October 31, 2008

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

LETTER OF COMMENT NO. 22

Dear Mr. Golden:

BlackRock, Inc. ("BlackRock" or the "Company") appreciates the opportunity to comment on the Proposed Amendment to FASB Interpretation No. 46(R) (the "Proposed Amendment" or "Exposure Draft"). As a global investment management firm, BlackRock provides its clients with the opportunity to invest in an array of BlackRock managed investment products, including private equity and real estate funds, collateralized debt obligations ("CDOs"), and equity, fixed-income and cash management funds, many of which may be impacted by the proposed guidance. We are concerned that, if approved, the final standard will result in asset managers, including BlackRock, inflating their balance sheets as a result of consolidating funds for which their involvement is generally limited to that of a hired service provider. Rather than providing increased transparency to financial statement users, we believe this presentation will distort the results of operations and cash flows of BlackRock and other investment managers. We hope the Board will consider our comments below as they continue to deliberate this project.

- Paragraphs 14A and 14B of the Exposure Draft state that an entity that has the power to direct matters that most significantly impact the activities of a variable interest entity ("VIE"), and also has the right to receive benefits or absorb losses that could potentially be significant to the VIE, is the primary beneficiary. We are concerned that an asset manager's ability to manage assets/make decisions that impact the profitability of a CDO or fund, and its right to receive management and/or performance-based fees, could lead to the conclusion that an asset manager is the primary beneficiary of a VIE. We strongly disagree with the proposed guidance that would require an asset manager to consolidate those VIEs that it manages even though its economic involvement is limited to receiving a management and/or performance-based fee (i.e., it has no risk of ownership). Unlike other financial institutions that may transfer assets to a VIE, provide liquidity guarantees to a VIE, or retain substantive interests in a VIE, asset managers generally serve in a fiduciary capacity on behalf of third party investors. Paragraph B19 in the Exposure Draft suggests that one factor that contributed to the revised consolidation approach for VIEs was "the concern that the current quantitative analysis would not capture situations in which enterprises involved with the VIE provided financial support including credit and liquidity to entities, and that the support represented an implicit guarantee". With rare exceptions, BlackRock does not provide liquidity facilities or implicit guarantees to funds that it manages. That is, BlackRock's involvement does not provide it with the characteristics of a controlling financial interest. BlackRock does not absorb downside risk similar to a traditional debt or equity holder in a VIE; rather, its principle risk is a reduction in the advisory fees it may receive in future periods

due to unfavorable market conditions and/or unfavorable performance. This reduction is more akin to an *opportunity cost* rather than an expenditure of financial resources. As a result, we do not support a consolidation model in which a party without downside risk may be the primary beneficiary. We suggest that the ***qualitative*** analysis in paragraph 14A(b) be modified to state that *only an enterprise with the obligation to absorb losses that could be significant to the VIE may be the primary beneficiary, and that the obligation to absorb losses must result from an expenditure of financial resources or an implicit/explicit guarantee (or similar contract) that may require an expenditure of financial resources.* We believe that this change would appropriately recognize an asset manager as more akin to a hired service provider while at the same time achieve the FASB's goal of ensuring that explicit as well as implicit guarantees are factored into the consolidation analysis.

- Further supporting our view that an asset manager acting purely in a fiduciary capacity (i.e., in which its involvement is limited to that of a hired service provider) not be required to consolidate a VIE, is the fact that the IASB has recently deliberated this issue as part of its consolidation project and has proposed a similar recommendation. That is, the Discussion Draft issued by the IASB and distributed to observers in advance of the IASB's Consolidation Roundtable held last month, contained the following language:

  > **"Agency arrangements (including fund managers)**
  > An agent is a party that is required under an agreement or law to act in the best interests of a principal. An agent is unlikely to be able to establish or change any of the key strategic policies of an entity. An agent will receive reward for its services that is in proportion to the services provided. The reward could be structured so that it is an incentive to act in the best interests of the principal.
  >
  > An agent will fail the control test because, even though it has some powers, the agent is required by agreement or law to use that power for the benefit of the parties for which it is acting. The ability of an agent to benefit from the assets over which it has power is restricted and its entitlement to benefits must be agreed between it and its principals."

  Although the IASB has worked independently of the FASB on its consolidation project, it is our understanding that the intention is to have a joint project in the future. As a result, we encourage the Board to consider not only our suggested proposal, but the proposal of the IASB, when issuing a final standard.

- We are concerned that if approved, the Proposed Amendment will result in financial statements that are not only less transparent, but potentially misleading to financial statement users. The main source of revenue for an asset manager is generally its management and performance-based fees. As a result of the Proposed Amendment, an asset manager may be required to eliminate those operating income fees that it receives from funds that it consolidates; it would instead reflect non-operating investment income, thereby significantly understating its operating revenue. An asset manager would need to provide significant disclosures, including the potential for additional non-GAAP information[1] in order to make its financial statements more meaningful to readers. For an asset manager that generally holds few investments (as opposed to a

[1] Additional adjustments to operating revenue and operating margin would likely be necessary. Disclosure of potentially higher cash balances, for which a manager has no claim (i.e. this may result from consolidating a fund/CDO that has not completed its asset purchases), may also be necessary so as not to overstate a manager's liquidity position.

business that takes proprietary risk and holds balance sheet positions), its financial statements will begin to look more akin to a fund structure that holds assets and generates investment income (i.e. similar to an investment company) rather than a company that acts in a fiduciary capacity providing service to its clients. We have included a hypothetical pro forma income statement and cash flow statement in the attached Exhibits to illustrate the distortive impact that the application of the Proposed Amendment could have on an asset manager's financial statements. Specifically, please note the significant decline in both operating revenues and operating margin in the income statement as a result of eliminating the management and performance-based fees of the consolidated VIEs. The operating and financing cash flows on the statement of cash flows also are distorted as a result of consolidating the VIE; this is because consolidated investment companies treat purchases and sales of investments as operating activities[2] while most operating companies treat such cash flows as investing activities. Thus, purchases of investments by the VIEs would be included as operating cash outflows of the asset manager. Financing cash flows have increased as financing raised by the VIEs is now included as cash inflows to the asset manager. We are further concerned with the impact that consolidating certain hedge fund and private equity fund VIEs will have on BlackRock's SFAS No. 157, *Fair Value Measurements*, disclosures. Specifically, BlackRock will report an increase in its Level 3 positions related to the underlying assets of the investment company VIEs that it consolidates despite the fact that BlackRock has no risk to these assets other than indirectly through its management and performance-based fees. The Level 3 fair value disclosures, which were meant to provide more transparent information to investors, will become completely misleading due to a significant overstatement of BlackRock's risk position. Additionally, the other disclosures of our investments required under other GAAP will reflect the same overstatement to our investment balance as well as realized and unrealized gains and losses. As a result, we strongly encourage the Board to require that *only an enterprise with the obligation to absorb losses (i.e. that results from an expenditure of financial resources or an implicit/explicit guarantee or similar contract) that could be significant to the VIE may be the primary beneficiary*. This modification would avoid an asset manager consolidating an entity to the extent that its economic involvement is limited to receiving fees for managing assets on behalf of third party investors. We believe such treatment will continue to allow asset managers to provide transparent and meaningful information to their investors.

- We also would like to highlight the inconsistent logic that exists within the Exposure Draft with regards to kick-out rights held by third party investors. That is, when assessing which party has power to direct matters that most significantly impact the activities of the VIE (Step 1 analysis - paragraph 14A(a)), kick-out rights are ignored to the extent that they are not held by a single party (i.e., analysis is based on which party currently controls). The Basis for Conclusions suggests that the reasoning behind this decision is that kick-out rights are rarely exercised. We are concerned by the Board's decision to ignore kick-out rights for the following reasons:

[2] EITF 85-12, *Retention of Specialized Accounting for Investments in Consolidation*, requires that the specialized accounting principles of an investment company (e.g. reporting purchases and sales of investments as cash flows associated with operating activities) be retained by the parent (e.g. the asset manager) in consolidation.

- The Board has stated in the Proposed Amendment that kick-out rights continue to be substantive for purposes of determining whether an entity qualifies as a VIE. That is, they are substantive when determining whether the condition in paragraph 5b of FIN 46R has been met.[3] We fail to understand why the Board has proposed a higher hurdle be met when assessing the effectiveness of kick-out rights *in* a VIE versus their effectiveness for purposes of determining *whether* an entity qualifies as a VIE.
- The first step of the qualitative analysis in the Exposure Draft (paragraph 14A(a)) focuses solely on which party has the *current* power to direct the significant activities of the VIE, whereas the second step of the qualitative analysis (paragraph 14A(b)) also requires a *forward* looking analysis with regards to whether a party *may* receive benefits or absorb losses that could potentially be significant to the VIE, regardless of probability. We fail to understand the rationale for the inconsistent logic between the two steps. In order to achieve consistency, we believe that if a party is required to consider those economics that *may potentially* be significant to the VIE, that party should also consider those variable interest holders that *may potentially* have power over the VIE (i.e. substantive kick-out rights), regardless of whether such kick-out rights are held by a single investor.
- The proposal in the Exposure Draft to ignore kick-out rights that are not held by a single party directly conflicts with the guidance regarding kick-out rights as outlined in EITF Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 states that if limited partners possess substantive kick-out rights, the presumption of control by the general partner would be overcome and the general partner would account for its investment using the equity method of accounting. We believe that substantive kick-out rights are an indicator of where power lies and fail to see the rationale for concluding such rights convey power in a voting rights model but do not do so under a VIE model. As a result, and in order to achieve consistent accounting between the two consolidation models, we encourage the Board to allow substantive kick-out rights (as defined in EITF 04-5) to be considered in the determination of a primary beneficiary.

- Finally, we would like to highlight to the Board the significant costs and the operational burden that will result from both implementation and application of the Proposed Amendment. For an asset manager, which generally does not hold balance sheet positions that require it to consolidate the underlying entity, the Proposed Standard will necessitate significant system modifications as well as increased staffing in order to comply with the Exposure Draft's requirements. For an asset manager, we fail to see any meaningful benefit that justifies the significant costs that would be required to implement the Proposed Standard.

[3] Paragraph 5b requires that the holders of the equity at risk must have voting rights that allow them to make decisions that significantly impact an entity's activities. Kick-out rights held by third party investors are generally viewed as satisfying this criterion.

We appreciate the opportunity to comment on the Proposed Amendment and hope that the Board will give consideration to our recommendations as they further deliberate this project. We strongly encourage the Board to modify the requirements of the *qualitative* analysis to state that "*only an enterprise with the obligation to absorb losses that could potentially be significant to the VIE may be the primary beneficiary, and that the obligation to absorb losses must result from an expenditure of financial resources or an implicit/explicit guarantee (or similar contract) that may require an expenditure of financial resources*". We believe that this change will allow asset managers to provide more meaningful financial statements to their investors. We are very interested in further discussing our comments with you at the public roundtable to be held on November 6, 2008. Please do not hesitate to contact Ann Marie Petach at (212) 810-8386 with any questions you may have regarding our comments.

Sincerely,

Ann Marie Petach
Chief Financial Officer

EXHIBIT I

ASSET MANAGER'S HYPOTHETICAL PRO FORMA INCOME STATEMENT - VIE CONSOLIDATION (Impact of Proposed Amendment to FIN 46R)[4]

	Asset Mgr.	Consolidated VIEs	Consolidation Adjustments	Pro Forma P&L
Revenue				
Base management fee	$800		($400)	$400
Performance fee	200		(20)	180
Total revenue	1,000		(420)	580
Expenses				
Compensation and benefits	300			300
Management fee		$400	(400)	-
Performance fee		20	(20)	-
Other expenses	200			200
Total expenses	500	420	(420)	500
Operating income/ (loss)	500	(420)[5]		80
Net gain (loss) on investments	(100)	1,000		900
Total non-operating income (expense)	(100)	1,000[5]		900[3]
Income before income taxes and non-controlling interests	400	580		980
Income taxes	(100)			(100)
Non-controlling interests	-	-	(580)	(580)
Net income	$300	580	(580)	$300
Operating Margin	50.0%			13.8%

[4] The hypothetical pro forma income statement above assumes that the asset manager's only involvement with the VIEs is limited to receiving a management and/or performance-based fee (i.e. manager holds no debt/equity or other interest).

[5] Although the Consolidated VIE column shows an operating loss of $420, the stand alone income statement of the VIE would actually report pre-tax income of $580. The information has been presented in this manner as the investment income will appear as non-operating income on the books of the asset manager.

EXHIBIT II

ASSET MANAGER'S HYPOTHETICAL PRO FORMA CASH FLOW STATEMENT - VIE CONSOLIDATION (Impact of Proposed Amendment to FIN 46R)

	Asset Mgr.		Consolidated VIEs		Pro forma Cash Flows Asset Mgr.
Operating	$500		($400)		$100
Net income			580		
Net purchases of investments			(980)		
Investing	(100)		-		(100)
Financing	75		500		575
Change in Cash Flows	475		100		575
Beginning Balance	200		250		450
Ending Balance	675		350		1,025

Included in the Pro Forma Cash Flows column in the table above is $500 in financing cash inflows, which represents net subscriptions from non controlling interest holders (i.e. investors in the VIEs), and $(400) in operating cash outflows, which includes the net purchases of investments of $980 made by the VIEs.