BLACKROCK

June 25, 2013

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon
Superintendent of Securities, Nunavut

Attention:
The Secretary
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Fax: 416-593-2318
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Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
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Dear Sirs/Mesdames:

Response to Canadian Securities Administrators' Notice and Request for Comments on Proposed Amendments to National Instrument 81-102 – *Mutual Funds* ("Proposals")

BlackRock Asset Management Canada Limited ("**BlackRock**" or "**we**") welcomes a discussion of securities lending, repurchases and reverse repurchases by investment funds

in Canada and commends the Canadian Securities Administrators ("**CSA**") in its consideration of measures designed to enhance the transparency of the returns, costs and risks of these transactions.

A. About BlackRock

BlackRock, Inc. is one of the world's largest asset management firms, managing assets for clients in North America and South America, Europe, the Middle East, Africa, Asia and Australia. Its client base includes corporate, public, multi-employer pension plans, insurance companies, mutual funds and exchange-traded funds, endowments, foundations, charities, corporations, official institutions, banks and individuals around the world.

As of March 31, 2013, BlackRock, Inc.'s assets under management totalled US $3.936 trillion across equity, fixed income, cash management, alternative investment, real estate and advisory products.

BlackRock is an indirect, wholly-owned subsidiary of BlackRock, Inc. and is registered as a portfolio manager, investment fund manager and exempt market dealer in all the jurisdictions of Canada and as a commodity trading manager in Ontario.

B. BlackRock Responses to the Proposals

Annex C of the Proposals includes nine specific questions of the CSA relating to securities lending, repurchases and reverse repurchases by investment funds. We have provided separate responses below to each of these questions which, for ease of reference, correspond with the numbering in the Proposals.

1. *Are there other costs of conducting securities lending, other than the fee paid to the lending agent?*

In the case of Canadian-domiciled funds managed by BlackRock, the only costs incurred by the funds for securities lending is a fee paid to the funds' lending agent which is calculated as a percentage of the lending revenues. The lending agent then pays all of the funds' expenses related to securities lending transactions out of its share of the fee split.

For funds managed by other firms, our understanding is that, in addition to the lending agent fee, they may also pay certain transaction-related costs directly. Such costs may include custodial charges, transaction fees, market fees, service provider charges, etc. In addition, we understand that some investment fund managers may charge a fee for overseeing the securities lending program in addition to the fee charged by the lending agent. BlackRock's Canadian-domiciled funds do not incur any of these incremental costs as all such expenses are borne by the lending agent out of its share of the fee split.

Lastly, for those funds that lend against cash collateral which is invested in a money market fund, the funds may also incur a management fee for those cash funds and the

cash funds' investment advisor. In some cases, this advisor may be an affiliate of the lending fund manager and/or of the lending agent.

We agree with the CSA that it is important for investors to be aware of all costs associated with securities lending – and any affiliation among the providers – so they can properly assess the efficiency and risk-weighted value of the lending activity. As such, BlackRock believes that *all* costs associated with securities lending should be clearly disclosed to investors, including a description of who is earning the fee and the nature of the services being provided.

2. *What approaches could the CSA consider to ensure that the financial statements of an investment fund disclose the revenue from securities lending inclusive of the share paid to the agent? What approaches could the CSA consider to ensure that the financial statements of an investment fund disclose the costs of securities lending?*

In order to better disclose the revenue from securities lending inclusive of the share paid to the securities lending agent, we suggest that the financial statements include in the notes a tabular reconciliation of gross securities lending income and payment amounts for the reporting period to the securities lending income amount presented in the statement of operations. Alternatively, the CSA could consider requiring a presentation of gross securities lending amounts for income and any offsetting payments within the revenue category of the statement of operations. Additionally, in order to ensure financial statements provide an understanding of the costs of securities lending, a requirement to disclose the material terms of lending agent compensation in the notes to the financial statements could also be mandated. We believe this should include disclosure of any fees incurred by the fund in connection with securities lending such as a flat fee on the on-loan balance, a cash management fee on the cash collateral, related custody and transaction charges, or a fee charged by the advisor for oversight of the lending agent.

3. *What approaches could the CSA consider to ensure that the costs of securities lending are included in either the management expense ratio or the trading expense ratio of the investment fund?*

Unlike with management fees, the costs of securities lending are not incurred unless there is related revenue from securities lending. By contrast, a fund pays a management fee (usually calculated as a percentage of NAV) regardless of whether there is revenue against which to charge it. As securities lending should, therefore, only be additive to returns as there is no "cost" absent related revenue, we believe that it would be misleading to include the "costs of securities lending" in the management expense ratio or the trading expense ratio. In our view, it would be more accurate and meaningful to disclose the costs of securities lending as a reduction in the gross return from securities lending (i.e., as an offset against that revenue) which would therefore reflect the net return from securities lending.

For the reasons described above, we similarly believe the inclusion of costs associated with securities lending in the trading expense ratio would also be misleading.

4. *We think that the disclosure of the returns and the costs of repurchases should be the same as the disclosure of securities lending, since both activities are substantively similar. Should the same type of disclosure for reverse repurchases be provided? Should the returns and costs of securities lending and repurchases be aggregated, rather than disclosed separately?*

We do not agree with the assessment that repurchase agreements and securities lending are "substantively similar." In addition to the fact that fee arrangements for these transactions are typically structured differently, the underlying drivers for the respective transactions are fundamentally different. For example, securities lending is an ancillary activity designed to provide incremental returns and generate additional income for a fund, and is not typically a primary component of achieving a fund's investment objective (though it must be consistent with it). Repurchase agreements, on the other hand, are typically included as a component of the investment strategy to allow a portfolio manager to achieve the fund's investment objective. Thus, repurchase agreements are normally managed by the investment advisor for the fund as part of their investment management services and covered by their management fee whereas securities lending is conducted as a separate service with a separate fee structure.

In addition, reverse repurchase arrangements (in which the fund provides cash to the counterparty at an overnight or short-term rate of return that is collateralized by securities) are employed to generate a cash-like return similar to commercial paper issued by the same counterparty. This type of transaction is typically used by money market funds or other strategies that require the investment of cash in highly-liquid, short-term instruments.

For these reasons, we do not agree with the CSA's proposal that the disclosures should be aggregated, as we believe doing so would incorrectly imply that the respective arrangements, fees, and risk considerations are similar – a result that could potentially mislead investors.

5. *In order to provide investors with transparency on the profitability and scope of an investment fund's securities lending and repurchase activities, the CSA are considering requiring the following additional disclosure, in the investment fund's management reports of fund performance, regarding such activities:*

The average daily aggregate dollar value of securities lent (or sold in repurchase transactions) obtained by:

(i) adding together the aggregate dollar value of portfolio securities that were lent (or sold) in the securities lending (or repurchase) transactions of the investment fund that are outstanding as at the end of each day during the financial year or interim period; and

(ii) dividing the amount obtained under (i) by the number of days during the financial year or interim period.

The percentage profitability of securities lending (or repurchase transactions) obtained by

(i) dividing the revenue from securities lending (or repurchase) transactions during the financial year or interim period by the average daily aggregate dollar value of securities lent (or sold in repurchase transactions); and

(ii) multiplying the amount obtained under (i) by 100.

The percentage return from securities lending (or repurchase transactions) obtained by

(i) dividing the securities lending (or repurchase) revenue by the average net asset value of the investment fund during the financial year or interim period; and multiplying the amount obtained under (i) by 100.

The percentage of net asset value lent (or sold) obtained by

(i) dividing the average daily aggregate dollar value of securities lent (or sold in repurchase transactions) by the average net asset value of the investment fund during the financial year or interim period; and

(ii) multiplying the amount obtained under (i) by 100.

The maximum amount of securities lent (and sold in repurchase transactions) in any day during the financial year or interim period, both as a dollar amount and as a percentage of net asset value on that date.

Do you agree that these disclosure items are useful in increasing transparency regarding the profitability and scope of a fund's securities lending and repurchases? Are any of these items less useful to investors, in light of the costs to the investment fund of calculating and disclosing them?

While we support the concept of additional disclosure with regard to securities lending, we are less convinced of the benefits of such disclosure for repurchases.

In addition, we believe that disclosure of the average on-loan expressed in dollars and the maximum on-loan expressed in dollars for securities lending charges could be misleading or confusing for investors. Given the potentially wide range of underlying fund sizes that engage in securities lending, we believe that the average on-loan as a percentage of NAV and the maximum on-loan as a percentage of NAV would be the most meaningful and relevant metric for investors and would allow investors to directly compare one fund to another. For example, a large value of securities on loan out of a large fund may represent a smaller percentage of securities on-loan than for a smaller fund. We believe

that some of the other disclosure methods proposed may, inadvertently, result in comparative distortions based on fund size which could be misinterpreted by investors.

6. *Are there any other measurements regarding securities lending, repurchases or reverse repurchases that would provide useful information to investors in addition to, or in lieu of, the items described in question 5?*

We believe it is helpful for investors to understand the quality and the amount of collateral that is held against a securities lending transaction. Without access to this information, investors may incorrectly conclude that the lending balances represent exposure to the counterparties despite the fact that they are actually over-collateralized at all times. BlackRock believes that this issue could be addressed by disclosing the corresponding levels of collateral held against the securities loans disclosed, and calculating the amount of collateral in the same manner as the loan exposure. Another suggestion would be to require disclosure of the net exposure (which would always be zero) or to disclose the risk-adjusted exposure (which would be minor) along with an appropriate explanation.

7. *Items 3.4 and 19 of Form 41-101F2, Item 5 of Part A and Item 4 of Part B of Form 81-101F1, and Item 10 of Form 81-101F2 require disclosure in an investment fund's prospectus or annual information form (AIF), as applicable, regarding certain service providers to the fund. The CSA are considering adding the agent in respect of securities lending, repurchases and, if applicable, reverse repurchases to the list of service providers detailed in these Items. Another outcome of adding the agent to these Items would be that the agent's relationship to the manager would also be disclosed in the prospectus or AIF, so that investors can assess whether amounts are being paid to entities affiliated with the manager in connection with the investment fund's securities lending, repurchase or reverse repurchase activities. Is this disclosure useful? Should any additional details regarding the agent be provided in an investment fund's prospectus or AIF?*

We are generally in agreement and support the proposals. BlackRock believes it is important for investors to know the identity of the major service providers the fund uses, the amounts paid for those services, and whether those entities are affiliates of *the fund*.

Furthermore, we do not believe that this proposed disclosure should be applicable to repurchase or reverse repurchase arrangements as such trades are normally not managed under an agency relationship, but rather are governed by the investment management agreement.

8. *We understand that investment funds may seek different indemnities from their lending agent, which provide varying degrees of protection from losses that could arise from securities lending. Would disclosure of the indemnities obtained by an investment fund from its lending agent in the AIF or prospectus of the investment fund be useful for investors in assessing the risks from securities lending?*

BlackRock agrees that disclosure of any indemnification arrangement in favour of the fund(s) related to the securities lending program would be valuable for investors. We believe that such disclosure is useful, regardless of the entity providing the indemnification (e.g., investment fund manager, securities lending agent, affiliate of either, etc.).

9. *Generally, investment funds* do *not file the agreements that they enter into with their lending agent on SEDAR. Currently, these agreements are not listed in the AIF under Item 16 of Form 81-101F2 or the prospectus under Item 31 of Form 41-101F2. Should these agreements be required to be included as material contracts and filed on SEDAR?*

We agree that securities lending agreements should be required to be disclosed and filed on SEDAR. While securities lending agreements are not specifically enumerated under the current form requirements (Item 31.1(a-g) of 41-101F2), BlackRock already takes the position that such agreements meet the facts-based test under Item 31.1(h) and therefore constitute "material contracts" which, in turn, triggers the disclosure and filing obligation. BlackRock would support the explicit listing of securities lending agreements in Item 31.1 to ensure consistent approaches are adopted across the industry by investment fund managers with respect to these agreements.

BlackRock would be pleased to make appropriate representatives available to discuss any of these comments with you.

Yours very truly,

BlackRock Asset Management Canada Limited

Margaret Gunawan
Chief Compliance Officer and Secretary