



Presentation to the CFTC Technology Advisory Committee (TAC)

**Dodd-Frank Derivatives Regulation
Interconnectivity**

March 1, 2011

Trade interconnectivity overview

Interconnectivity is a consistent business or operational process with integrated technology support

- Entities involved in trade interconnectivity are:
 - Central Counterparty Clearing houses (CCPs)
 - Swap Data Repositories (SDRs)
 - Swap Execution Facilities (SEFs)
 - Affirmation platforms
 - Client* investment platforms
 - Executing Broker/Dealer platforms
 - Futures Clearing Merchant (FCM)/Clearing Member platforms

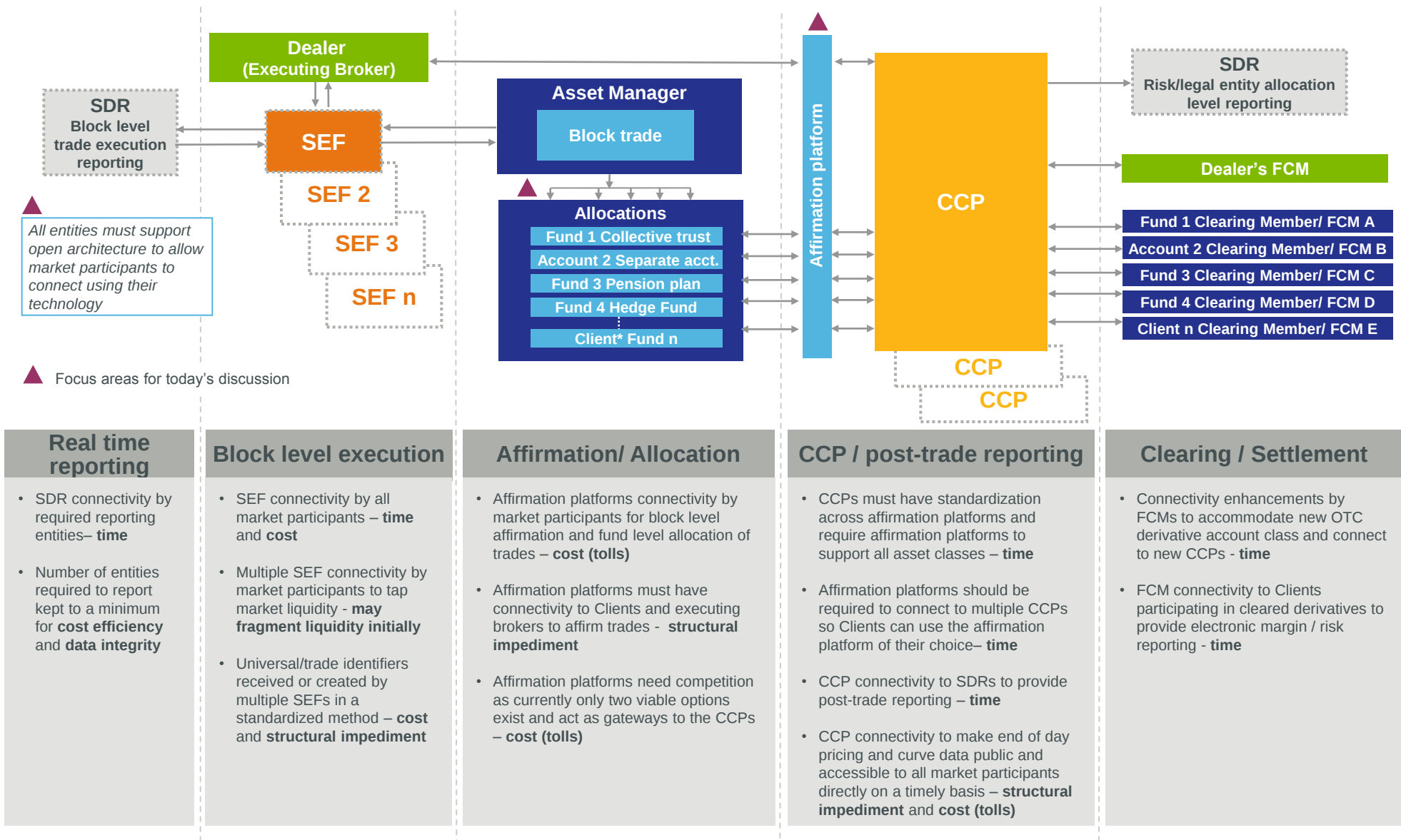
Interconnectivity of many independent entities requires standardized (open) messaging protocols so information can flow efficiently and the connectivity is cost effective for all entities involved

Interconnectivity requirements and concerns need evaluation using 3 dimensions:

- Implementation time
- Cost
- Structural impediments (impacting liquidity)

*For the purposes of this presentation, Client is defined to include, without limitation, mutual funds, pension plans, separate accounts, collective investment trusts & hedge funds.

Trade interconnectivity workflow



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BlackRock investment process

Trade Execution		Post Trade		Maintenance
Trade Idea	Trade order & execution	Revised allocation	Clearing	Risk compression
- Approximately 150 Investment strategies exist across 3,000 fixed Income funds - Trade ideas are applied to applicable funds linked to an investment strategy	- Trade execution is initiated at a block level - Block size consists of the amount required to maintain the investment strategy on a size appropriate basis across the funds linked to that strategy	- Based on executed amount (not always 100% of ask), allocation to funds is optimized - Allocation methodology includes post execution business decisioning arising due to: - IMA restrictions on minimum amounts allowed - Counterparty restrictions - Affiliate broker / ERISA restrictions - This process requires sufficient time so allocations are performed accurately to fill amounts before sending to the CCPs; otherwise, there will be unnecessary trade amendments	- Trades are assigned and cleared at the legal entity (Fund) level - Clearing houses plan to offer the ability to net positions for “like items” at the fund level on a daily basis - Allows for lower maintenance costs - Allows for more efficient reporting and payment processing	Risk compression - Offsetting risk positions collapsed at a fund level to: - Minimize counterparty risk - Facilitate curve risk, stub risk management Operational maintenance - Collapse multiple line items to a single line item - Streamline collateral processing - Improve operational efficiencies Trade compression performed at a strategy level to allow for: - Consistency among funds with similar investment strategies - Economies of scale benefit in performing this function across funds

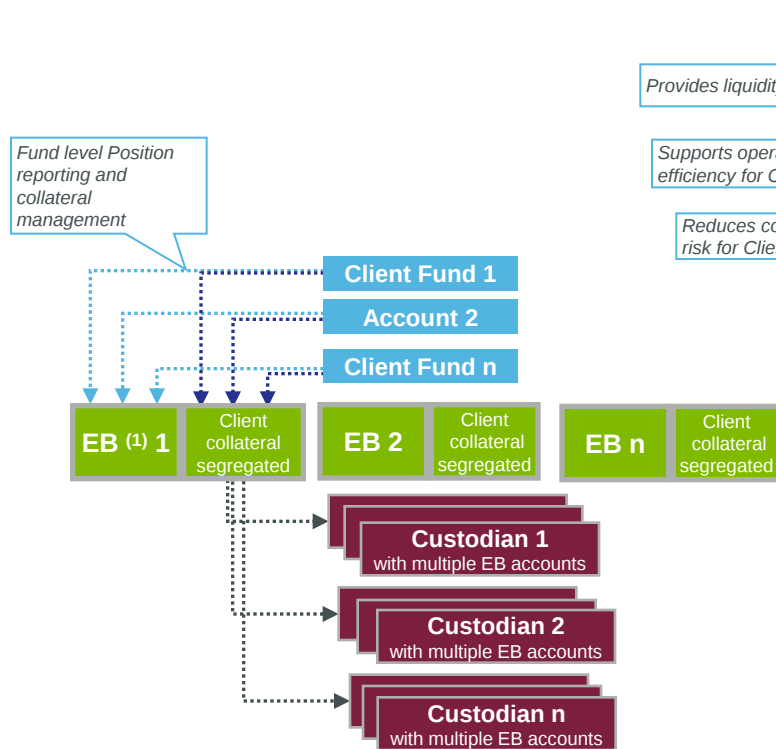
Open Items:

How will risk neutral trades such as tear-ups, compression trades be executed for cleared derivatives?

Do all cleared trades require execution or processing through a SEF?

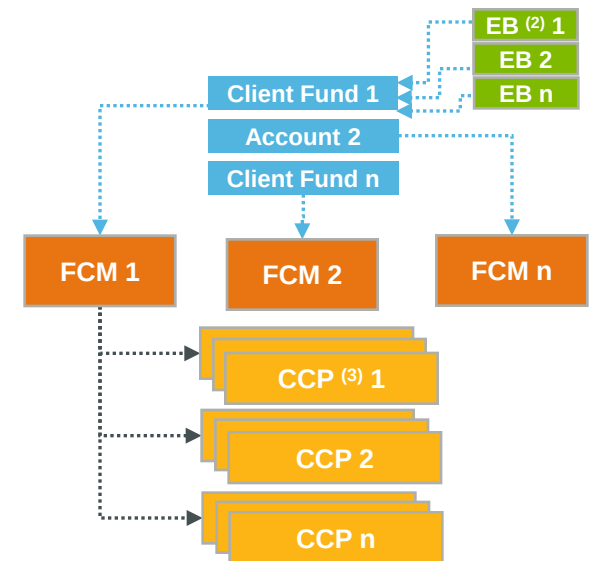
Client on-boarding to support interconnectivity

Bilateral OTC Model



- ISDA Agreement and Credit Support Annex is in place with each executing broker/swap counterparty
- Tri-party custody arrangements are in place for Clients that opted for that arrangement or if legally required for the type of Client
- Client level collateral management is performed and position reporting is received on a periodic basis

Cleared model



- Clients have access to deep and liquid markets though the ability to execute with multiple executing brokers that are providers of liquidity
- Clients are able to select an FCM independent of the executing broker with whom the trade was done to keep operational efficiencies in post trade processing and maintenance of trades
- There is consistency in process flows between CCPs, middleware providers and the technology is open architecture to allow for market participants to connect to them via their own technologies
- Documentation is in place to allow for trade flows to take place among the different entities

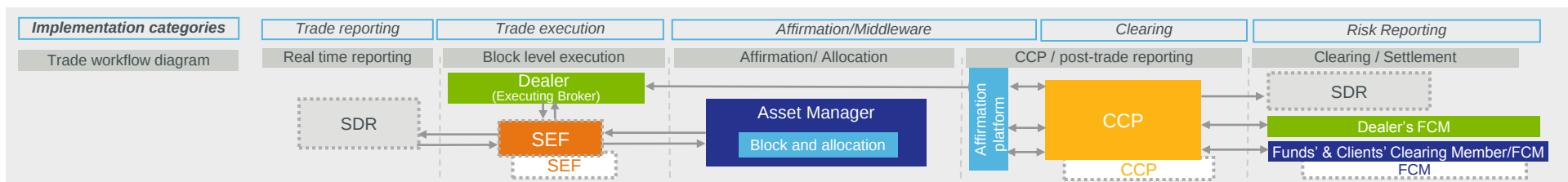
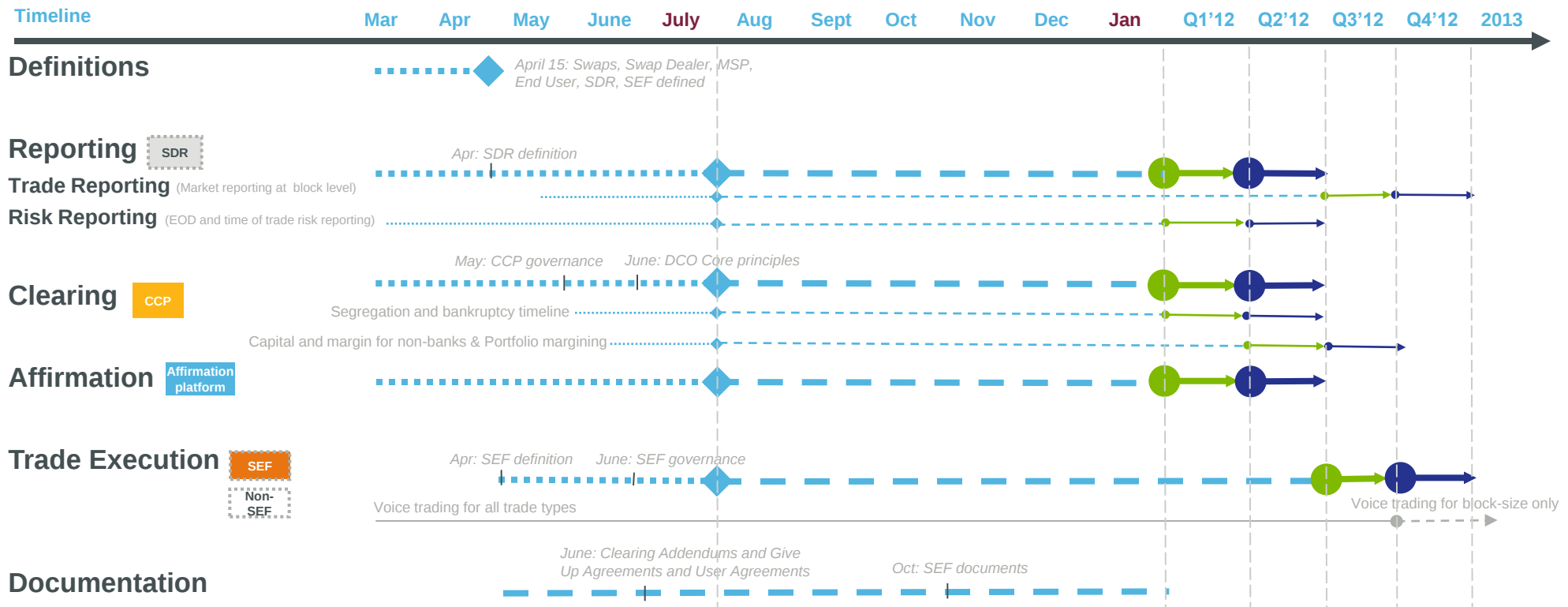
Sequencing timeline

A market structure designed for all market participants is key for market efficiency

- A phased approach based on type of market participant will fracture the design of an efficient market structure
- Market structure design “for clients without clients” will hinder adoption
- CDS and IRS products should be done concurrently

Timeline key:

- Rule drafting
- Design and Implementation period
- Dealer adoption
- Client adoption



Questions to be resolved for efficient implementation

1. How will execution of trade collapses such as offsetting trades (tear-ups) or line item collapses used to reduce operation risk take place for cleared products?
2. How best to address the documentation needs to onboard market participants including buy-side clients into the cleared environment for derivatives? Would an industry task force be able to timely agree on a neutral standard set of documentation?
3. Given the amount of work we collectively now know needs to get done, is there enough implementation time to clear trades as of July 2011? Any guidance from the Commission will help prioritize work load.
4. Will a block trade on a clearable product that is not executed on a SEF, be allowed to use a SEF to only process clearing the trade? This would allow the block trade to use the same process for clearing as the non-block trades that was executed on a SEF and help with operational consistency?