in the OTC swap market can be divided into two broad categories:

(i) *Portfolio Compression of Identical Swaps*

This occurs when swaps that have exactly the same swap identifiers or characteristics, such as coupon, maturity, floating leg, etc., other than direction of trade (payer, receiver) or

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[2] If a SD or MSP has participated in a multilateral compression exercise for a particular swap during the same calendar year, it would not have to participate in a bilateral portfolio compression exercise for that swap during the same calendar year. See Proposed rule 23.503(b).

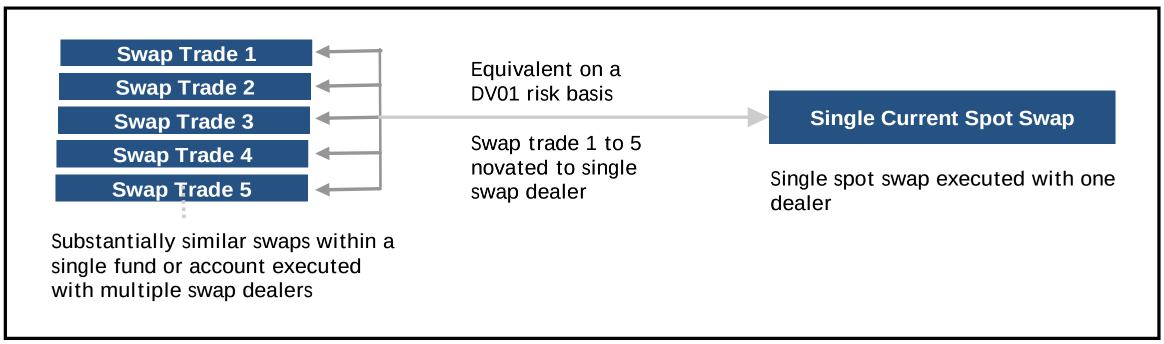
notional amount, are compressed into, at most, one swap with no impact on net risk. There are often few identical swaps in a given swap portfolio.

(ii) *Portfolio Compression of Substantially Similar Transactions*

Transactions on swaps that have very similar maturities and funding (i.e. floating rate) characteristics and, when aggregated together, have a minimal net risk contribution on a duration dollars (i.e. "DV01") basis.[3]

On a periodic basis, asset managers will collapse multiple trades (package) with substantially similar risks into, at most, a single spot swap with equivalent risk to the package of trades. These multiple trades in the package may be with multiple counterparties. This package will be executed for trade compression with one counterparty. The multiple trades in the package are unwound with, or novated to the swap counterparty with whom the new single spot swap is executed. The spot swap, if one is entered into, is generally an on-market swap executed at par. Since this trade is essentially a riskless trade (the risk for the package and the single swap, essentially both sides of the trade, are almost identical), the trade is executed with no bid/ask spread. Any exchange of residual cash flows takes place as part of the collapsed swap transaction.

The following diagram illustrates how BlackRock's current Compression Process operates.



Asset ID	Position Description	Original Face	Swap Counterparty	Market Price	Market Value	Eff. Dur.	DV01
1	SWAP: USD 2.56000 07-OCT-2020	3,000,000	A	-6.516	-195,467	8.13	2,279
2	SWAP: USD 2.59000 25-OCT-2020	-5,300,000	B	-6.47	342,910	8.11	-4,019
3	SWP: USD 2.612500 26-OCT-2020	-7,700,000	C	-6.275	483,175	8.1	-5,847
4	SWP: USD 2.778750 12-NOV-2020	-2,000,000	D	-5.081	101,630	8.3	-1,576
5	SWP: USD 3.405000 29-DEC-2020	11,300,000	E	-0.135	-15,276	8.1	9,143
TOTAL		**-700,000**			**716,972**		**-20**

In the above example, 5 swaps identified as separate swaps originally booked to 5 different counterparties were sent out to be collapsed. The net risk dollars on the 5 trades was $20, so near-negligible, and thus a new swap will not be entered into.[4] The swaps all have similar effective durations as they were all entered into between October 5, 2010 and December 29, 2010. Given the tight range of maturity, there is virtually no risk along the yield curve to this package. The Market Value in the example is calculated using

[3] DV01 refers to "Dollar Value per 1 basis point" and can be calculated as (Duration Dollars/100).
[4] Minimum trade size is typically $100,000 face, and on a 10-year instrument that is equal to $81.

BlackRock's internal analytical systems at the time the trade was sent to a swap dealer for pricing. We would not expect to pay any bid/offer on this package. Any difference in pricing could be attributable to differences in model construction.

The Proposed Rule provides that swaps that are eligible for compression are to be determined by those conducting the compression exercise and agreed to by those participating in the exercise. This standard would provide flexibility for substantially similar compression. Under the Proposed Rule, however only fully offsetting swaps must be terminated. Because the Proposed Rule defines a fully offsetting swap as an identical swap, the termination provision is limited and may not reduce risk or increase efficiency as effectively as a compression regime that encompasses more swaps.

Within the current draft rules it is unclear how buy-side asset managers would continue to compress portfolios in an efficient and market risk-neutral manner for cleared swaps. It is also unclear which entities within the trade process would be providers for this service. For identical swaps, DCOs and CCPs may be natural providers for portfolio compression as they are the counterparties to the swap transactions and have the swap transaction details.

The main unknown components currently identified include the following:

- How can these portfolio compressions be achieved for clients with no associated bid/ask spread as portfolio compression allows maintaining desired risk positions in the market more efficiently and does not introduce new risk?
- What methodology should be used for portfolio compression by market participants so it is consistent for all market participants and account classes?
- How would the multiple swap transactions within the package be terminated and reported to the swap data repository?
- Which entity within the trade process would be able to provide the portfolio compression functionality for substantially similar swap transactions?

We would request the CFTC (i) require SDs and MSPs to engage in bilateral and multilateral compression exercises with non-SD/MSP counterparties if the counterparties choose to do so, and (ii) promote compression of substantially similar, but not fully offsetting, swaps. In addition the CFTC should seek to clarify its rules to address among other things the unknown components highlighted above.

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

Jack Hattem

Supurna VedBrat