BlackRock Inc.
Form 10-Q
May 10, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

o 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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

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 X 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 X No

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

Large accelerated filer	X	Accelerated filer	Non-accelerated filer
Smaller reporting company			(Do not check if a smaller reporting company)

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

Yes No X

As of April 30, 2016, there were 163,366,741 shares of the registrant’s common stock outstanding.

BlackRock, Inc.

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PART I

FINANCIAL INFORMATION

PART II

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BlackRock, Inc.

Condensed Consolidated Statements of Financial Condition

(unaudited)

	March 31,	December 31,
(in millions, except shares and per share data)	2016	2015
Assets		
Cash and cash equivalents	$4,981	$6,083
Accounts receivable	2,526	2,237
Investments	1,504	1,578
Assets of consolidated variable interest entities:		
Cash and cash equivalents	103	148
Investments	1,256	1,030
Other assets	85	67
Separate account assets	150,165	150,851
Separate account collateral held under securities lending agreements	30,389	31,336
Property and equipment (net of accumulated depreciation of $592 and $570 at March 31, 2016 and December 31, 2015, respectively)	581	581
Intangible assets (net of accumulated amortization of $769 and $745 at March 31, 2016 and December 31, 2015, respectively)	17,347	17,372
Goodwill	13,119	13,123
Other assets	902	855
Total assets	$222,958	$225,261
Liabilities		
Accrued compensation and benefits	$672	$1,971
Accounts payable and accrued liabilities	1,385	1,068
Liabilities of consolidated variable interest entities	187	177
Borrowings	4,968	4,930
Separate account liabilities	150,165	150,851
Separate account collateral liabilities under securities lending agreements	30,389	31,336
Deferred income tax liabilities	4,937	4,851
Other liabilities	1,269	1,033
Total liabilities	193,972	196,217
Commitments and contingencies (Note 11)		
Temporary equity		
Redeemable noncontrolling interests	517	464
Permanent Equity		
BlackRock, Inc. stockholders' equity		
Common stock, $0.01 par value;	2	2

Shares authorized: 500,000,000 at March 31, 2016 and December 31, 2015;
Shares issued: 171,252,185 at March 31, 2016 and December 31, 2015;
Shares outstanding: 163,587,221 and 163,461,064 at March 31, 2016 and

December 31, 2015, respectively		
Preferred stock (Note 15)	—	—
Additional paid-in capital	19,027	19,405
Retained earnings	12,271	12,033
Accumulated other comprehensive loss	(474)	(448)
Treasury stock, common, at cost (7,664,964 and 7,791,121 shares held at March 31, 2016 and December 31, 2015, respectively)	(2,432)	(2,489)
Total BlackRock, Inc. stockholders' equity	28,394	28,503
Nonredeemable noncontrolling interests	75	77
Total permanent equity	28,469	28,580
Total liabilities, temporary equity and permanent equity	$222,958	$225,261

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Income

(unaudited)

	Three Months Ended	
(in millions, except shares and per share data)	March 31, 2016	2015
Revenue		
Investment advisory, administration fees and securities lending revenue		
Related parties	$1,617	$1,681
Other third parties	742	709
Total investment advisory, administration fees and securities lending revenue	2,359	2,390
Investment advisory performance fees	34	108
BlackRock Solutions and advisory	171	147
Distribution fees	11	17
Other revenue	49	61
Total revenue	2,624	2,723
Expense		
Employee compensation and benefits	947	981
Distribution and servicing costs	97	99
Amortization of deferred sales commissions	10	13
Direct fund expense	188	189
General and administration	318	339
Restructuring charge	76	—
Amortization of intangible assets	25	35
Total expense	1,661	1,656
Operating income	963	1,067
Nonoperating income (expense)		
Net gain (loss) on investments	(2)	63
Interest and dividend income	5	4
Interest expense	(51)	(51)
Total nonoperating income (expense)	(48)	16
Income before income taxes	915	1,083
Income tax expense	268	258
Net income	647	825
Less:		
Net income (loss) attributable to noncontrolling interests	(10)	3
Net income attributable to BlackRock, Inc.	$657	$822
Earnings per share attributable to BlackRock, Inc.		

common stockholders:		
Basic	$3.97	$4.92
Diluted	$3.92	$4.84
Cash dividends declared and paid per share	$2.29	$2.18
Weighted-average common shares outstanding:		
Basic	165,388,130	167,089,037
Diluted	167,398,938	169,723,167

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in millions)	Three Months Ended March 31, 2016	2015
Net income	$647	$825
Other comprehensive income:		
Change in net unrealized gains (losses) from available-for-sale investments, net of tax:		
Unrealized holding gains (losses)[1]	(2)	—
Less: reclassification adjustment included in net income[1]	(1)	—
Net change from available-for-sale investments	(1)	—
Benefit plans, net	1	(1)
Foreign currency translation adjustments[2]	(26)	(165)
Other comprehensive income (loss)	(26)	(166)
Comprehensive income	621	659
Less: Comprehensive income (loss) attributable to noncontrolling interests	(10)	3
Comprehensive income attributable to BlackRock, Inc.	$631	$656

(1) The tax benefit (expense) was not material for the three months ended March 31, 2016.

(2) Amount for the three months ended March 31, 2016 includes losses from a net investment hedge of $23 million, net of tax of $14 million.

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

(in millions)	Additional Paid-in Capital[1]	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Common	Total BlackRock Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity	Redeemable Noncontrolling Interests / Temporary Equity
December 31, 2015	$ 19,407	$ 12,033	$ (448)	$ (2,489)	$ 28,503	$ 77	$ 28,580	$ 464
Net income	—	657	—	—	657	—	657	(10)
Dividends paid	—	(419)	—	—	(419)	—	(419)	—
Stock-based compensation	172	—	—	—	172	—	172	—
PNC preferred stock capital contribution	172	—	—	—	172	—	172	—
Retirement of preferred stock	(172)	—	—	—	(172)	—	(172)	—
Issuance of common shares related to employee stock transactions	(616)	—	—	619	3	—	3	—
Employee tax withholdings related to employee stock transactions	—	—	—	(262)	(262)	—	(262)	—
Shares repurchased	—	—	—	(300)	(300)	—	(300)	—
Net tax benefit (shortfall) from stock-based compensation	66	—	—	—	66	—	66	—
Subscriptions (redemptions/ distributions) — noncontrolling interest holders	—	—	—	—	—	(2)	(2)	363
Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—		—	(300)
Other comprehensive income (loss)	—	—	(26)	—	(26)	—	(26)	—

March 31, 2016	$ 19,029	$ 12,271	$ (474)	$ (2,432)	$ 28,394	$ 75	$ 28,469	$ 517

(1) Amounts include $2 million of common stock at both March 31, 2016 and December 31, 2015.

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Changes in Equity

(unaudited)

(in millions)	Additional Paid-in Capital[1]	Retained Earnings	Appropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Common	Total BlackRock Stockholders' Equity	Nonredeemable Noncontrolling Interests	Total Permanent Equity	Redeemable Noncontrolling Interests / Temporary Equity
December 31, 2014	$19,388	$10,164	$(19)	$(273)	$(1,894)	$27,366	$119	$27,485	$35
Net income	—	822	—	—	—	822	(1)	821	4
Net consolidation (deconsolidation) of VIEs due to adoption of new accounting pronouncement	—	—	19	—	—	19	(8)	11	194
Dividends paid	—	(389)	—	—	—	(389)	—	(389)	—
Stock-based compensation	143	—	—	—	—	143	—	143	—
Issuance of common shares related to employee stock transactions	(458)	—	—	—	465	7	—	7	—
Employee tax withholdings related to employee stock transactions	—	—	—	—	(223)	(223)	—	(223)	—
Shares repurchased	—	—	—	—	(275)	(275)	—	(275)	—
Net tax benefit (shortfall) from stock-based compensation	55	—	—	—	—	55	—	55	—
Subscriptions (redemptions/ distributions)- noncontrolling interest holders	—	—	—	—	—	—	(14)	(14)	123

Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—	—	—	—	18
Other comprehensive income (loss)	—	—	—	(166)	—	(166)	—	(166)	—
March 31, 2015	$ 19,128	$ 10,597	$ —	$ (439)	$ (1,927)	$ 27,359	$ 96	$ 27,455	$ 374

(1) Amounts include $2 million of common stock at both March 31, 2015 and December 31, 2014.

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net income	$647	$825
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	56	63
Amortization of deferred sales commissions	10	13
Stock-based compensation	172	143
Deferred income tax expense (benefit)	98	87
Other gains	—	(40)
Net (gains) losses on nontrading investments	3	19
Assets and liabilities of consolidated VIEs:		
Change in cash and cash equivalents	(46)	15
Net (gains) losses within consolidated VIEs	(2)	(4)
Net (purchases) proceeds within consolidated VIEs	(373)	17
(Earnings) losses from equity method investees	(3)	(33)
Distributions of earnings from equity method investees	10	9
Changes in operating assets and liabilities:		
Accounts receivable	(270)	(750)
Investments, trading	(85)	(334)
Other assets	(58)	(97)
Accrued compensation and benefits	(1,296)	(1,188)
Accounts payable and accrued liabilities	326	654
Other liabilities	246	92
Cash flows from operating activities	(565)	(509)
Cash flows from investing activities		
Purchases of investments	(55)	(91)
Proceeds from sales and maturities of investments	133	143
Distributions of capital from equity method investees	6	9
Net consolidations (deconsolidations) of sponsored investment funds	(8)	(3)
Acquisitions, net of cash acquired	—	(88)
Purchases of property and equipment	(30)	(98)
Cash flows from investing activities	46	(128)
Cash flows from financing activities		
Cash dividends paid	(419)	(389)
Repurchases of common stock	(562)	(498)
Net (redemptions/distributions paid)/subscriptions received from noncontrolling interest holders	361	109
Excess tax benefit from stock-based compensation	70	55

Other financing activities	3	7
Cash flows from financing activities	(547)	(716)
Effect of exchange rate changes on cash and cash equivalents	(36)	(93)
Net increase (decrease) in cash and cash equivalents	(1,102)	(1,446)
Cash and cash equivalents, beginning of period	6,083	5,723
Cash and cash equivalents, end of period	$4,981	$4,277
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$40	$40
Income taxes (net of refunds)	$107	$133
Supplemental schedule of noncash investing and financing transactions:		
Issuance of common stock	$616	$458
PNC preferred stock capital contribution	$172	$—
Increase (decrease) in noncontrolling interests due to net consolidation (deconsolidation) of sponsored investment funds	$(300)	$204
Increase (decrease) in borrowings due to consolidation/deconsolidation of VIEs	$—	$(3,389)

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 active (alpha) and index (beta) 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 class 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 funds and other pooled investment vehicles. BlackRock also offers the BlackRock Solutions® investment and risk management technology platform, Aladdin®, risk analytics and advisory services and solutions to a broad base of institutional investors.

At March 31, 2016, The PNC Financial Services Group, Inc. (“PNC”) held 21.1% of the Company’s voting common stock and 21.8% 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, 2015, which was filed with the Securities and Exchange Commission (“SEC”) on February 26, 2016 (“2015 Form 10-K”).

The interim financial information at March 31, 2016 and for the three months ended March 31, 2016 and 2015 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.

During the second quarter of 2015, the Company adopted ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis ("ASU 2015-02"). The interim financial information for the three months ended March 31, 2015 presented herein reflects the adoption of ASU 2015-02 effective January 1, 2015. See Note 2 to the consolidated financial statements, Significant Accounting Policies, in the 2015 Form 10-K for further information on ASU 2015-02.

Certain items previously reported have been reclassified to conform to the current year presentation.

Fair Value Measurements.

Hierarchy of Fair Value Inputs. The Company uses a fair value hierarchy that prioritizes inputs to valuation techniques 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, bank loans, 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.

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 collateralized loan obligations (“CLOs”).
- Level 3 liabilities include contingent liabilities related to acquisitions valued based upon discounted cash flow analysis 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 Techniques. The fair values of certain Level 3 assets and liabilities were determined using various methodologies 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 bank loans 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 methodologies, 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 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 distressed credit hedge funds, opportunistic 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 may 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. The Company may also use derivatives within its separate account assets, which are segregated for purposes of funding individual and group pension contracts. In addition, certain consolidated sponsored investment funds may also invest in 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 different from the reporting currency of the parent company. 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 is currently voluntarily waiving a portion of its management fees on certain money market funds to ensure that they maintain a minimum level of daily net investment income (the "Yield Support waivers"). During the three months ended March 31, 2016 and 2015, these waivers resulted in a reduction of management fees of approximately $12 million and $43 million, respectively. Approximately 83% and 42%, respectively, of Yield Support waivers were offset by a reduction of BlackRock's distribution and servicing costs paid to a financial intermediary. BlackRock has provided Yield Support waivers in prior periods and may increase or decrease the level of fee 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. During the three months ended March 31, 2016 and 2015, the Company had not resold or repledged any of the collateral received under these arrangements. At March 31, 2016 and December 31, 2015, the fair value of loaned securities held by separate accounts was approximately $28.4 billion and $28.8 billion, respectively, and the fair value of the collateral held under these securities lending agreements was approximately $30.4 billion and $31.3 billion, respectively.

Recent Accounting Pronouncements Adopted in the Three Months Ended March 31, 2016

Accounting for Measurement-Period Adjustments. In September 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). Under ASU 2015-16, an acquirer must recognize, upon determination, adjustments to the original amounts recorded for a business acquisition that are identified during the one-year period following the acquisition date. Previously, prior period information was required to be restated. The Company adopted ASU 2015-16 prospectively on January 1, 2016 and will apply the ASU to any adjustments related to business acquisitions.

Transition to Equity Method Accounting. In March 2016, the FASB issued ASU 2016-07, Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). ASU 2016-07 eliminates the requirement to apply the equity method of accounting retrospectively to an investment that subsequently qualifies for such accounting as a result of obtaining significant influence. The Company adopted ASU 2016-07 prospectively on January 1, 2016.

Recent Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("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 current revenue recognition guidance, including industry-specific guidance. The Company is currently evaluating the impact of adopting ASU 2014-09, which is effective for the Company on January 1, 2018.

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 significant revisions in accounting related to the classification and measurement of investments in equity securities and presentation of certain fair value changes for financial liabilities when the fair value option is elected. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. The Company is currently evaluating the impact of adopting ASU 2016-01, which is effective for the Company on January 1, 2018.

Leases. In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize assets and liabilities arising from most operating leases on the statement of financial position. The Company is currently evaluating the impact of adopting ASU 2016-02, which is effective for the Company on January 1, 2019.

Principal-Versus-Agent Guidance. In March 2016, the FASB issued ASU 2016-08, Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net) ("ASU 2016-08"). ASU 2016-08 amends the principal-versus-agent implementation guidance in ASU 2014-09, which will impact whether an entity reports revenue on a gross or net basis. The Company is currently evaluating the impact of adopting ASU 2016-08, which is effective for the Company in conjunction with the adoption of ASU 2014-09.

Accounting for Share-Based Payments. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company is currently evaluating the impact of adopting ASU 2016-09, which is effective for the Company on January 1, 2017.

Identifying Performance Obligations and Licensing. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing (“ASU 2016-10”). ASU 2016-10 clarifies aspects of ASU 2014-09 pertaining to the identification of performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The Company is currently evaluating the impact of adopting ASU 2016-10, which is effective for the Company in conjunction with the adoption of ASU 2014-09.

Narrow-Scope Improvements and Practical Expedients. In May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). ASU 2016-12 clarifies aspects of ASU 2014-09, including clarification of noncash consideration, and provides a practical expedient for reflecting contract modifications at transition. The Company is currently evaluating the impact of adopting ASU 2016-12, which is effective for the Company in conjunction with the adoption of ASU 2014-09.

3. Investments

A summary of the carrying value of total investments is as follows:

(in millions)	March 31, 2016	December 31, 2015
Available-for-sale investments	$77	$ 44
Held-to-maturity investments	33	108
Trading investments:		
Consolidated sponsored investment funds	636	700
Other equity and debt securities	30	20
Deferred compensation plan mutual funds	56	65
Total trading investments	722	785
Other investments:		
Equity method investments	545	513
Deferred compensation plan equity method investments	14	14
Cost method investments[1]	95	95
Carried interest	18	19
Total other investments	672	641
Total investments	$1,504	$ 1,578

[1] Amounts primarily include Federal Reserve Bank (“FRB”) Stock.

Available-for-Sale Investments

A summary of the cost and carrying value of investments classified as available-for-sale investments is as follows:

(in millions)		Gross Unrealized		Carrying
	Cost	Gains	Losses	Value
March 31, 2016	$80	$ 1	$ (4)	$ 77
December 31, 2015	$45	$ 2	$ (3)	$ 44

At March 31, 2016 and December 31, 2015 available-for-sale investments included investments in CLOs and seed investments in BlackRock sponsored mutual funds.

Held-to-Maturity Investments

The carrying value of held-to-maturity investments was $33 million and $108 million at March 31, 2016 and December 31, 2015, respectively. Held-to-maturity investments included foreign government debt held primarily for regulatory purposes and investments in CLOs. The amortized cost (carrying value) of these investments approximated fair value. At March 31, 2016, $12 million of these investments mature after five years through ten years and $21 million mature after ten years.

Trading Investments

A summary of the cost and carrying value of trading investments is as follows:

	March 31,		December 31,	
(in millions)	2016		2015	
	Cost	Carrying Value	Cost	Carrying Value
Trading investments:				
Deferred compensation plan mutual funds	$41	$ 56	$48	$ 65
Equity securities/multi-asset mutual funds	353	330	294	279
Debt securities/fixed income mutual funds:				
Corporate debt	149	146	194	190
Government debt	140	145	202	202
Asset/mortgage backed debt	47	45	49	49
Total trading investments	$730	$ 722	$787	$ 785

At March 31, 2016, trading investments included $331 million of debt securities and $305 million of equity securities held by consolidated sponsored investment funds accounted for as voting rights entities ("VREs"), $56 million of certain deferred compensation plan mutual fund investments and $30 million of other equity and debt securities.

At December 31, 2015, trading investments included $437 million of debt securities and $263 million of equity securities held by consolidated sponsored investment funds accounted for as VREs, $65 million of certain deferred compensation plan mutual fund investments and $20 million of other equity and debt securities.

Other Investments

A summary of the carrying value of other investments is as follows:

	March 31,	December 31,
(in millions)	2016	2015
Other investments:		
Equity method investments	$ 545	$ 513
Deferred compensation plan equity method investments	14	14
Cost method investments:		
Federal Reserve Bank stock	93	93
Other	2	2

Total cost method investments	95	95
Carried interest[1]	18	19
Total other investments	$ 672	$ 641

[1] Carried interest of VREs.

Equity method investments primarily include BlackRock's direct investments in certain BlackRock sponsored investment funds.

In addition, the Company accounts for its interest in PennyMac Financial Services, Inc. ("PennyMac") as an equity method investment. At March 31, 2016 and December 31, 2015 the Company's investment in PennyMac was excluded from the balances in the table above and included in other assets on the condensed consolidated statements of financial condition. The carrying value and fair value of the Company's interest (approximately 20% or 16 million shares and units) was approximately $223 million and $181 million, respectively, at March 31, 2016 and approximately $222 million and $239 million, respectively, at December 31, 2015. The fair value of the Company's interest reflected the PennyMac stock price at March 31, 2016 and December 31, 2015, respectively (a Level 1 input). The Company performed an other-than-temporary impairment analysis as of March 31, 2016 and determined the decline in fair value below the carrying value was temporary.

Cost method investments include nonmarketable securities, primarily FRB stock, which is held for regulatory purposes and is restricted from sale. At March 31, 2016 and December 31, 2015, there were no indicators of impairment on these investments.

Carried interest represents allocations to BlackRock's general partner capital accounts from certain funds. These balances are subject to change upon cash distributions, additional allocations or reallocations back to limited partners within the respective funds.

4. Consolidated Voting Rights Entities

The Company consolidates certain sponsored investment funds accounted for as VREs because it is deemed to control such funds. The investments owned by these consolidated VREs are classified as trading investments. The following table presents the balances related to these consolidated VREs that were recorded on the condensed consolidated statements of financial condition, including BlackRock's net interest in these funds:

(in millions)	March 31, 2016	December 31, 2015
Cash and cash equivalents	$84	$ 100
Trading investments	636	700
Other assets	23	18
Other liabilities	(68)	(77)
Noncontrolling interests	(131)	(125)
BlackRock's net interests in consolidated VREs	$544	$ 616

BlackRock's total exposure to consolidated VREs represents the value of its economic ownership interest in these sponsored investment funds. Valuation changes associated with investments held at fair value by these consolidated VREs are reflected in nonoperating income (expense) and partially offset in net income (loss) attributable to noncontrolling interests for the portion not attributable to BlackRock.

The Company cannot readily access cash and cash equivalents held by consolidated VREs to use in its operating activities.

5. Variable Interest Entities

In the normal course of business, the Company is the manager of various types of sponsored investment vehicles, which may be considered variable interest entities ("VIEs"). The Company may from time to time own equity or debt securities or enter into derivatives with the vehicles, each of which are considered variable interests. The Company's involvement in financing the operations of the VIEs is generally limited to its investments in the entity. The Company consolidates entities when it is determined to be the primary beneficiary ("PB").

Consolidated VIEs. The Company's consolidated VIEs as of March 31, 2016 and December 31, 2015 include certain sponsored investment funds in which BlackRock has an investment and as the investment manager is deemed to have both the power to direct the most significant activities of the funds and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to these sponsored investment funds. The assets of these VIEs are not available to creditors of the Company. In addition, the investors in these VIEs have no recourse to the credit of the Company.

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Consolidated VIE assets and liabilities are presented after intercompany eliminations at March 31, 2016 and December 31, 2015 in the following table:

(in millions)	March 31, 2016	December 31, 2015
Assets of consolidated VIEs:		
Cash and cash equivalents	$ 103	$ 148
Investments	1,256	1,030
Other assets	85	67
Total investments and other assets	1,341	1,097
Liabilities of consolidated VIEs	(187)	(177)
Noncontrolling interests of consolidated VIEs	(461)	(416)
BlackRock's net interests in consolidated VIEs	$ 796	$ 652

The Company recorded a $2 million and a $4 million nonoperating net gain during the three months ended March 31, 2016 and 2015, respectively, related to consolidated VIEs. The net loss attributable to noncontrolling interest related to consolidated VIEs for the three months ended March 31, 2016 was $6 million. There was no net income attributable to noncontrolling interest related to consolidated VIEs during the three months ended March 31, 2015.

Non-consolidated VIEs. At March 31, 2016 and December 31, 2015, the Company's carrying value of assets and liabilities included on the condensed consolidated statements of financial condition pertaining to nonconsolidated VIEs and its maximum risk of loss related to VIEs for which it held a variable interest, but for which it was not the PB, was as follows:

(in millions)		Advisory Fee	Other Net Assets	Maximum
At March 31, 2016	Investments	Receivables	(Liabilities)	Risk of Loss[(1)]
Sponsored investment products	$ 88	$ 7	$ (6)	$ 112
At December 31, 2015				
Sponsored investment products	$ 64	$ 3	$ (7)	$ 84

(1) At both March 31, 2016 and December 31, 2015, BlackRock's maximum risk of loss associated with these VIEs primarily related to collecting advisory fee receivables and BlackRock's investments.

The net assets of sponsored investment products that are nonconsolidated VIEs approximated $3 billion at both March 31, 2016 and December 31, 2015.

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6. Fair Value Disclosures

Fair Value Hierarchy

Assets and liabilities measured at fair value on a recurring basis and other assets not held at fair value

March 31, 2016 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV[1]	Other Assets Not Held at Fair Value[2]	March 31, 2016
Assets:						
Investments						
Available-for-sale:	$ 29	$ 25	$ 23	$ —	$ —	$ 77
Held-to-maturity securities	—	—	—	—	33	33
Trading:						
Deferred compensation plan mutual funds	56	—	—	—	—	56
Equity securities/Multi-asset mutual funds	330	—	—	—	—	330
Debt securities / fixed income mutual funds	2	330	4	—	—	336
Total trading	388	330	4	—	—	722
Other investments:						
Equity method:						
Equity and fixed income mutual funds	111	—	—	30	—	141
Other	—	—	—	394	10	404
Total equity method	111	—	—	424	10	545
Deferred compensation plan equity method investments	—	—	—	14	—	14
Cost method investments	—	—	—	—	95	95
Carried interest	—	—	—	—	18	18
Total investments	528	355	27	438	156	1,504
Separate account assets	108,322	40,634	—	—	1,209	150,165
Separate account collateral held under securities lending agreements:						
Equity securities	17,657	—	—	—	—	17,657
Debt securities	—	12,732	—	—	—	12,732
Total separate account collateral held under securities lending agreements	17,657	12,732	—	—	—	30,389

Investments of consolidated VIEs:						
Private / public equity[3]	7	2	192	130	—	331
Equity securities	470	—	—	—	—	470
Debt securities	—	334	—	—	—	334
Other	—	—	—	45	—	45
Carried interest	—	—	—	—	76	76
Total investments of consolidated VIEs	477	336	192	175	76	1,256
Total	$ 126,984	$ 54,057	$ 219	$ 613	$ 1,441	$ 183,314
Liabilities:						
Separate account collateral liabilities under securities lending agreements	$ 17,657	$ 12,732	$ —	$ —	$ —	$ 30,389
Other liabilities[4]	—	6	49	—	—	55
Total	$ 17,657	$ 12,738	$ 49	$ —	$ —	$ 30,444

(1) Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

(2) Amounts are comprised of investments held at cost or amortized cost, carried interest and certain equity method investments, which include sponsored investment funds and other assets, which are not accounted for under a fair value measure. In accordance with GAAP, certain equity method investees do not account for both their financial assets and liabilities under fair value measures; therefore, the Company's investment in such equity method investees may not represent fair value.

(3) Level 3 amounts primarily include direct investments in private equity companies held by private equity funds.

(4) Amounts include a derivative (see Note 7, Derivatives and Hedging, for more information) and recorded contingent liabilities related to certain acquisitions (see Note 11, Commitments and Contingencies, for more information).

Assets and liabilities measured at fair value on a recurring basis and other assets not held at fair value

December 31, 2015 (in millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV(1)	Other Assets Not Held at Fair Value(2)	December 31, 2015
Assets:						
Investments						
Available-for-sale	$ 19	$ 2	$ 23	$ —	$ —	$ 44
Held-to-maturity securities	—	—	—	—	108	108
Trading:						
Deferred compensation plan mutual funds	65	—	—	—	—	65
Equity/Multi-asset mutual funds	278	—	—	—	—	278
Debt securities / fixed income mutual funds	2	438	2	—	—	442
Total trading	345	438	2	—	—	785
Other investments:						
Equity method:						
Equity and fixed income mutual funds	73	—	—	30	—	103
Other	—	—	—	400	10	410
Total equity method	73	—	—	430	10	513
Deferred compensation plan equity method investments	—	—	—	14	—	14
Cost method investments	—	—	—	—	95	95
Carried interest	—	—	—	—	19	19
Total investments	437	440	25	444	232	1,578
Separate account assets	109,761	40,152	—	—	938	150,851
Separate account collateral held under securities lending agreements:						
Equity securities	26,062	—	—	—	—	26,062
Debt securities	—	5,274	—	—	—	5,274
Total separate account collateral held under securities lending agreements	26,062	5,274	—	—	—	31,336
Investments of consolidated VIEs:						
Private / public equity(3)	6	4	196	145	—	351
Equity securities	298	—	—	—	—	298
Debt securities	—	242	—	—	—	242
Other	—	—	—	58	—	58
Carried interest	—	—	—	—	81	81
Total investments of consolidated VIEs	304	246	196	203	81	1,030
Total	$ 136,564	$ 46,112	$ 221	$ 647	$ 1,251	$ 184,795
Liabilities:						

Separate account collateral liabilities under securities lending agreements	$ 26,062	$ 5,274	$ —	$ —	$ —	$ 31,336
Other liabilities[4]	—	6	48	—	—	54
Total	$ 26,062	$ 5,280	$ 48	$ —	$ —	$ 31,390

(1) Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient. These investments have not been classified in the fair value hierarchy.

(2) Amounts are comprised of investments held at cost or amortized cost, carried interest and certain equity method investments, which include sponsored investment funds and other assets, which are not accounted for under a fair value measure. In accordance with GAAP, certain equity method investees do not account for both their financial assets and liabilities under fair value measures; therefore, the Company's investment in such equity method investees may not represent fair value.

(3) Level 3 amounts include direct investments in private equity companies held by private equity funds.

(4) Amounts include a derivative (see Note 7, Derivatives and Hedging, for more information) and contingent liabilities related to certain acquisitions (see Note 11, Commitments and Contingencies, for more information).

Level 3 Assets. Level 3 investments of consolidated VIEs of $192 million and $196 million at March 31, 2016 and December 31, 2015, respectively, related to direct investments in private equity companies held by consolidated private equity funds. Direct investments in private equity companies may be valued using the market approach or the income approach, or a combination thereof, and were valued based on an assessment of each underlying investment, incorporating evaluation of additional significant third-party financing, changes in valuations of comparable peer companies, the business environment of the companies, market indices, assumptions relating to appropriate risk adjustments for nonperformance and legal restrictions on disposition, among other factors. The fair value derived from the methods used is evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated. Under the market approach, fair value may be determined by reference to multiples of market-comparable companies or transactions, including earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples. Under the income approach, fair value may be determined by discounting the expected cash flows to a single present value amount using current expectations about those future amounts. Unobservable inputs used in a discounted cash flow model may include projections of operating performance generally covering a five-year period and a terminal value of the private equity direct investment. For investments utilizing the discounted cash flow valuation technique, a significant increase (decrease) in the discount rate, risk premium or discount for lack of marketability in isolation could result in a significantly lower (higher) fair value measurement. For investments utilizing the market-comparable valuation technique, a significant increase (decrease) in the EBITDA multiple in isolation could result in a significantly higher (lower) fair value measurement.

Level 3 assets may include bank loans, investments in CLOs, and bonds valued based on single-broker nonbinding quotes and direct private equity investments valued using the market approach or the income approach as described above.

Level 3 Liabilities. Level 3 other liabilities primarily include recorded contingent liabilities related to certain acquisitions, which were valued based upon discounted cash flow analyses using unobservable market data inputs.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2016

(in millions)	December 31, 2015	Realized and Unrealized Gains (Losses) in Earnings and OCI	Purchases	Sales and Maturities	Issuances and other settlements	Transfers into Level 3	Transfers out of Level 3	March 31, 2016	Total Net Unrealized Gains (Losses) Included in Earnings[1]
Assets:									
Investments:									
Available-for-sale securities[2]	$ 23	$ —	$ 23	$ —	$ —	$ —	$ (23)	$ 23	
Trading	2	—	4	—	—	—	(2)	4	
Total investments	25	—	27	—	—	—	(25)	27	
Assets of consolidated VIEs - Private equity	196	2	—	(6)	—	—	—	192	$ 2
Total Level 3 assets	$ 221	$ 2	$ 27	$ (6)	$ —	$ —	$ (25)	$ 219	
Liabilities:									
Other liabilities[3]	$ 48	$ (1)	$ —	$ —	$ —	$ —	$ —	$ 49	

(1) Earnings attributable to the change in unrealized gains (losses) relating to assets still held at the reporting date.
(2) Amounts include investments in CLOs.
(3) Other liabilities amount includes contingent liabilities in connection with certain acquisitions.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended March 31, 2015

(in millions)	December 31, 2014	Realized and Unrealized Gains (Losses) in Earnings and OCI	Purchases	Sales and Maturities	Issuances and other settlements[1]	Transfers into Level 3	Transfers out of Level 3	March 31, 2015	Total Net Unrealized Gains (Losses) Included in Earnings[3]
Assets:									
Investments									
Consolidated sponsored investment funds:									
Private equity	$ 80	$ —	$ —	$ —					