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February 15, 2012

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Comment Letter - Proposed Accounting Standards Update - *Consolidation (Topic 810) Principal vs. Agent Analysis*

Dear Ms. Cospers:

BlackRock, Inc. (“BlackRock”) is a global investment manager, overseeing \$3.513 trillion of assets under management at December 31, 2011. BlackRock and its subsidiaries manage approximately 3,500 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts.

BlackRock appreciates the opportunity to provide comments to the Financial Accounting Standards Board (the “Board” or “FASB”) on the proposed Accounting Standards Update (“ASU”), *Consolidation (Topic 810) Principal vs. Agent Analysis* (the “Proposed ASU”). We applaud the efforts of the FASB with regard to the Proposed ASU and commend the FASB on its efforts to improve the existing consolidation framework. As financial statement preparers, we believe the Proposed ASU, if adopted, would greatly simplify the consolidation analysis for asset managers while eliminating the consolidation of many investment funds that currently lead to financial statements and related disclosures that are unnecessarily confusing and potentially misleading. As financial statement users, BlackRock’s analysts have stated in the past that they do not believe that grossing up the balance sheet, income statement and statement of cash flows in cases where a decision maker holds no economic interest or has no exposure to losses of the consolidated entity provides meaningful information. Our analysts believe that, if adopted, the Proposed ASU successfully addresses these concerns and will provide them with more decision useful information.

We are in full agreement with the concept of agency relationships being considered in the consolidation analysis and the qualitative assessment approach outlined in the Proposed ASU with regard to the determination of whether a decision maker is an agent or a principal. We do, however, have three primary concerns with the Proposed ASU. Our first concern is regarding the concept of an implicit financial obligation of a decision maker to fund entities in order to manage their reputational risk. While it is the Board’s stated intent not to require the consolidation of money market funds, we are concerned that some may interpret the guidance related to an implicit financial obligation for a non-money market fund as applicable to an implicit financial obligation for a money market fund. As a result, we are concerned

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with the unintended consequence that certain money market funds may be consolidated under the Proposed ASU. Our second primary concern with the Proposed ASU is in regards to the potential consolidation of investment funds where an investment manager provides temporary seed equity and holds less than 50% of the equity with the intent to ultimately hold very little, if any, equity in the fund. Currently, such funds generally are deconsolidated when the investment manager owns less than 50%, however, under the new guidance it is unclear at what point investment funds seeded by an investment manager would be deconsolidated. We believe the current guidance for such funds remains appropriate. Our third primary concern with the Proposed ASU is with the inclusion of a de facto agent's economic interests with the economic interests of the decision maker in the determination as to whether the decision maker is an agent or a principal. We do not believe that the economic interests of de facto agents are relevant factors in determining whether the decision maker is acting in an agent or principal capacity.

Our comments below outline potential alternatives with regard to these issues. In addition, we suggest in our letter below the following:

- A clarification with regard to the interrelationship between the definition of a variable interest entity ("VIE") and the conclusion that a decision maker is an agent;
- A clarification regarding liquidation rights;
- Inclusion of language requiring the consideration of rights held by third parties in the determination of control for partnerships and similar entities under the voting interest model; and
- Allowing companies an option to adopt the proposed guidance prior to the mandatory adoption date.

Implicit Financial Obligations of Money Market Funds

Money market fund managers typically are not contractually obligated to provide additional funding to the money market funds they manage, although certain managers have elected to do so in situations where the funds have incurred losses. We note that Question 10 on page 8 of the Proposed ASU states that the amendments in this Proposed ASU would rescind the indefinite deferral in ASU 2010-10 and require money market funds to be evaluated for consolidation under the revised guidance and that the Board's stated intent was not to result in money market funds being consolidated.

We further note that the facts in Case C beginning at paragraph 810-10-55-122 in the Proposed ASU (which is an example of the primary beneficiary determination related to a Structured Investment Vehicle) discuss the existence of an implicit financial obligation. Specifically, paragraph 810-10-55-132D discusses a sponsor that is determined to have "an implicit financial obligation to ensure that the VIE operates as designed in order to manage the risk to its reputation in the marketplace." We are concerned that this example may be extended to money market funds, resulting in the unintended consequence that certain money market funds, for which there is no explicit obligation, may be consolidated. We believe that a

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money market fund should be considered a VIE only if it has an explicit agreement in place for the sponsor to provide further support to the fund. Absent an explicit agreement, we do not believe that asset managers have any implicit obligation to further support their money market funds. Therefore, **we recommend that the Board either a) clarify, using examples, the circumstances under which an entity might have an implicit financial obligation to manage its reputational risk (and how this would not apply to money market funds), or b) specifically exempt money market funds from consolidation as the sole result of an implicit financial obligation (using the wording in ASU 2010-10 as a guideline).**

Further, Case F beginning at paragraph 810-10-55-3AY (which is an example of the principal/agent analysis related to a Commercial Paper Conduit) also states (specifically in paragraph 810-10-55-3BJ) that “the sponsor determined that it has the implicit financial responsibility to ensure that the entity operates as designed in order to manage the risk of its reputation in the marketplace.” It is unclear to us whether the referenced implicit financial responsibility referred to in this example arises because of the credit and liquidity features provided by the sponsor (which we believe would be better termed an “explicit” guarantee) or whether this was a determination separate and apart from the credit and liquidity features provided by the sponsor (for example, an implied obligation to fund losses over and above the explicitly guaranteed amount). **If the intent of the Board was the former, we recommend a clarification in the example to state that the obligation of the sponsor is an explicit guarantee (i.e., written into the product or other related agreements). If the intent of the Board was the latter, we believe that our recommendations in the previous paragraph above would also apply to Case F.**

Seed Funds

Investment managers often provide seed money to certain investment funds primarily to establish an investment track record prior to marketing funds to external investors and/or to achieve an appropriate scale for the investment fund. An investment manager may own greater than 50% of a seeded investment fund with the intent that its equity interest ultimately will be redeemed within a relatively short period of time, leaving it with a small equity ownership in the fund, if any. Currently, an investment fund seeded by an investment manager would be considered a voting interest entity since it has sufficient capital and the equity holders as a group have substantive rights (which can be in the form of kick-out, liquidation, voting or other participating rights). Typically, once the investment manager’s ownership of such funds is reduced below 50%, the fund would be deconsolidated under current GAAP (as investors generally have substantive rights). Under the Proposed ASU, the guidance has been changed such that the decision maker must first determine whether it is acting in the capacity of a principal or an agent in determining whether it qualifies as a voting rights entity or a VIE and whether it can exercise control over the investment fund. If the decision maker is determined to be a principal under this analysis, the entity likely would be a VIE since it would not meet the criteria under 810-10-15-14(b)(1) and, therefore, consolidated. It is uncertain to us, using the proposed guidance and examples, at what point an investment manager would no longer be deemed a principal and therefore no longer required to consolidate an investment fund.

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For example, we would conclude that an investment manager is an agent for an investment fund with the following fact pattern:

- Decision maker owns 45% of the equity;
- The decision maker has a history of successfully seeding investment funds and expects to own less than 1% of the equity of the fund within one year;
- The decision maker earns a management fee that is commensurate with services performed;
- The decision maker earns no performance fee; and
- The shareholders have substantive rights (as defined above).

We believe that the decision maker in the above example is acting as an agent for the fund primarily as a result of its stated intent and common business practice of holding equity only temporarily until the fund achieves appropriate scale, coupled with the fact that investors have substantive rights. We do not believe it was the Board's intent to change existing GAAP to continue to consolidate such funds in which the decision maker's equity interest is reduced to less than 50%. As such, **we recommend that the Board include language stating, and an example depicting, that a decision maker that has a history of seeding funds with the ultimate intent to own a small portion of the equity, if any, within a reasonable period of time shall consider this as a factor to be considered in the principal/agent analysis.**

Related Party Considerations in the Principal/Agent Determination

We note that in paragraph 810-10-25-43 the ED states that, "For purposes of applying the guidance in the Variable Interest Entities subsections, unless otherwise specified, the term *related parties* includes those parties identified in Topic 850 and certain other parties that are acting as de facto agents or de facto principals of the variable interest holder." We interpret this to mean that the economic interests of de facto agents of a decision maker, as defined in the guidance, should be considered when evaluating whether the decision maker is acting in a principal or agent capacity. We also note, however, that for purposes of the principal/agent analysis within the Consolidation of Partnerships and Similar Entities section (specifically, paragraph 810-10-25-96), the definition of related parties includes only related parties as defined in Topic 850. A de facto agency relationship may exist when investors in a fund do not have the ability to transfer or redeem their interests without the investment manager's approval. Typically, investment managers have no economic interest in and no economic relationship with these investors other than providing asset management services to the fund(s) in which they have invested. As a result, we do not believe that de facto agents' economic interests are a relevant factor in the determination of whether a decision maker is acting in the capacity of an agent or a principal. **We recommend that the Board remove the reference to de facto agency relationships within paragraph 810-10-25-43 of the Variable Interest Entity subsections to be consistent with the definition of related parties in paragraph 810-10-25-96 of the Consolidation of Partnerships and Similar Entities section.**

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Definition of a Variable Interest Entity

We refer to paragraph 810-10-15-14(b)(1) of the Proposed ASU which states, “The holders of the equity investment at risk may delegate this power to a decision maker that is an agent of the equity holders. In such situations, the decision maker shall not prevent the holders of the equity investment at risk from having this characteristic if the decision maker is determined to be an agent of the equity holders. Paragraphs 810-10-25-39A through 25-39L provide guidance on the assessment of a decision maker’s capacity.” Our interpretation of the Proposed ASU is that in applying the provisions of 810-10-15-14 for investment funds which do not otherwise meet the criteria outlined in paragraphs 810-10-15-14(a), 14(b)(2), 14(b)(3) or 14(c), if the principal/agent analysis determines that the decision maker is an agent of the investment fund and that there are no other barriers to the holders of equity at risk exercising the power to direct the most significant activities of the investment fund, then the investment fund would **not** be a VIE subject to consolidation under subtopic 810-10. Consequently, the decision maker would apply the voting interest model of consolidation and would not be subject to the VIE disclosure requirements in ASC 810-10-50-3 through 810-10-50-16.

If our interpretation is correct, we note that the Proposed ASU has numerous examples of the application of the principal/agent analysis but it is not sufficiently clear as to the interrelationship between the determination that a decision maker is an agent and the definition of a VIE in paragraph 810-10-15-14. In order to clarify this point, **we recommend that the Board include a simplified example of the application of an agency relationship to the definition of a VIE.** For example, assume the following fact pattern related to an alternative investment fund where:

- the decision maker holds a 1% equity interest,
- the decision maker receives a base management fee and a performance fee that are commensurate with services performed,
- the decision maker holds no other interests in the fund, and
- the investors hold no kick-out or liquidation rights.

In this case, the decision maker would be determined to be an agent and would then appropriately apply the voting interest model. That is, as a result of paragraph 810-10-15-14(b)(1), which states that “the decision maker shall not prevent the holders of the equity investment at risk from having this characteristic if the decision maker is determined to be an agent,” the fund would satisfy paragraph 14(b) and would qualify as a voting rights entity despite the fact that the investors do not have substantive voting rights (assuming the criteria in paragraphs 810-10-15-14(a) and 14(c) are not otherwise met). Conversely, a collateralized debt obligation product with exactly the same circumstances would appropriately apply the variable interest model as a result of the criterion in 810-10-15-14(a) due to insufficient equity at risk.

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In addition, we note that the section on page 5 of the Proposed ASU titled, “How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?” states, “Under the proposed amendments, all decision makers in the scope of Subtopic 810-10, regardless of whether the entity being evaluated is a VIE, would be evaluated under the same requirements to determine whether the decision maker is a principal or an agent.” We believe that another significant difference from current GAAP is the modification of the definition of a VIE (in paragraph 810-10-15-14(b)(1)) to provide that an agency relationship does not necessarily preclude the investors at risk from holding the power to direct the activities of a legal entity that most significantly impacts the entity’s economic performance. As a result, **we suggest that the Board include this point as a main provision which differs from current U.S. GAAP.**

Liquidation Rights

We note that Paragraph 810-10-25-10(c) lists as one of its illustrative examples of a protective right the “liquidation of the investee or a decision to cause the investee to enter bankruptcy or other receivership”. Paragraph 810-10-25-41C of the Proposed ASU states, “Rights that are only protective in nature (that is, protective rights) would not affect the consolidation analysis.” We note that defining a liquidation right as a protective right appears to be inconsistent with the definition of kick-out rights in the Master Glossary, which includes the ability “to dissolve (liquidate) an entity **without cause**”, and inconsistent with the discussion in paragraph 810-10-25-40A(b), which describes “financial penalties or operational barriers associated with dissolving (liquidating) the entity” as one of the factors to consider when evaluating whether kick-out rights are substantive. **We suggest the Board remove the reference to liquidation of the investee from the Protective Rights section**, as we believe the Board meant to clarify that liquidation rights would be a protective right only if the liquidation was in conjunction with a bankruptcy, which would be **with cause** (as per the definition of “with cause” contained in the Master Glossary).

Rights Held By Other Parties

We note that paragraphs 810-10-25-39D through 25-39H discuss the consideration of rights held by other parties in conjunction with the principal/agent analysis, and includes, in paragraph 810-10-25-39G, a discussion of the rights of a substantive board of directors or similar body. However, we also note that the section in the Proposed ASU covering the voting interest model as applied to partnerships and other similar entities in paragraphs 810-10-25-82 through 25-106 does not discuss the rights of a substantive board of directors or similar body as it relates to the principal/agent analysis. We do not believe that there should be a substantive difference between the control analysis performed for a VIE or a voting interest entity as it relates to rights held by other parties. As such, **we recommend that the Board provide language within paragraphs 810-10-25-82 through 25-106 that requires consideration of rights held by other parties in order to be consistent with the language in paragraphs 810-10-25-39G.**

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Early Adoption

We believe that the changes to existing consolidation guidance contained in the Proposed ASU will be substantive to asset managers and would likely result in financial statements that will be clearer and more easily understood by users. As such, **we recommend allowing companies the option to adopt the provisions of the Proposed ASU prior to the mandatory adoption date.**

* * * *

Thank you again for the opportunity to express our views on the Proposed ASU. Please do not hesitate to contact me at (212) 810-3519 with any questions you may have regarding our comments.

Sincerely,

/s/ Joseph Feliciani, Jr.

Joseph Feliciani, Jr.

Managing Director and Chief Accounting Officer

cc: Ann Marie Petach