

BlackRock Inc.
Form 10-Q
May 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the transition period from _____ to _____ .

Commission file number 001-33099

BlackRock, Inc.

(Exact name of registrant as specified in its charter)

Delaware 32-0174431
(State or Other Jurisdiction of (I.R.S. Employer Identification No.)

Incorporation or Organization)

55 East 52nd Street, New York, NY 10055

(Address of Principal Executive Offices)

(Zip Code)

(212) 810-5300

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 30, 2018, there were 160,169,656 shares of the registrant’s common stock outstanding.

BlackRock, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BlackRock, Inc.

Condensed Consolidated Statements of Financial Condition

(unaudited)

(in millions, except shares and per share data)	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$5,978	\$ 6,894
Accounts receivable	2,677	2,699
Investments	2,050	1,981
Assets of consolidated variable interest entities:		
Cash and cash equivalents	103	144
Investments	1,637	1,493
Other assets	113	66
Separate account assets	142,871	149,937
Separate account collateral held under securities lending agreements	27,247	24,190
Property and equipment (net of accumulated depreciation of \$698 and \$658 at March 31, 2018 and December 31, 2017, respectively)	589	592
Intangible assets (net of accumulated amortization of \$210 and \$219 at March 31, 2018 and December 31, 2017, respectively)	17,378	17,389
Goodwill	13,217	13,220
Other assets	2,157	1,636
Total assets	\$216,017	\$ 220,241
Liabilities		
Accrued compensation and benefits	\$788	\$ 2,153
Accounts payable and accrued liabilities	1,421	1,161
Liabilities of consolidated variable interest entities	425	369
Borrowings	5,036	5,014
Separate account liabilities	142,871	149,937
Separate account collateral liabilities under securities lending agreements	27,247	24,190
Deferred income tax liabilities	3,516	3,527
Other liabilities	2,130	1,626
Total liabilities	183,434	187,977
Commitments and contingencies (Note 12)		
Temporary equity		
Redeemable noncontrolling interests	561	416
Permanent Equity		
BlackRock, Inc. stockholders' equity		
Common stock, \$0.01 par value;	2	2
Shares authorized: 500,000,000 at March 31, 2018 and December 31, 2017;		

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Shares issued: 171,252,185 at March 31, 2018 and December 31, 2017;

Shares outstanding: 160,308,362 and 159,977,115 at March 31, 2018 and

December 31, 2017, respectively

Preferred stock (Note 17)	—	—
Additional paid-in capital	18,856	19,256
Retained earnings	17,529	16,939
Accumulated other comprehensive loss	(301)	(432)
Treasury stock, common, at cost (10,943,823 and 11,275,070 shares held at March 31, 2018 and		
December 31, 2017, respectively)	(4,108)	(3,967)
Total BlackRock, Inc. stockholders' equity	31,978	31,798
Nonredeemable noncontrolling interests	44	50
Total permanent equity	32,022	31,848
Total liabilities, temporary equity and permanent equity	\$ 216,017	\$ 220,241

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Income

(unaudited)

(in millions, except shares and per share data)	Three Months Ended	
	March 31, 2018	2017
Revenue		
Investment advisory, administration fees and securities lending revenue		
Related parties	\$2,112	\$1,768
Other third parties	835	755
Total investment advisory, administration fees and securities lending revenue	2,947	2,523
Investment advisory performance fees	70	70
Technology and risk management revenue	184	154
Distribution fees	311	287
Advisory and other revenue	71	58
Total revenue	3,583	3,092
Expense		
Employee compensation and benefits	1,121	1,021
Distribution and servicing costs	432	401
Direct fund expense	261	206
General and administration	383	296
Amortization of intangible assets	11	25
Total expense	2,208	1,949
Operating income	1,375	1,143
Nonoperating income (expense)		
Net gain (loss) on investments	15	51
Interest and dividend income	15	7
Interest expense	(46)	(65)
Total nonoperating income (expense)	(16)	(7)
Income before income taxes	1,359	1,136
Income tax expense	265	268
Net income	1,094	868
Less:		
Net income (loss) attributable to noncontrolling interests	5	9
Net income attributable to BlackRock, Inc.	\$1,089	\$859
Earnings per share attributable to BlackRock, Inc.		
common stockholders:		
Basic	\$6.75	\$5.27
Diluted	\$6.68	\$5.21

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Cash dividends declared and paid per share	\$2.88	\$2.50
Weighted-average common shares outstanding:		
Basic	161,250,018	163,016,599
Diluted	162,918,961	164,856,183

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Net income	\$1,094	\$868
Other comprehensive income:		
Foreign currency translation adjustments ⁽¹⁾	137	40
Other	—	(1)
Other comprehensive income (loss)	137	39
Comprehensive income	1,231	907
Less: Comprehensive income (loss) attributable to		
noncontrolling interests	5	9
Comprehensive income attributable to BlackRock, Inc.	\$1,226	\$898

⁽¹⁾ Amounts for the three months ended March 31, 2018 and 2017 include a loss from a net investment hedge of \$16 million (net of a tax benefit of \$5 million) and \$7 million (net of a tax benefit of \$4 million), respectively. See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

	Additional Paid-in Capital ⁽¹⁾	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Common	Total BlackRock Stockholders' Equity	Nonredeemable Noncontrolling Interests	Permanent Equity	Redeemable Noncontrolling Interests / Temporary Equity
(in millions)								
December 31, 2017	\$ 19,258	\$ 16,939	\$ (432)	\$ (3,967)	\$ 31,798	\$ 50	\$ 31,848	\$ 416
Net income	—	1,089	—	—	1,089	(1)	1,088	6
Dividends paid	—	(505)	—	—	(505)	—	(505)	—
Stock-based compensation	175	—	—	—	175	—	175	—
PNC preferred stock capital contribution	58	—	—	—	58	—	58	—
Retirement of preferred stock	(58)	—	—	—	(58)	—	(58)	—
Issuance of common shares related to employee stock transactions	(575)	—	—	578	3	—	3	—
Employee tax withholdings related to employee stock transactions	—	—	—	(384)	(384)	—	(384)	—
Shares repurchased	—	—	—	(335)	(335)	—	(335)	—
Subscriptions (redemptions/distributions) — noncontrolling	—	—	—	—	—	—	—	—
interest holders	—	—	—	—	—	(5)	(5)	352
Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—	—	—	(213)
Other comprehensive income (loss)	—	—	137	—	137	—	137	—
Adoption of new accounting pronouncements	—	6	(6)	—	—	—	—	—
March 31, 2018	\$ 18,858	\$ 17,529	\$ (301)	\$ (4,108)	\$ 31,978	\$ 44	\$ 32,022	\$ 561

(1) Amounts include \$2 million of common stock at both March 31, 2018 and December 31, 2017.

See accompanying notes to condensed consolidated financial statements.

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BlackRock, Inc.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

	Accumulated				Total			Redeemable
	Additional	Retained	Other	Treasury	BlackRock	Nonredeemable	Total	Noncontrolling
	Paid-in	Earnings	Comprehensive	Stock	Stockholders'	Noncontrolling	Permanent	Interests
(in millions)	Capital ⁽¹⁾	(Loss)	Income	Common	Equity	Interests	Equity	Equity
December 31, 2016	\$ 19,339	\$ 13,650	\$ (716)	\$ (3,185)	\$ 29,088	\$ 52	\$ 29,140	\$ 194
Net income	—	859	—	—	859	1	860	8
Dividends paid	—	(447)	—	—	(447)	—	(447)	—
Stock-based compensation	162	—	—	—	162	—	162	—
PNC preferred stock capital contribution	193	—	—	—	193	—	193	—
Retirement of preferred stock	(193)	—	—	—	(193)	—	(193)	—
Issuance of common shares related to employee stock transactions	(573)	—	—	576	3	—	3	—
Employee tax withholdings related to employee stock transactions	—	—	—	(287)	(287)	—	(287)	—
Shares repurchased	—	—	—	(275)	(275)	—	(275)	—
Subscriptions (redemptions/distributions) — noncontrolling	—	—	—	—	—	—	—	—
interest holders	—	—	—	—	—	(3)	(3)	135
Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—	—	—	(28)
Other comprehensive income (loss)	—	—	39	—	39	—	39	—
Adoption of new accounting pronouncement	3	(2)	—	—	1	—	1	—
March 31, 2017	\$ 18,931	\$ 14,060	\$ (677)	\$ (3,171)	\$ 29,143	\$ 50	\$ 29,193	\$ 309

(1) Amounts include \$2 million of common stock at both March 31, 2017 and December 31, 2016.

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$1,094	\$868
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	53	63
Stock-based compensation	175	162
Deferred income tax expense (benefit)	10	198
Net (gains) losses within consolidated VIEs	(2)	(33)
Net (purchases) proceeds within consolidated VIEs	(342)	(96)
(Earnings) losses from equity method investees	(33)	(32)
Distributions of earnings from equity method investees	10	5
Changes in operating assets and liabilities:		
Accounts receivable	35	5
Investments, trading	(21)	(188)
Other assets	(474)	(975)
Accrued compensation and benefits	(1,362)	(1,110)
Accounts payable and accrued liabilities	268	59
Other liabilities	448	910
Cash flows from operating activities	(141)	(164)
Cash flows from investing activities		
Purchases of investments	(94)	(61)
Proceeds from sales and maturities of investments	122	21
Distributions of capital from equity method investees	5	10
Net consolidations (deconsolidations) of sponsored investment funds (VIEs/VREs)	(53)	—
Purchases of property and equipment	(33)	(19)
Cash flows from investing activities	(53)	(49)
Cash flows from financing activities		
Proceeds from long-term borrowings	—	697
Cash dividends paid	(505)	(447)
Repurchases of common stock	(719)	(562)
Net (redemptions/distributions paid)/subscriptions received from noncontrolling		
interest holders	347	132
Other financing activities	3	—
Cash flows from financing activities	(874)	(180)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	115	32
Net increase (decrease) in cash, cash equivalents and restricted cash	(953)	(361)
Cash, cash equivalents and restricted cash, beginning of period	7,096	6,192
Cash, cash equivalents and restricted cash, end of period	\$6,143	\$5,831
Supplemental disclosure of cash flow information:		

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Cash paid for:		
Interest	\$29	\$40
Income taxes (net of refunds)	\$74	\$82
Supplemental schedule of noncash investing and financing transactions:		
Issuance of common stock	\$575	\$573
PNC preferred stock capital contribution	\$58	\$193
Increase (decrease) in noncontrolling interests due to net consolidation (deconsolidation) of		
sponsored investment funds	\$(213)	\$(28)

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

1. Business Overview

BlackRock, Inc. (together, with its subsidiaries, unless the context otherwise indicates, “BlackRock” or the “Company”) is a leading publicly traded investment management firm providing a broad range of investment and risk management services to institutional and retail clients worldwide.

BlackRock’s diverse platform of alpha-seeking active, index and cash management investment strategies across asset classes enables the Company to tailor investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset portfolios investing in equities, fixed income, alternatives and money market instruments. Products are offered directly and through intermediaries in a variety of vehicles, including open-end and closed-end mutual funds, iShares® exchange-traded funds (“ETFs”), separate accounts, collective investment trusts and other pooled investment vehicles. BlackRock also offers the investment and risk management technology platform, Aladdin®, risk analytics, advisory and technology services and solutions to a broad base of institutional and wealth management clients.

At March 31, 2018, The PNC Financial Services Group, Inc. (“PNC”) held 21.2% of the Company’s voting common stock and 21.7% of the Company’s capital stock, which includes outstanding common and nonvoting preferred stock.

2. Significant Accounting Policies

Basis of Presentation. These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of the Company and its controlled subsidiaries. Noncontrolling interests on the condensed consolidated statements of financial condition represents the portion of consolidated sponsored investment funds in which the Company does not have direct equity ownership. Accounts and transactions between consolidated entities have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

Certain financial information that normally is included in annual financial statements, including certain financial statement footnotes, is not required for interim reporting purposes and has been condensed or omitted herein. These condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes related thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the Securities and Exchange Commission (“SEC”) on February 28, 2018 (“2017 Form 10-K”).

The interim financial information at March 31, 2018 and for the three months ended March 31, 2018 and 2017 is unaudited. However, in the opinion of management, the interim information includes all normal recurring adjustments necessary for the fair presentation of the Company's results for the periods presented. The results of operations for interim periods are not necessarily indicative of results to be expected for the full year.

Certain prior period presentations and disclosures, while not required to be recast, were reclassified to ensure comparability with current period classifications.

Accounting Pronouncements Adopted in the Three Months Ended March 31, 2018.

Revenue from Contracts with Customers. The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, and several amendments (collectively, "ASU 2014-09"). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most previous revenue recognition guidance, including industry-specific guidance. The guidance also changes the accounting for certain contract costs and revises the criteria for determining if an entity is acting as a principal or agent in certain arrangements.

The Company adopted ASU 2014-09 effective January 1, 2018 on a full retrospective basis, which required the Company to recast 2016 and 2017 previously reported amounts. The key impact of the standard relates to the Company's presentation of certain revenue contracts and associated contract costs. The most significant of these changes relates to the presentation of certain distribution costs, which were previously presented net against revenue (contra-revenue) and are now presented as an expense on a gross basis. Revenue recognition related to investment advisory, administration fees and securities lending revenue as well as performance fees remained unchanged, which represents a substantial portion of the Company's revenue. However, under ASU 2014-09, the Company may recognize certain performance fees, including carried interest, earlier than under the prior revenue recognition guidance. The impact to the condensed consolidated statement of financial condition upon adoption was related to a change in timing of recognition for certain technology and risk management revenue and related costs that resulted in an increase to other assets and other liabilities of \$19 million and \$25 million, respectively. The cumulative adjustment to retained earnings as of January 1, 2016 was a net decrease of \$6 million.

The following table presents the impact of the adoption to the condensed consolidated statement of income for the three months ended March 31, 2017.

	Three Months Ended March 31, 2017		
	Previous Reported	Adoption of the New Revenue Standard Adjustment	Recast
(in millions, except shares and per share data)			
Total revenue	\$2,824	\$ 268	\$3,092
Total expense	1,677	272	1,949
Operating income	\$1,147	\$ (4)) \$1,143
Income tax expense	\$269	\$ (1)) \$268
Net income	\$871	\$ (3)) \$868
Net income attributable to BlackRock, Inc.	\$862	\$ (3)) \$859
Earnings per share attributable to BlackRock, Inc.			
common stockholders:			
Basic	\$5.29	\$ (0.02)) \$5.27
Diluted	\$5.23	\$ (0.02)) \$5.21

Recognition and Measurement of Financial Instruments. In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 amends guidance on the classification and measurement of financial instruments, including requiring an entity to measure substantially all equity securities (other than those accounted for under the equity method of accounting) at fair value through earnings. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. The Company adopted ASU 2016-01 using a modified retrospective approach on January 1, 2018. The reclassification of unrealized gains (losses) on equity securities within accumulated other comprehensive income to retained earnings was not material upon adoption.

Cash Flow Classification. In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which amends and clarifies the current guidance to reduce diversity in practice of the classification of certain cash receipts and payments in the consolidated statement of cash flows. The Company adopted ASU 2016-15 on January 1, 2018 retrospectively to all periods presented. The adoption of ASU 2016-15 did not have a material impact on the condensed consolidated statement of cash flows.

Restricted Cash. In November 2016, the FASB issued 2016-18, Restricted Cash, which clarifies the classification and presentation of restricted cash in the statement of cash flows (“ASU 2016-18”). The Company adopted ASU 2016-18 on January 1, 2018 retrospectively to all periods presented. The adoption of ASU 2016-18 did not have a material impact on the condensed consolidated statement of cash flows. See Note 3, Cash, Cash Equivalents and Restricted Cash, for additional disclosure requirements related to restricted cash.

Reclassifications from Accumulated Other Comprehensive Income. In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). ASU 2018-02 allows reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company adopted ASU 2018-02 prospectively on January 1, 2018. The adoption of ASU 2018-02 did not have a material impact on the condensed consolidated statement of financial condition.

Revenue Recognition.

Revenue is recognized upon transfer of control of promised services to customers in an amount that reflects consideration to which the Company expects to be entitled in exchange for those services (the “transaction price”). The Company enters into contracts that can include multiple services, which are accounted for separately if they are determined to be distinct. Consideration for the Company’s services is generally in the form of variable consideration because the amount of fees is subject to market conditions that are outside of the Company’s influence. The Company includes variable consideration as part of its transaction price when it is no longer probable of significant reversal, i.e. when the associated uncertainty is resolved. For some contracts with customers, the Company has discretion to involve a third party in providing services to the customer. Generally, the Company is deemed to be the principal in these arrangements because the Company controls the promised services before they are transferred to customers, and accordingly presents the revenue gross of related costs.

Investment Advisory, Administration Fees and Securities Lending Revenue. Investment advisory and administration fees are recognized as the services are performed over time. Such fees are primarily based on agreed-upon percentages of net asset value, assets under management (“AUM”) or committed capital. These fees are affected by changes in AUM, including market appreciation or depreciation, foreign exchange translation and net inflows or outflows. Investment advisory and administration fees for investment funds are shown net of fees waived pursuant to contractual expense limitations of the funds or voluntary waivers. In addition, the Company may contract with third parties to provide sub-advisory services on its behalf. The Company presents the investment advisory fees and associated costs to such advisors on a gross basis in the condensed consolidated statements of income where it is deemed to be the principal.

The Company earns revenue by lending securities on behalf of clients, primarily to highly rated banks and broker-dealers. Revenue is recognized over time as services are performed. Generally, the securities lending fees are shared between the Company and the funds or other third-party accounts managed by the Company from which the securities are borrowed.

Investment Advisory Performance Fees / Carried Interest. The Company receives investment advisory performance fees, including incentive allocations (carried interest) from certain actively managed investment funds and certain separately managed accounts. These performance fees are dependent upon exceeding specified relative or absolute investment return thresholds, which may vary by product or account, and include monthly, quarterly, annually or longer measurement periods. A portion of the fees the Company recognizes may be partially related to the services performed in prior periods that meet the recognition criteria in the current period.

The Company is allocated carried interest from certain alternative investment products upon exceeding performance thresholds. BlackRock may be required to reverse/return all, or part, of such carried interest allocations depending upon future performance of these funds. Therefore, carried interest subject to such clawback provisions is recorded in investments/investments of consolidated VIEs or cash/cash of consolidated VIEs to the extent that it is distributed, on its condensed consolidated statements of financial condition.

Performance fees, including carried interest, are recognized when it is determined that they are no longer probable of significant reversal (such as upon the sale of a fund’s investment or when the amount of AUM becomes known as of the end of a specified measurement period). Significant judgement is involved in making such determination. At each

reporting date, the Company considers various factors in estimating performance fees to be recognized, including carried interest. These factors include but are not limited to whether: (1) the fees are dependent on the market and thus are highly susceptible to factors outside the Company's influence; (2) the fees have a large number and a broad range of possible amounts; and (3) the funds or separately managed accounts have the ability to invest or reinvest its sales proceeds.

The Company records a contract liability for deferred carried interest to the extent it receives cash or capital allocations related to carried interest prior to meeting the revenue recognition criteria. At March 31, 2018 and December 31, 2017, the Company had \$224 million and \$219 million, respectively, of deferred carried interest recorded in other liabilities/other liabilities of consolidated VIEs on the condensed consolidated statements of financial condition. A

portion of the deferred carried interest may also be paid to certain employees. The ultimate timing of the recognition of performance fee revenue and related compensation expense, if any, for these products is unknown.

Technology and risk management revenue. BlackRock offers investment management technology systems, risk management services, wealth management and digital distribution tools on a fee basis. Clients include banks, insurance companies, official institutions, pension funds, asset managers, retail distributors and other investors. Fees earned for technology and risk management revenue are recorded as services are performed and are generally determined using the value of positions on the Aladdin platform or on a fixed-rate basis.

Distribution Fees. The Company accounts for fund distribution services and shareholder servicing as distinct services, separate from fund management services, because customers can benefit from each of the services on their own and because the services are separately identifiable (that is, the nature of the promised services is to transfer each service individually). The Company records upfront and ongoing sales commissions as distribution fee revenue for serving as the principal underwriter and/or distributor for certain mutual funds that it manages. The Company recognizes the upfront fees for front-end load funds on a trade date basis when the services are performed and the amount the Company is entitled to is known. The on-going distribution fees are generally based on net asset values and are recognized when the amount is known. Distribution services are satisfied at a point in time. Consequently, a portion of the on-going distribution fees the Company recognized may be related to the services performed in prior periods that met the recognition criteria in the current period. The Company recognizes ongoing shareholder servicing fee revenue when and as shareholder services are performed over time. The Company contracts with third parties for various fund distribution services and shareholder servicing of certain funds to be performed on its behalf. These arrangements are generally priced as a portion of the fee paid to the Company by the fund or as an agreed-upon percentage of net asset value. The Company presents its distribution fees and distribution and servicing costs incurred on a gross basis in the condensed consolidated statements of income as it is deemed to be the principal in such transactions.

Advisory and other revenue. Advisory and other revenue primarily includes fees earned for advisory services, fees earned for transition management services primarily comprised of commissions recognized in connection with buying and selling securities on behalf of customers, and equity method investment earnings related to certain strategic investments.

Advisory services fees are determined using fixed-rate fees and are recognized over time as the related services are performed.

Commissions related to transition management services are recorded on a trade-date basis as securities transactions occur.

Investments.

Investments in Debt Securities. BlackRock classifies debt investments as available-for-sale, held-to-maturity or trading based on the Company's intent to sell the security or, its intent and ability to hold the debt security to maturity.

Available-for-sale debt securities are those securities that are not classified as trading or held-to-maturity. Available-for-sale debt securities include certain investments in collateralized loan obligations ("CLOs") and are carried at fair value on the condensed consolidated statements of financial condition with changes in fair value recorded in the accumulated other comprehensive income (loss) component of stockholders' equity in the period of the change. Upon the disposition of an available-for-sale security, the Company reclassifies the gain or loss on the security from accumulated other comprehensive income (loss) to nonoperating income (expense) on the condensed consolidated statements of income.

Held-to-maturity debt securities are purchased with the positive intent and ability to be held to maturity and are recorded at amortized cost on the condensed consolidated statements of financial condition.

Trading securities are those investments that are purchased principally for the purpose of selling them in the near term. Trading securities are carried at fair value on the condensed consolidated statements of financial condition with changes in fair value recorded in nonoperating income (expense) on the condensed consolidated statements of income in the period of the change. Trading securities include certain investments in CLOs for which the fair value option is elected in order to reduce operational complexity of bifurcating embedded derivatives.

Investments in Equity Securities. Equity securities are generally carried at fair value on the condensed consolidated statements of financial condition with changes in the fair value recorded through net income ("FVTNI") within nonoperating income (expense) in the period of change. For nonmarketable equity securities, the Company generally elected to apply the practicality exception to apply fair value measurement, under which such securities will be measured at cost, less impairment, plus or minus observable price changes for identical or similar securities of the

same issuer with such changes recorded in the condensed consolidated statements of income in the period of the change. Dividends received from the investment are recorded as dividend income within nonoperating income (expense).

Equity Method. For equity investments where BlackRock does not control the investee, and where it is not the primary beneficiary (“PB”) of a VIE, but can exert significant influence over the financial and operating policies of the investee, the Company follows the equity method of accounting. BlackRock’s share of the investee’s underlying net income or loss is recorded as net gain (loss) on investments within nonoperating income (expense) and as other revenue for certain strategic investments since such companies are considered to be an extension of BlackRock’s core business. BlackRock’s share of net income of the investee is recorded based upon the most current information available at the time, which may precede the date of the condensed consolidated statement of financial condition. Distributions received from the investment reduce the Company’s carrying value of the investee and the cost basis if deemed to be a return of capital.

Impairments of Investments. Management periodically assesses equity method, available-for-sale and held-to-maturity investments for other-than-temporary impairment (“OTTI”). If an OTTI exists, an impairment charge would be recorded in the condensed consolidated statements of income.

For equity method investments and held-to-maturity investments, if circumstances indicate that an OTTI may exist, the investments are evaluated using market values, where available, or the expected future cash flows of the investment. If the Company determines an OTTI exists, an impairment charge is recognized for the excess of the carrying amount of the investment over its estimated fair value.

For the Company’s investments in CLOs, the Company reviews cash flow estimates over the life of each CLO investment. On a quarterly basis, if the present value of the estimated future cash flows is lower than the carrying value of the investment and there is an adverse change in estimated cash flows, an impairment is considered to be other-than-temporary. An impairment charge is recognized for the excess of the carrying amount of the investment over its estimated fair value.

In addition, for nonmarketable equity securities that are accounted for under the measurement alternative to fair value, the Company applies the simplified impairment model that does not require the Company to consider whether the impairment is other than temporary.

Fair Value Measurements.

Hierarchy of Fair Value Inputs. The Company uses a fair value hierarchy that prioritizes inputs to valuation approaches used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Inputs:

Quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date.

Level 1 assets may include listed mutual funds, ETFs, listed equities and certain exchange-traded derivatives.

Level 2 Inputs:

Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; quotes from pricing services or brokers for which the Company can determine that orderly transactions took place at the quoted price or that the inputs used to arrive at the price are observable; and inputs other than quoted prices that are observable, such as models or other valuation methodologies.

Level 2 assets may include debt securities, investments in CLOs, short-term floating-rate notes, asset-backed securities, securities held within consolidated hedge funds, restricted public securities valued at a discount, as well as over-the-counter derivatives, including interest and inflation rate swaps and foreign currency exchange contracts that have inputs to the valuations that generally can be corroborated by observable market data.

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Level 3 Inputs:

Unobservable inputs for the valuation of the asset or liability, which may include nonbinding broker quotes. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgment or estimation.

Level 3 assets may include direct private equity investments held within consolidated funds and investments in CLOs.

Level 3 liabilities include contingent liabilities related to acquisitions valued based upon discounted cash flow analyses using unobservable market data.

Significance of Inputs. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Valuation Approaches. The fair values of certain Level 3 assets and liabilities were determined using various valuation approaches as appropriate, including third-party pricing vendors, broker quotes and market and income approaches. Such quotes and modeled prices are evaluated for reasonableness through various procedures, including due diligence reviews of third-party pricing vendors, variance analyses, consideration of the current market environment and other analytical procedures.

A significant number of inputs used to value equity, debt securities and investments in CLOs is sourced from third-party pricing vendors. Generally, prices obtained from pricing vendors are categorized as Level 1 inputs for identical securities traded in active markets and as Level 2 for other similar securities if the vendor uses observable inputs in determining the price. Annually, BlackRock's internal valuation committee or other designated groups review both the valuation approaches, including the general assumptions and methods used to value various asset classes, and operational processes with these vendors. On a quarterly basis, meetings are held with key vendors to identify any significant changes to the vendors' processes.

In addition, quotes obtained from brokers generally are nonbinding and categorized as Level 3 inputs. However, if the Company is able to determine that market participants have transacted for the asset in an orderly manner near the quoted price or if the Company can determine that the inputs used by the broker are observable, the quote is classified as a Level 2 input.

Investments Measured at Net Asset Values. As a practical expedient, the Company uses net asset value ("NAV") as the fair value for certain investments. The inputs to value these investments may include BlackRock capital accounts for its partnership interests in various alternative investments, including hedge funds, real assets and private equity funds, which may be adjusted by using the returns of certain market indices. The various partnerships generally are investment companies, which record their underlying investments at fair value based on fair value policies established by management of the underlying fund. Fair value policies at the underlying fund generally require the fund to utilize pricing/valuation information from third-party sources, including independent appraisals. However, in some instances, current valuation information for illiquid securities or securities in markets that are not active may not be available from any third-party source or fund management may conclude that the valuations that are available from third-party sources are not reliable. In these instances, fund management may perform model-based analytical valuations that could be used as an input to value these investments.

Derivative Instruments and Hedging Activities. The Company does not use derivative financial instruments for trading or speculative purposes. The Company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in foreign currency exchange rates of certain assets and liabilities, and market exposures for certain seed investments. However, certain consolidated sponsored investment funds may also utilize derivatives as a part of their investment strategy.

Changes in the fair value of the Company's derivative financial instruments are recognized in earnings and, where applicable, are offset by the corresponding gain or loss on the related foreign-denominated assets or liabilities or hedged investments, on the condensed consolidated statements of income.

The Company may also use financial instruments designated as net investment hedges for accounting purposes to hedge net investments in international subsidiaries whose functional currency is not U.S. dollars. The gain or loss from revaluing accounting hedges of net investments in foreign operations at the spot rate is deferred and reported within accumulated other comprehensive income on the condensed consolidated statements of financial condition. The Company reassesses the effectiveness of its net investment hedge on a quarterly basis.

Money Market Fee Waivers. The Company may voluntarily waive a portion of its management fees on certain money market funds to ensure that they maintain a targeted level of daily net investment income (the “Yield Support waivers”). During the three months ended March 31, 2018 and 2017, waivers that resulted in a reduction of management fees were immaterial. BlackRock may increase or decrease the level of Yield Support waivers in future periods.

Separate Account Assets and Liabilities. Separate account assets are maintained by BlackRock Life Limited, a wholly owned subsidiary of the Company, which is a registered life insurance company in the United Kingdom, and represent segregated assets held for purposes of funding individual and group pension contracts. The life insurance company does not underwrite any insurance contracts that involve any insurance risk transfer from the insured to the life insurance company. The separate account assets primarily include equity securities, debt securities, money market funds and derivatives. The separate account assets are not subject to general claims of the creditors of BlackRock. These separate account assets and the related equal and offsetting liabilities are recorded as separate account assets and separate account liabilities on the condensed consolidated statements of financial condition.

The net investment income attributable to separate account assets supporting individual and group pension contracts accrues directly to the contract owner and is not reported on the condensed consolidated statements of income. While BlackRock has no economic interest in these separate account assets and liabilities, BlackRock earns policy administration and management fees associated with these products, which are included in investment advisory, administration fees and securities lending revenue on the condensed consolidated statements of income.

Separate Account Collateral Assets Held and Liabilities Under Securities Lending Agreements. The Company facilitates securities lending arrangements whereby securities held by separate accounts maintained by BlackRock Life Limited are lent to third parties under global master securities lending agreements. In exchange, the Company receives legal title to the collateral with minimum values generally ranging from approximately 102% to 112% of the value of the securities lent in order to reduce counterparty risk. The required collateral value is calculated on a daily basis. The global master securities lending agreements provide the Company the right to request additional collateral or, in the event of borrower default, the right to liquidate collateral. The securities lending transactions entered into by the Company are accompanied by an agreement that entitles the Company to request the borrower to return the securities at any time; therefore, these transactions are not reported as sales.

The Company records on the condensed consolidated statements of financial condition the cash and noncash collateral received under these BlackRock Life Limited securities lending arrangements as its own asset in addition to an equal and offsetting collateral liability for the obligation to return the collateral. The securities lending revenue earned from lending securities held by the separate accounts is included in investment advisory, administration fees and securities lending revenue on the condensed consolidated statements of income. During the three months ended March 31, 2018 and 2017, the Company had not resold or repledged any of the collateral received under these arrangements. At March 31, 2018 and December 31, 2017, the fair value of loaned securities held by separate accounts was approximately \$24.8 billion and \$22.3 billion, respectively, and the fair value of the collateral held under these securities lending agreements was approximately \$27.2 billion and \$24.2 billion, respectively.

Recent Accounting Pronouncements Not Yet Adopted.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which requires lessees to recognize assets and liabilities arising from most operating leases on the condensed consolidated statements of financial condition. The Company expects to record assets and liabilities for its current operating leases upon adoption of ASU 2016-02 and does not expect the adoption to have a material impact on its results of operations or cash flows. ASU 2016-02 is effective for the Company on January 1, 2019, and the Company intends to apply the practical expedients allowed by the standard upon transition. See Note 13 of the 2017 Form 10-K for information on the Company’s operating lease commitments.

3. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash and cash equivalents reported within the condensed consolidated statements of financial condition to the cash, cash equivalents, and restricted cash reported within the condensed consolidated statements of cash flows.

	March 31,	December 31,
(in millions)	2018	2017