Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington DC 20429

Re: Orderly Liquidation Authority – Request for Comments on Proposed Rules

Dear Mr. Feldman,

On October 19, 2010, the Federal Deposit Insurance Corporation (the "FDIC") published in the Federal Register a Notice of Proposed Rulemaking Implementing Certain Orderly Liquidation Authority Provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Notice").

BlackRock, Inc. (together with its subsidiaries, "BlackRock") has reviewed the Notice and appreciates the opportunity to provide comments on the proposed rules and associated questions. We support the FDIC's objective of creating an orderly resolution regime in order to eliminate the need for taxpayer recourse in future crises. We also appreciate the FDIC's focus on developing a transparent process that reduces uncertainty amongst affected constituencies.

I. BlackRock

BlackRock is one of the world's largest asset management firms. As of September 30, 2010, BlackRock manages $3.45 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, union and industry pension plans, insurance companies, third-party mutual funds, endowments, foundations, charities, corporations, official institutions, banks, and individuals.

II. General Comments

As a fiduciary for our clients, we have a strong interest in the development of a regulatory regime that supports liquid, fair, and orderly markets, as well as systemic stability. We believe that the following principles should guide rule-making to achieve the best outcome: (i) a transparent and objective process,

(ii) maintenance of contractual priorities, and (iii) clear rules that provide more certainty to investors.

Upon placing a firm into receivership under the Act, the FDIC is granted authority to move certain assets and liabilities of the original institution to a bridge financial company. This authority supersedes contractual provisions governing, among other things, the rights of creditors, counterparties, and the priorities of liabilities and, as a result, will likely create additional uncertainty amongst market participants during a time of fragile market confidence. BlackRock recommends resolution approaches that abide by contractual priorities of the capital structure and that are consistent with existing insolvency regimes. Accordingly, we believe that procedures that closely resemble the existing legal frameworks are more likely to be effective at mitigating creditor panic and broader systemic contagion.

BlackRock also believes that it is important to consider how firms and markets would react under a credible resolution framework that creates a new class of "protected liabilities." In order to lower their cost of financing, banks may be incentivized to replace long-term, unsecured debt with favored liabilities such as secured or uncleared OTC derivative obligations. While this incentive would not be acute in times of readily available liquidity, it could increase if a firm faced funding difficulties or if debt investors feared the triggering of a receivership under the Act. Over time, banks could become overly reliant on these markets, which often involve shorter tenors, as a source of funding which would be counterproductive to the overall objective of reducing systemic risk.

Resolution rules could also affect market behavior for certain classes of counterparties. Under the proposed rules, uncleared OTC derivatives counterparties and prime brokerage clients, as well as other favored classes, could become less prone to flight risk if a financial company's health deteriorates. As a result, market discipline would decrease in these particular segments. Market participants, in turn, would look to the unsecured debt market as a better signal of the creditworthiness of an individual bank.

Finally, consideration should be given to the evolving financial regulatory landscape. In particular, CFTC and SEC rule-makings on OTC derivatives may impact the approach to resolving institutions. Likewise, the list of Systemically Important Financial Institutions (SIFI's) and their interconnectedness is integral to developing a plan to unwind these institutions. Hence, we recommend that the FDIC sequence its rule-making on Resolution Authority.

III. Proposed Rules

BlackRock provides the following comments on the proposed rules and related questions as to which comments are due by November 18, 2010.

With respect to questions 1 and 2, BlackRock believes that short and long-term senior debt should be defined in reference to a specific maturity, rather than a functional definition, in order to lower uncertainty amongst market participants. We suggest that “long-term debt” be defined as senior unsecured obligations with a term greater than 365 days, consistent with the accounting definition and rules governing Money Market Mutual Funds registered with the Securities and Exchange Commission. We do not believe that the exclusion of “partially funded, revolving or other open lines of credit” is adequately descriptive. Lastly, the FDIC should seek to clarify whether short-term debt includes uncleared derivative claims subject to acceleration language.

With respect to questions 3 and 4, BlackRock has examined the proposed treatment of short-term creditors under the proposed rules and believes that short-term markets would benefit from greater clarity than what is currently provided. In order to reduce the likelihood that short-term debtholders will flee the troubled institution, the FDIC needs to remove ambiguity over whether these creditors are eligible to receive upfront payments. Making such payments contingent upon FDIC board approval is too subjective to stem the negative confidence spiral that will affect this investor base when a financial company’s health is called into question. We also believe that in order to instill confidence amongst short-term creditors such outlays, if provided, should not be exposed to clawback provisions.

According to the Dodd-Frank Act, secured creditors must be paid in full up to the value of the pledged collateral once a systemically important company enters receivership. The proposed rule further specifies that direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States shall be valued for such purposes at par value. With respect to question 5, we believe that the term “par value” could generate confusion amongst participants in the Treasury markets. We suggest that the language above be amended as follows: “direct obligations of, or that are fully guaranteed by, the United States or any agency of the United States shall not be subject to credit impairment.”

As noted in the proposed rule, during periods of market disruption the liquidation value of collateral may decline precipitously. However, most parties enter into written contracts that define the mechanics for valuing collateral when positions are closed out and liquidated. Consequently, BlackRock believes that, in response to question 6, the FDIC should adopt a rule that respects the terms of parties' written agreements in this regard. In situations where parties have not contractually agreed upon the means of valuing their positions, in order to increase confidence in the valuation process, we believe that the FDIC should commit to the engagement of a third party valuation provider. The stated objective should be to source a mid-market fair value for a range of asset classes, assuming an orderly market and reasonable time to transact.

Finally, we believe that the market would benefit from a more detailed definition of "secured creditors." Specifically, it remains unclear whether counterparties engaging in uncleared OTC derivative transactions and covered by a Credit Support Annex fall under this class of liabilities.

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We thank the FDIC for providing BlackRock with the opportunity to submit feedback and would welcome further discussion of these topics with you.

Sincerely,

Barbara Novick

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