BLACKROCK

15 July 2009

Mr Carlo Comporti
Secretary General
The Committee of European Securities Regulators
11-13 Avenue de Friedland
75008 Paris
France

Dear Mr Comporti

CESR Consultation on UCITS Risk Management Principles

Thank you for issuing this consultation paper. BlackRock welcomes the majority of proposals which build well on existing regulation and recommendations. Our comments and answers to the CESR questions are below, and we would be pleased to discuss this or any aspect of risk management further with CESR.

Who are BlackRock?

BlackRock is one of the world's premier providers of global investment management, risk management and advisory services with $1.28 trillion in assets under management. The firm manages assets on behalf of clients in over 60 countries, offering a range of award-winning products in equities, fixed income, cash management and alternative investments.

The firm has a major presence in key global markets, and is one of the largest cross border UCITS providers. A pioneer in risk management analytics, BlackRock Solutions® services both BlackRock's asset management team and a wide variety of clients. $7 trillion of securities and derivatives are maintained on BlackRock systems.

BlackRock is a member of both the IMA and EFAMA, and is generally aligned and supportive of the position they have adopted on the CESR Risk Management paper.

Summary Comments

As detailed in the attached table, we are broadly supportive of this CESR paper. Two specific areas of comment are;

- Segregating risks; BlackRock believes that risks arising from ancillary activities such as stocklending and collateralising positions need to be measured, but due to the nature of the assumptions required in any calculation, we believe that they should be calculated separately to the overall global exposure. We agree that these positions should be subject to the 20% single issuer test.

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- Relative VaR; BlackRock strongly considers that benchmark driven long/short funds such as 130/30 funds should be able to use a relative VaR measure. These funds are correctly positioned to address client needs to outperform a benchmark index by using strategies such as synthetic short positions and gross market leverage, but maintain a net market exposure similar to that of a long-only fund. A move to an absolute return measure could force some of these funds with high underlying VaRs (such as an emerging market fund) to close unnecessarily.

Yours sincerely

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Adrian Hilderly
Head of Fund Compliance
BlackRock

Question	BlackRock Response
Commitment Approach	
Context	
1. Do you agree with the proposed approach in relation to the calculation of global exposure	Yes.
2. Should the counterparty risk involved in an OTC derivative be considered in the calculation of global exposure	No. Counterparty risks are separate to those captured in the global exposure, and it is correct that they are treated as such.
Scope	
3. Do you agree with the proposed approach or can you suggest an alternative approach?	Yes
4. Do you agree that the incremental exposure/leverage generated through techniques such as repurchase and securities lending transactions should be included in the calculation of global exposure?	No. We believe that these are separate risks to global exposure and should be calculated as such. Exposures created through stocklending plans and repurchase agreements, including collateral /reinvestment of collateral, should be subject to conservative limits in their own right, concerning credit quality/amount of collateral/diversification within the reinvestment programme.
5. Does option 1 correctly assess the market risk linked to investment in the corresponding instruments, and if so please explain?	No - BlackRock considers that a failure to take account of the delta results in an over-conservative measure of derivative risk.
6. Does option 2 correctly assess the market risk linked to investment in the corresponding instruments, and if so please explain	Yes – see above (expect where there is no delta, in which case a delta of 1 should be used).
7. Do you have any comments or other suggestions regarding other possible measurement approaches?	No

Question	BlackRock Response
8. Do you agree with the proposed approach, in particular the inclusion of a non-exhaustive list of financial derivatives?	Yes, we find the list helpful, as long as it is kept at a fairly generic level, and does not prevent UCITS from investing in other/new forms of derivative. In general terms, BlackRock proposes that linear derivatives (futures etc) should be calculated at market value, with non-linear derivatives at deltas adjusted market value of the underlying exposure. The use of notional figures for interest rate swaps is out of line with current market practice, even with the proposed adjustment in para 1.6. We believe that market value of the net long/short position is an appropriate measure.
9. Do you have any alternative suggestions for the conversion method?	No
10. Are there other types of financial derivative instruments which should be included in the paper?	See comment in Q8 above.
11. Are you aware of any type of financial derivative instrument where global exposure cannot be calculated using the commitment approach?	No
12. Do you agree with the approach regarding TRORS and derivatives with cash or an equivalent position?	See comment in 8. above.
13. Do you agree with the proposed use of the sensitivity approach?	See comment in 8 above.
14. Do you consider that this should be compulsory for these types of derivative or optional for UCITS?	See comment in 8 above.
15. Do you agree with the analysis of the sensitivity approach described?	See comment in 8 above.

Question	BlackRock Response
16. What quantitative level would you consider appropriate for the default sensitivity?	See comment in 8 above.
17. Do you have any additional comments or suggestions on this approach?	No
18. Do you agree with the proposals regarding netting?	Yes
19. Do you have any additional comments and/or proposals?	No
20. Do you consider that hedging as described above should be permitted?	Yes
21. Do you consider that the strong correlation requirement should be further clarified by means of a quantitative threshold e.g. 0.9?	Yes – we like the clarity of having a quantitative threshold.
22. Can you suggest a possible threshold e.g. for the minimum correlation between stock baskets? Please justify your answer based on relevant market data.	We don't have any specific data to answer this question.
23. Do you agree with this proposal?	Yes – to aid clarity, the paper should clarify that this applies to the 20% single issuer test, and not 5/10% diversification limits.
24. Do you agree with this definition? Do you have any alternative suggestions?	Yes
25. Do you agree with the above approach?	Yes. While we agree that VaR can be used to measure fund risks (and hence global exposure), it does not measure liquidity or counterparty risks, so the wording in the first paragraph of section 2.2 should be reworded to reflect this. It is also strictly speaking a measure of risk rather than a measure of leverage.

Question	**BlackRock Response**
26. What additional safeguards (if any) are necessary for UCITS which use VaR to calculate global exposure to ensure consistency with the total exposure limit of 200% of NAV?	We agree with the approach taken through this CESR paper. The nature of the VaR used, and additional controls, are dependent on the strategies used within the UCITS itself. Funds that use complex derivative strategies and/or significant market leverage should adopt more sophisticated VaR techniques such as Monte Carlo simulations and extensive back and stress testing to ensure that fund risks are in line with stated objectives. It is the responsibility of the UCITS manager, its trustee/depositary/auditor, and its regulator to ensure that risks are being properly measured and disclosed, and this does not require further prescriptive legislation. In addition, some regulators currently allow for "alternative" approaches to VaR. We are not aware that any alternative has yet been approved, however BlackRock believes that this is a useful tool for discussion between UCITS manager and regulator if, for example, an active risk measure is more suitable than VaR.
27. Do you agree with the approach outlined in paragraphs 2.3, 2.4 and 2.5?	Yes. We believe the language in paragraph 2 in section 2.5 is misleading. If the risk model is independent of the fund management activity (as it is in most firms), then it should not require further internal validation.
28. Do you have any comments or suggestions?	No – please see comments in Q26 above
29. Do you consider that VaR should be calculated at least daily?	We agree with a daily VaR calculation, but request that CESR consider the language here – we would not like regulators to interpret this as meaning that they can set a threshold more frequently than daily.

Question	BlackRock Response
30. What type of criteria should competent authorities take into account in an assessment of the VaR Models?	Competent authorities should be able to rely on disclosures and the descriptions of the risk model in the Risk Management Paper, plus notified breaches. We are aware that some regulators require annual returns, but this is not consistently implemented.
31. Do you consider that VaR models should be approved by competent authorities?	BlackRock believes that the existing process – Home State regulator approving the Risk Management Paper – is satisfactory. Prime responsibility for the Risk Management Paper, and compliance with its provisions, rests with the UCITS Management Company.
32. Is the proposed 3-step relative-VaR approach adequate to limit the global exposure of a UCITS?	Yes, although the more commonly used formula is VaR of Portfolio/VaR of benchmark, which must not exceed 2.
33. Do you consider that the proposed limitations on the reference portfolio constitute reasonable and adequate safeguards to ensure that the relative VaR method does not result in the UCITS taking excessive risk or leverage?	For long only funds – Yes. However BlackRock strongly disagrees in the case of long/short strategies – indeed we believe that CESR will create confusion if it issues this requirement; For example – what is a long/short fund? A basic fixed income fund, uses derivatives, both long and short, as part of its standard strategy. Would CESR class them as long/short funds? Secondly 130/30 funds are generally managed to long only benchmarks for both performance and risk purposes. Given that these funds generally have gross market leverage but maintain a net market exposure similar to that of a long-only fund, and are normally managed to their long-only benchmark, the relative return method works well as it is a relevant measure and does not allow the

Question	BlackRock Response
	manager to take excessive benchmark risk. Thirdly an absolute return benchmark would not work for an emerging market 130/30 fund, as the VaR of the underlying benchmark will often exceed 20%. BlackRock strongly contends that the CESR guidance should be based on the fact that in general terms, benchmark driven product should use the relative return method (where possible), whereas non-benchmark products should use the absolute return method. However the ultimate classification should rest with the UCITS Management Company, and agreed with their regulator.
34. What additional safeguards (if any) do you consider necessary?	n/a
35. Can the absolute VaR be considered as an appropriate way of measuring global exposure?	Yes – with the additional controls outlined above.
36. Do you consider that the proposed thresholds are suitable? Can you suggest other thresholds?	Yes
37. What are your views on the application of stricter criteria to difference types of asset classes e.g. bonds, equities?	It is clear that the 20% absolute return limit could allow certain products (for example cash and bond funds) to take on considerable leverage without breaching limits. However a formal lower limit for different classes of fund could unnecessarily constrain development, especially if products mix assets and strategies. We recommend that CESR keep the 20% limit at level 2, as this aids

Question	BlackRock Response
	consistency. However leveraged funds should be very clear in marketing material about the strategies that they use, and any disclosure should include statements that they can be highly leveraged, and the risks this can involve.
38. Do you consider the proposed safeguards, such as the use of appropriate additional risk management methods (stress-testing, CVaR) and the disclosure of the level of leverage, are sufficient safeguards when the absolute VaR method is used in the context of arbitrage strategies or complex financial instruments?	Yes
39. Should UCITS using strategies that are potentially highly leveraged under the absolute VaR method be subject to specific marketing provisions, either at the level of the UCITS (minimum initial investment) or during the marketing process?	Please see Q37 above. We agree with the general principle of clear marketing disclosure, but do not agree with specific minima or requirements within level 2 regulation, which could constrain product development/reduce access. This should be a feature of relevant marketing codes.
40. Can you suggest alternative safeguards and/or requirements to avoid UCITS engaging in strategies which generate high levels of leverage?	No.
41. Do you agree with the proposed method for calculating counterparty exposure?	Yes – we particularly endorse the removal of the "add on", which we believe does not add value.
42. Can you suggest an alternative method?	No
43. Do you agree with the approach for netting arrangements?	Yes

Question	BlackRock Response
44. Do you consider that additional netting rules should apply?	No
45. Do you agree with the proposed approach to agree a set of principles in relation to acceptable collateral to reduce counterparty exposure? Do you have alternative suggestions?	Yes
46. Do you consider that rather than following principles based approach specific instruments that can be used as eligible collateral should be indentified?	No. We support the principles based approach.
47. Should collateral be UCITS compliant in terms of asset eligibility and diversification?	BlackRock believes that collateral should be subject to the high –level principles in section 3.3, and therefore need not itself be UCITS compliant (although it is highly likely to be so). We agree that collateral should be diversified and subject to the 20% diversification requirement, but not the 5/40 requirement.
48. Do you agree that collateral passed to a derivative counterparty should be include in the either the 5%/10% OTC counterparty limit or the 20% issuer concentration limit?	See response to Q47.
49. Do you have any other suggestions as to how such collateral passed should be treated?	No
50. What areas of further work should be carried out with regard to this?	n/a
51. Do you agree with the proposal to abandon the use of the term sophisticated and non-sophisticated UCITS?	Yes. We strongly support this proposal, and the statement that the decision on methodology should depend on "the UCITS strategy and types of derivatives used"
52. If you object to this proposal could you please provide reasons for this view?	n/a