BlackRock Inc.
Form 10-Q
August 08, 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 June 30, 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 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, 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 X

As of July 31, 2018, there were 159,583,889 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)

(in millions, except shares and per share data)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$6,599	$ 6,894
Accounts receivable	2,567	2,699
Investments	1,813	1,981
Assets of consolidated variable interest entities:		
Cash and cash equivalents	125	144
Investments	1,883	1,493
Other assets	105	66
Separate account assets	126,533	149,937
Separate account collateral held under securities lending agreements	22,960	24,190
Property and equipment (net of accumulated depreciation of $728 and $658 at June 30, 2018 and December 31, 2017, respectively)	581	592
Intangible assets (net of accumulated amortization of $222 and $219 at June 30, 2018 and December 31, 2017, respectively)	17,367	17,389
Goodwill	13,215	13,220
Other assets	1,801	1,636
Total assets	$195,549	$ 220,241
Liabilities		
Accrued compensation and benefits	$1,185	$ 2,153
Accounts payable and accrued liabilities	1,216	1,161
Liabilities of consolidated variable interest entities	467	369
Borrowings	4,994	5,014
Separate account liabilities	126,533	149,937
Separate account collateral liabilities under securities lending agreements	22,960	24,190
Deferred income tax liabilities	3,511	3,527
Other liabilities	1,813	1,626
Total liabilities	162,679	187,977
Commitments and contingencies (Note 12)		
Temporary equity		
Redeemable noncontrolling interests	686	416
Permanent Equity		
BlackRock, Inc. stockholders' equity		
Common stock, $0.01 par value;	2	2
Shares authorized: 500,000,000 at June 30, 2018 and December 31, 2017;		

Shares issued: 171,252,185 at June 30, 2018 and December 31, 2017;		
Shares outstanding: 159,812,950 and 159,977,115 at June 30, 2018 and		
December 31, 2017, respectively		
Preferred stock (Note 17)	—	—
Additional paid-in capital	18,953	19,256
Retained earnings	18,138	16,939
Accumulated other comprehensive loss	(575)	(432)
Treasury stock, common, at cost (11,439,235 and 11,275,070 shares held at June 30, 2018 and		
December 31, 2017, respectively)	(4,388)	(3,967)
Total BlackRock, Inc. stockholders' equity	32,130	31,798
Nonredeemable noncontrolling interests	54	50
Total permanent equity	32,184	31,848
Total liabilities, temporary equity and permanent equity	$195,549	$ 220,241

See accompanying notes to condensed consolidated financial statements.

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BlackRock, Inc.

Condensed Consolidated Statements of Income

(unaudited)

(in millions, except shares and per share data)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Revenue				
Investment advisory, administration fees and securities lending revenue				
Related parties	$2,087	$1,877	$4,199	$3,645
Other third parties	857	790	1,692	1,545
Total investment advisory, administration fees and securities lending revenue	2,944	2,667	5,891	5,190
Investment advisory performance fees	91	48	161	118
Technology services revenue	198	158	382	312
Distribution fees	294	292	605	579
Advisory and other revenue	78	71	149	129
Total revenue	3,605	3,236	7,188	6,328
Expense				
Employee compensation and benefits	1,082	998	2,203	2,019
Distribution and servicing costs	415	410	847	811
Direct fund expense	264	221	525	427
General and administration	393	345	776	641
Amortization of intangible assets	11	25	22	50
Total expense	2,165	1,999	4,373	3,948
Operating income	1,440	1,237	2,815	2,380
Nonoperating income (expense)				
Net gain (loss) on investments	3	36	18	87
Interest and dividend income	19	13	34	20
Interest expense	(46)	(48)	(92)	(113)
Total nonoperating income (expense)	(24)	1	(40)	(6)
Income before income taxes	1,416	1,238	2,775	2,374
Income tax expense	338	374	603	642
Net income	1,078	864	2,172	1,732
Less:				
Net income (loss) attributable to noncontrolling interests	5	10	10	19
Net income attributable to BlackRock, Inc.	$1,073	$854	$2,162	$1,713
Earnings per share attributable to BlackRock, Inc. common stockholders:				
Basic	$6.67	$5.26	$13.42	$10.52
Diluted	$6.62	$5.20	$13.30	$10.41

Cash dividends declared and paid per share	$2.88	$2.50	$5.76	$5.00
Weighted-average common shares outstanding:				
Basic	160,980,960	162,502,465	161,114,746	162,758,112
Diluted	162,161,937	164,149,861	162,532,637	164,544,760

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Net income	$1,078	$864	$2,172	$1,732
Other comprehensive income:				
Foreign currency translation adjustments[1]	(272)	102	(135)	142
Other	(2)	—	(2)	(1)
Other comprehensive income (loss)	(274)	102	(137)	141
Comprehensive income	804	966	2,035	1,873
Less: Comprehensive income (loss) attributable to noncontrolling interests	5	10	10	19
Comprehensive income attributable to BlackRock, Inc.	$799	$956	$2,025	$1,854

[1] Amounts for the three months ended June 30, 2018 and 2017 include a gain from a net investment hedge of $34 million (net of tax of $11 million) and a loss of $31 million (net of a tax benefit of $18 million), respectively. Amounts for the six months ended June 30, 2018 and 2017 include a gain from a net investment hedge of $18 million (net of tax of $6 million) and a loss of $38 million (net of tax benefit of $22 million), respectively.

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, 2017	$ 19,258	$ 16,939	$ (432)	$ (3,967)	$ 31,798	$ 50	$ 31,848	$ 416
Net income	—	2,162	—	—	2,162	9	2,171	1
Dividends paid	—	(969)	—	—	(969)	—	(969)	—
Stock-based compensation	310	—	—	—	310	—	310	—
PNC preferred stock capital contribution	58	—	—	—	58	—	58	—
Retirement of preferred stock	(58)	—	—	—	(58)	—	(58)	—
Issuance of common shares related to employee stock transactions	(613)	—	—	619	6	—	6	—
Employee tax withholdings related to employee stock transactions	—	—	—	(405)	(405)	—	(405)	—
Shares repurchased	—	—	—	(635)	(635)	—	(635)	—
Subscriptions (redemptions/distributions) — noncontrolling interest holders	—	—	—	—	—	(5)	(5)	535
Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—	—	—	(266)
Other comprehensive income (loss)	—	—	(137)	—	(137)	—	(137)	—
Adoption of new accounting pronouncements	—	6	(6)	—	—	—	—	—
June 30, 2018	$ 18,955	$ 18,138	$ (575)	$ (4,388)	$ 32,130	$ 54	$ 32,184	$ 686

[1] Amounts include $2 million of common stock at both June 30, 2018 and December 31, 2017.

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, 2016	$ 19,339	$ 13,650	$ (716)	$ (3,185)	$ 29,088	$ 52	$ 29,140	$ 194
Net income	—	1,713	—	—	1,713	2	1,715	17
Dividends paid	—	(854)	—	—	(854)	—	(854)	—
Stock-based compensation	290	—	—	—	290	—	290	—
PNC preferred stock capital contribution	193	—	—	—	193	—	193	—
Retirement of preferred stock	(193)	—	—	—	(193)	—	(193)	—
Issuance of common shares related to employee stock transactions	(592)	—	—	598	6	—	6	—
Employee tax withholdings related to employee stock transactions	—	—	—	(296)	(296)	—	(296)	—
Shares repurchased	—	—	—	(550)	(550)	—	(550)	—
Subscriptions (redemptions/distributions) — noncontrolling interest holders	—	—	—	—	—	(7)	(7)	256
Net consolidations (deconsolidations) of sponsored investment funds	—	—	—	—	—	14	14	(196)
Other comprehensive income (loss)	—	—	141	—	141	—	141	—
Adoption of new accounting pronouncement	3	(2)	—	—	1	—	1	—
June 30, 2017	$ 19,040	$ 14,507	$ (575)	$ (3,433)	$ 29,539	$ 61	$ 29,600	$ 271

(1) Amounts include $2 million of common stock at both June 30, 2017 and December 31, 2016.

See accompanying notes to condensed consolidated financial statements.

BlackRock, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)	Six Months Ended June 30, 2018	2017
Cash flows from operating activities		
Net income	$2,172	$1,732
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	107	125
Stock-based compensation	310	290
Deferred income tax expense (benefit)	2	171
Net (gains) losses within consolidated VIEs	12	(66)
Net (purchases) proceeds within consolidated VIEs	(531)	(122)
(Earnings) losses from equity method investees	(65)	(60)
Distributions of earnings from equity method investees	17	13
Changes in operating assets and liabilities:		
Accounts receivable	78	(156)
Investments, trading	36	(128)
Other assets	(178)	(748)
Accrued compensation and benefits	(992)	(740)
Accounts payable and accrued liabilities	27	84
Other liabilities	292	785
Cash flows from operating activities	1,287	1,180
Cash flows from investing activities		
Purchases of investments	(200)	(308)
Proceeds from sales and maturities of investments	161	64
Distributions of capital from equity method investees	12	18
Net consolidations (deconsolidations) of sponsored investment funds (VIEs/VREs)	(52)	(28)
Acquisition	—	(73)
Purchases of property and equipment	(63)	(55)
Cash flows from investing activities	(142)	(382)
Cash flows from financing activities		
Proceeds from long-term borrowings	—	697
Repayments of long-term borrowings	—	(700)
Cash dividends paid	(969)	(854)
Repurchases of common stock	(1,040)	(846)
Net (redemptions/distributions paid)/subscriptions received from noncontrolling interest holders	530	249
Other financing activities	6	(9)
Cash flows from financing activities	(1,473)	(1,463)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(27)	102
Net increase (decrease) in cash, cash equivalents and restricted cash	(355)	(563)
Cash, cash equivalents and restricted cash, beginning of period	7,096	6,192

Cash, cash equivalents and restricted cash, end of period	$6,741	$5,629
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$94	$122
Income taxes (net of refunds)	$589	$626
Supplemental schedule of noncash investing and financing transactions:		
Issuance of common stock	$613	$592
PNC preferred stock capital contribution	$58	$193
Increase (decrease) in noncontrolling interests due to net consolidation (deconsolidation) of sponsored investment funds	$(266)	$(182)

See accompanying notes to condensed consolidated financial statements.

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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 technology 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 technology services, including the investment and risk management technology platform, Aladdin®, Aladdin Wealth, Cachematrix and FutureAdvisor, as well as advisory services and solutions to a broad base of institutional and wealth management clients.

At June 30, 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 June 30, 2018 and for the three and six months ended June 30, 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 Six Months Ended June 30, 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 most significant impact to the Company 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 services 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 statements of income for the three and six months ended June 30, 2017.

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
(in millions, except shares and per share data)	Previously Reported	Adoption of the New Revenue Standard Adjustment	Recast	Previously Reported	Adoption of the New Revenue Standard Adjustment	Recast
Total revenue	$2,965	$ 271	$3,236	$5,789	$ 539	$6,328
Total expense	1,723	276	1,999	3,400	548	3,948
Operating income	$1,242	$ (5)	$1,237	$2,389	$ (9)	$2,380
Income tax expense	$376	$ (2)	$374	$645	$ (3)	$642
Net income	$867	$ (3)	$864	$1,738	$ (6)	$1,732
Net income attributable to BlackRock, Inc.	$857	$ (3)	$854	$1,719	$ (6)	$1,713
Earnings per share attributable to BlackRock, Inc. common stockholders:						
Basic	$5.27	$ (0.01)	$5.26	$10.56	$ (0.04)	$10.52
Diluted	$5.22	$ (0.02)	$5.20	$10.45	$ (0.04)	$10.41

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 disclosures 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 ("AOCI") 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 statements of cash flows.

Restricted Cash. In November 2016, the FASB issued 2016-18, Restricted Cash (“ASU 2016-18”), which clarifies the classification and presentation of restricted cash in the statement of cash flows. 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 statements of cash flows. See Note 3, Cash, Cash Equivalents and Restricted Cash, for additional disclosures 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 AOCI 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 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 in revenue 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 and are primarily based on agreed-upon percentages of assets under management ("AUM"). Such 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 fee 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 third-party advisors on a gross basis where it is deemed to be the principal and on a net basis where it is deemed to be the agent.

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, annual or longer measurement periods.

The Company is allocated carried interest from certain alternative investment products upon exceeding performance thresholds. The Company may be required to reverse/return all, or part, of such carried interest allocations/distributions 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). Given the unique nature of each fee arrangement, contracts with customers are evaluated on an individual basis to determine the timing of revenue recognition. Significant judgement is involved in making such determination. Performance fees typically arise from investment management services that began in prior reporting periods. Consequently, 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. 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 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. 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 services revenue. The Company 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 services revenue are recorded as services are performed over time 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 managed mutual funds. Fund distribution services are satisfied at the point in time when an investor makes an investment in a share class of the managed mutual funds. Accordingly, the Company recognizes the upfront fees for front-end load funds on a trade date basis when the services are performed and the amount is known. However, the on-going distribution fees (e.g., 12b-1 fees) from the back-end load funds are based on net asset values over the investment period and are recognized when the amount is known. Consequently, a portion of the on-going distribution fees the Company recognized may be related to the services performed in prior periods that meet the recognition criteria in the current period. Generally, retail products offered outside of the United States do not generate a separate distribution fee as the quoted management fee rate is inclusive of these services. The Company recognizes ongoing shareholder servicing fee revenue as shareholder services are performed over time. On-going distribution fees are largely passed through as a distribution expense to third-party distributors who distribute the funds. 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.

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. The Company 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 AOCI within 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 AOCI 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. 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). For nonmarketable equity securities, the Company generally elects 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. Dividends received are recorded as dividend income within nonoperating income (expense).

Equity Method. For equity investments where the Company 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. The Company'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 the Company's core business. The Company'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 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 for the excess of the carrying amount of the investment over its estimated fair value 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.

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.

In addition, for nonmarketable equity securities that are accounted for under the measurement alternative to fair value, the Company applies the 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.

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.

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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, the Company'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 the Company's 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 AOCI on the condensed consolidated statements of financial condition. The Company reassesses the effectiveness of its net investment hedge on a quarterly basis.

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 the Company. 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 the Company has no economic interest in these separate account assets and liabilities, the Company 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 six months ended June 30, 2018 and 2017, the Company had not resold or repledged any of the collateral received under these arrangements. At June 30, 2018 and December 31, 2017, the fair value of loaned securities held by separate accounts was approximately $20.9 billion and $22.3 billion, respectively, and the fair value of the collateral held under these securities lending agreements was approximately $23.0 billion and $24.2 billion, respectively.

Recent Accounting Pronouncements Not Yet Adopted

Leases. In February 2016, the FASB issued ASU 2016-02, Leases, and several amendments (collectively, “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.

In July 2018, the FASB issued ASU 2018-11, Targeted Improvements (“ASU 2018-11”), which provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

ASU 2016-02 and ASU 2018-11 are effective for the Company on January 1, 2019, and the Company intends to apply the practical expedients allowed by the standard upon transition, and is currently evaluating which transition method it will apply. 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.

(in millions)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 6,599	$ 6,894
Cash and cash equivalents of consolidated VIEs	125	144
Restricted cash included in Other assets	17	58
Total cash, cash equivalents and restricted cash	$ 6,741	$ 7,096

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4. Investments

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

(in millions)	June 30, 2018[1]	
Debt securities:		
Available-for-sale investments	$	151
Held-to-maturity investments		125
Trading securities ($224 debt securities of consolidated sponsored investment funds)		249
Total debt securities		525
Equity securities at FVTNI ($235 equity securities of consolidated sponsored investment funds)		420
Equity method investments[2]		744
Federal Reserve Bank stock[3]		92
Carried interest[4]		32
Total investments	$	1,813

(in millions)	December 31, 2017[1]	
Available-for-sale investments	$	103
Held-to-maturity investments		102
Trading investments:		
Consolidated sponsored investment funds:		
Debt securities		267
Equity securities		245
Other equity and debt securities		267
Deferred compensation plan mutual funds		56
Total trading investments		835
Equity method investments[2]		816
Cost method investments[3]		93
Carried interest[4]		32
Total investments	$	1,981

(1) Amounts at June 30, 2018 reflect the adoption of ASU 2016-01. See Note 2, Significant Accounting Policies, for further information. Amounts at December 31, 2017 reflect accounting guidance prior to ASU 2016-01.

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

(3) Amounts include Federal Reserve Bank stock, which is held for regulatory purposes and is restricted from sale. At December 31, 2017, amount also includes other nonmarketable securities, which were immaterial. At June 30, 2018 and December 31, 2017, there were no indicators of impairment on these investments.

(4)

Carried interest of consolidated sponsor investment funds accounted for as voting rights entities (“VREs”) 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.

Available-for-Sale Investments

At both June 30, 2018 and December 31, 2017, available-for-sale investments primarily included certain investments in CLOs. The cost of these investments approximated carrying value. At June 30, 2018, $76 million of these investments mature between five to ten years and $75 million mature after ten years.

Held-to-Maturity Investments

The carrying value of held-to-maturity investments was $125 million and $102 million at June 30, 2018 and December 31, 2017, respectively. Held-to-maturity investments included foreign government debt held primarily for regulatory purposes and certain investments in CLOs. The amortized cost (carrying value) of these investments approximated fair value (a Level 2 input). At June 30, 2018, $11 million of these investments mature between five to ten years and $114 million mature after ten years.

Equity and Trading Debt Securities

A summary of the cost and carrying value of equity and trading debt securities is as follows:

	June 30, 2018[1]	
(in millions)	Cost	Carrying Value
Trading debt securities:		
Corporate debt	$170	$ 173
Government debt	31	29
Asset/mortgage-backed debt	48	47
Total debt securities	249	249
Equity securities at FVTNI:		
Equity securities/multi-asset mutual funds	360	385
Deferred compensation plan mutual funds	21	35
Total equity securities at FVTNI	381	420
Total equity and trading debt securities	$630	$ 669

	December 31, 2017[1]	
(in millions)	Cost	Carrying Value
Trading investments:		
Deferred compensation plan mutual funds	$34	$ 56
Equity securities/multi-asset mutual funds	446	493
Debt securities		
Corporate debt	152	157
Government debt	72	73
Asset/mortgage backed debt	56	56
Total trading investments	$760	$ 835

(1) Amounts at June 30, 2018 reflect the adoption of ASU 2016-01. See Note 2, Significant Accounting Policies, for further information. Amounts at December 31, 2017 reflect accounting guidance prior to ASU 2016-01.

Other

In addition, the Company accounts for its interest in PennyMac Financial Services, Inc. ("PennyMac") as an equity method investment. At June 30, 2018 and December 31, 2017, the Company's investment in PennyMac is included in other assets on the condensed consolidated statements of financial condition. The carrying value and market value of the Company's interest (approximately 20% or 16 million shares and units) was approximately $376 million and $306 million, respectively, at June 30, 2018 and approximately $342 million and $348 million, respectively, at December 31, 2017. The market value of the Company's interest reflected the PennyMac stock price at June 30, 2018 and December 31, 2017, respectively (a Level 1 input). The estimated market value of the Company's interest in the non-public units held of PennyMac is based on the stock price of the PennyMac public securities at June 30, 2018 and December 31, 2017. The Company performed an other-than-temporary impairment analysis as of June 30, 2018 and believes the shortfall of market value versus book value is temporary.

5. Consolidated Voting Rights Entities

The Company consolidates certain sponsored investment funds accounted for as VREs because it is deemed to control such funds. The following table presents the amounts 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)	June 30, 2018	December 31, 2017
Cash and cash equivalents	$ 70	$ 63
Investments:		
Trading debt securities	224	267
Equity securities at FVTNI	235	245
Total investments	459	512
Other assets	14	13
Other liabilities	(33)	(37)
Noncontrolling interests ("NCI")	(94)	(91)
BlackRock's net interests in consolidated VREs	$ 416	$ 460

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.

6. 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 PB.

Consolidated VIEs. The Company's consolidated VIEs 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.

Consolidated VIE assets and liabilities are presented after intercompany eliminations in the following table:

(in millions)	June 30, 2018	December 31, 2017

Assets of consolidated VIEs:		
Cash and cash equivalents	$ 125	$ 144
Investments:		
Trading debt securities	913	475
Equity securities at FVTNI	403	440
Other investments	282	312
Carried interest	285	266
Other assets	105	66
Total investments and other assets	1,988	1,559
Liabilities of consolidated VIEs	(467)	(369)
Noncontrolling interests	(646)	(375)
BlackRock's net interests in consolidated VIEs	$ 1,000	$ 959

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Net gain (loss) related to consolidated VIEs is presented in the following table:

(in millions)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Nonoperating net gain (loss) on consolidated VIEs	$(14)	$ 33	$(12)	$ 66
Net income (loss) attributable to NCI on consolidated VIEs	$6	$ 12	$11	$ 18

Nonconsolidated VIEs. At June 30, 2018 and December 31, 2017, 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)				
At June 30, 2018	Investments	Advisory Fee Receivables	Other Net Assets (Liabilities)	Maximum Risk of Loss[1]
Sponsored investment products	$ 407	$ 33	$ (7)	$ 457
At December 31, 2017				
Sponsored investment products	$ 263	$ 15	$ (7)	$ 295

[1] At both June 30, 2018 and December 31, 2017, BlackRock's maximum risk of loss associated with these VIEs primarily related to BlackRock's investments and the collection of advisory fee receivables.

The net assets of sponsored investment products that are nonconsolidated VIEs approximated $10 billion and $5 billion at June 30, 2018 and December 31, 2017, respectively.

7. 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

June 30, 2018[1] (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[2]	Other Assets Not Held at Fair Value[3]	June 30, 2018
Assets:						
Investments:						
Equity securities at FVTNI:						
Deferred compensation plan mutual funds	$ 35	$ —	$ —	$ —	$ —	$ 35
Equity securities/Multi-asset mutual funds	385	—	—	—	—	385
Total equity securities at FVTNI	420	—	—	—	—	420
Debt securities:						
Available-for-sale	—	151	—	—	—	151
Trading securities	—	249	—	—	—	249
Held-to-maturity securities	—	—	—	—	125	125
Total debt securities	—	400	—	—	125	525
Equity method:						
Equity and fixed income mutual funds	157	—	—	14	—	171
Other	—	—	—	570	3	573
Total equity method	157	—	—	584	3	744
Federal Reserve Bank Stock	—	—	—	—	92	92
Carried interest	—	—	—	—	32	32
Total investments	577	400	—	584	252	1,813
Investments of consolidated VIEs:						
Equity securities at FVTNI	403	—	—	—	—	403
Trading debt securities	—	913	—	—	—	913
Private equity[4]	—	—	104	54	73	231
Other	—	—	—	51	—	51
Carried interest	—	—	—	—	285	285
Total investments of consolidated VIEs	403	913	104	105	358	1,883
Separate account assets	93,954	31,534	—	—	1,045	126,533
Separate account collateral held under securities lending agreements:						

Equity securities	19,094	—	—	—	—	19,094
Debt securities	—	3,866	—	—	—	3,866
Total separate account collateral held under						
securities lending agreements	19,094	3,866	—	—	—	22,960
Total	$ 114,028	$ 36,713	$ 104	$ 689	$ 1,655	$153,189
Liabilities:						
Separate account collateral liabilities under						
securities lending agreements	$ 19,094	$ 3,866	$ —	$ —	$ —	$22,960
Other liabilities(5)(6)	—	27	223	—	—	250
Total	$ 19,094	$ 3,893	$ 223	$ —	$ —	$23,210

(1) Amounts at June 30, 2018 reflect the adoption of ASU 2016-01. See Note 2, Significant Accounting Policies, for further information.

(2) Amounts are comprised of certain investments measured at fair value using NAV (or its equivalent) as a practical expedient.

(3) 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.

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

(5) Level 2 amount includes fair value of forward foreign currency exchange contracts (see Note 8, Derivatives and Hedging, for more information).

(6) Level 3 amount includes contingent liabilities related to certain acquisitions (see Note 12, 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, 2017[1] (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[2]	Other Assets Not Held at Fair Value[3]	December 31, 2017
Assets:						
Investments						
Available-for-sale	$ 7	$ 96	$ —	$ —	$ —	$ 103
Held-to-maturity debt securities						