

BLACKROCK GLOBAL FLOATING RATE INCOME TRUST  
Form N-2/A  
October 21, 2004

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As filed with the Securities And Exchange Commission on October 21, 2004

Securities Act Registration No. 333-118715  
Investment Company Registration No. 811-21566

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM N-2

Registration Statement  
Under the Securities Act of 1933:  
Pre-Effective Amendment No. 2  
Post-Effective Amendment No. 6  
and/or  
Registration Statement  
Under the Investment Company Act of 1940:  
Amendment No.

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## BlackRock Global Floating Rate Income Trust

(Exact Name of Registrant as Specified In Declaration of Trust)

100 Bellevue Parkway  
Wilmington, Delaware 19809  
(Address of Principal Executive Offices)

(888) 825-2257  
(Registrant's telephone number, including area code)

Robert S. Kapito, President  
BlackRock Global Floating Rate Income Trust  
40 East 52nd Street  
New York, New York 10022  
(Name and Address of Agent for Service)

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Copy to:

Michael K. Hoffman, Esq.  
Skadden, Arps, Slate, Meagher & Flom LLP  
Four Times Square  
New York, New York 10036

Leonard B. Mackey, Jr., Esq.  
Clifford Chance US LLP  
31 West 52nd Street  
New York, New York 10019

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Approximate Date of Proposed Public Offering:  
As soon as practicable after the effective date of this Registration Statement.

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CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

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Title of Securities Being Registered	Amount Being Registered	Maximum Offering Price per Share	Aggregate Offering Price	Amount of Registration Fee(1)
APS, \$0.001 par value	9,738 shares	\$25,000	\$243,450,000	\$30,845.12

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(1) Previously paid.

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**THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATES AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.**

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The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY  
PROSPECTUS

Subject to Completion

October 18, 2004

**\$243,450,000**

**BlackRock Global Floating Rate Income Trust**

**3,246 Shares, Series T7**

**3,246 Shares, Series W7**

**3,246 Shares, Series R7**

**Auction Preferred Shares ("APS")**

**Liquidation Preference \$25,000 Per Share**

**Investment Objectives.** BlackRock Global Floating Rate Income Trust (the "Trust") is a recently organized, diversified, closed-end management investment company. The Trust's investment objective is to provide a high level of current income. The Trust, as a secondary objective, also seeks the preservation of capital to the extent consistent with its primary objective of high current income.

**Portfolio Contents.** The Trust will invest at least 80% of its Managed Assets (defined herein) in floating and variable rate instruments of U.S. and non-U.S. issuers, including a substantial portion of its assets in senior, secured loans made to corporate and other business entities. The Trust may also invest up to 20% of its Managed Assets in fixed rate instruments of U.S. and non-U.S. issuers, including developed and emerging markets debt, investment grade and high yield corporate debt, sovereign debt, and mortgage-backed and asset-backed securities. Under normal market conditions, the Trust expects to invest at least 30% of its Managed Assets in securities of non-U.S. issuers. Initially, the Trust expects to invest approximately 30% of its Managed Assets in securities of emerging market issuers. Because of the protective features of senior loans (being both senior in a borrower's capital structure and secured by specific collateral), the Trust's investment advisor and sub-advisor believe, based on their experience, that senior loans tend to have more favorable loss recovery rates compared to most other types of below investment grade obligations which are subordinated and unsecured.

The Trust anticipates that, under current market conditions, substantially all of its portfolio will consist of below investment grade debt securities. Non-investment grade securities, commonly referred to as "junk bonds," are securities that are rated below investment grade by the national rating agencies that cover the security, or, if unrated, are determined to be of comparable quality by the Trust's investment advisor and sub-advisor. Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") consider securities rated below BBB- to be below investment grade and Moody's Investors Service, Inc. ("Moody's") considers securities rated below Baa3 to be below investment grade. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to an issuer's capacity to pay interest and repay principal. Senior loans and emerging market debt are generally rated below investment grade. The Trust's strategies may result in an above average amount of risk and volatility or loss of principal. The Trust cannot ensure that it will achieve its investment objectives.

**Before buying any APS, you should read the discussion of the material risks of investing in the Trust in the "Risks" section beginning on page 25 of this Prospectus. Certain of these risks are summarized in "Prospectus summary Risks" beginning on page 2. The minimum purchase amount of the APS is \$25,000.**

**Neither the Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	Price to Public	Sales Load	Proceeds to Trust(1)
Per Share(2)	\$25,000	\$250	\$
Total	\$	\$	\$

- (1) *The Trust, its investment advisor, BlackRock Advisors, Inc., and its investment sub-advisor, BlackRock Financial Management, Inc., have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended.*
- (2) *Rounded to the nearest penny.*

## **UBS Investment Bank**

## **Merrill Lynch & Co.**

## **Citigroup**

## **Wachovia Securities**

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*(continued from previous page)*

The APS are being offered by the underwriters subject to the condition that the APS be rated "Aaa" by Moody's and "AAA" by S&P as of the time of delivery of the APS to the underwriters, and subject to certain other conditions. The underwriters reserve the right to withdraw, cancel or modify the offering in whole or in part. It is expected that the APS will be delivered to the nominee of The Depository Trust Company ("DTC") on or about \_\_\_\_\_, 2004.

The APS will pay adjustable rate dividends based on shorter-term interest rates, which would be re-determined periodically by an auction process, conducted in accordance with the procedures described in this Prospectus and, in further detail in Appendix A to the Statement of Additional Information. The adjustment period for APS dividends could be as short as one day or as long as a year or more. So long as the Trust's portfolio is invested in securities that provide a higher rate of return than the dividend rate of the APS, after taking expenses into consideration, the leverage will cause you to receive a higher rate of return than if the Trust were not leveraged.

The APS, which have no history of public trading, will not be listed on an exchange or automated quotation system. Broker-dealers may maintain a secondary trading market in the APS outside of auctions; however, they have no obligation to do so, and there can be no assurance that a secondary market for the APS will develop or, if it does develop, that it will provide holders with a liquid trading market (i.e., trading will depend on the presence of willing buyers and sellers and the trading price will be subject to variables to be determined at the time of the trade by such broker-dealers). A general increase in the level of interest rates may have an adverse effect on the secondary market price of the APS, and a selling shareholder that sells APS between auctions may receive a price per share of less than \$25,000. The Trust may redeem APS as described under "Description of APS Redemption."

When issued and outstanding, the APS will add leverage to an investment in the Trust's common shares. The APS will be senior in liquidation and distribution rights to the Trust's outstanding common shares. The Trust's common shares are traded on the New York Stock Exchange under the symbol "BGT."

You should read this Prospectus, which contains important information about the Trust, before deciding whether to invest in the APS, and retain it for future reference. A Statement of Additional Information, dated \_\_\_\_\_, 2004, containing additional information about the Trust, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus, which means it is part of the Prospectus for legal purposes. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 58 of this Prospectus, by calling (888) 825-2257 or by writing to the Trust, or obtain a copy (and other information regarding the Trust) from the SEC's web site (<http://www.sec.gov>).

You should rely only on the information contained or incorporated by reference in this Prospectus. The Trust has not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Trust is not, and the underwriters are not, making an offer in any state where the offer or sale is not permitted. You should not assume that the information in this Prospectus is accurate as of any date other than the date on the front of this Prospectus. The Trust's business, financial condition and prospects may have changed since that date.

The Trust's APS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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## Prospectus summary

*This is only a summary. This summary may not contain all of the information that you should consider before investing in our APS. You should read the more detailed information contained in this Prospectus, the Statement of Additional Information and the Trust's Statement of Preferences of Auction Preferred Shares (the "Statement") attached as Appendix A to the Statement of Additional Information. Capitalized terms used but not defined in this Prospectus shall have the meanings given to such terms in the Statement.*

### THE TRUST

BlackRock Global Floating Rate Income Trust (the "Trust") is a recently organized, diversified, closed-end management investment company. Throughout the Prospectus, we refer to BlackRock Global Floating Rate Income Trust simply as the "Trust" or as "we," "us" or "our." See "The Trust." The Trust's common shares are traded on the New York Stock Exchange under the symbol "BGT." See "Description of common shares." As of October 13, 2004, the Trust had 23,481,021 common shares outstanding and net assets of \$451,974,139.

### THE OFFERING

The Trust is offering an aggregate of 3,246 shares of Series T7 APS, 3,246 shares of Series W7 APS and 3,246 shares of Series R7 APS, each at a purchase price of \$25,000 per share. The APS are being offered by a group of underwriters led by UBS Securities LLC (collectively, the "Underwriters"). See "Underwriting."

### INVESTMENT OBJECTIVES

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The Trust's investment objective is to provide a high level of current income. The Trust, as a secondary objective, also seeks the preservation of capital to the extent consistent with its primary objective of high current income. No assurance can be given that the Trust will achieve its investment objectives. See "The Trust's investments Investment Objectives and Policies."

### INVESTMENT POLICIES

The Trust will pursue its objectives by investing primarily in U.S. and non-U.S. senior loans and other variable and floating rate instruments.

Under normal conditions, the Trust will invest at least 80% of its Managed Assets in floating and variable rate instruments of U.S. and non-U.S. issuers, including a substantial portion of its assets in global floating and variable rate securities including senior secured floating rate loans ("Senior Loans") made to corporate and other business entities. "Managed Assets" means the total assets of the Trust (including any assets attributable to any preferred shares that may be outstanding) minus the sum of accrued liabilities (other than debt representing financial leverage). The Trust will provide shareholders with notice at least 60 days prior to changing this non-fundamental policy of the Trust unless such change was previously approved by shareholders. The Trust may also invest up to 20% of its Managed Assets in fixed rate instruments of U.S. and non-U.S. issuers, including developed and emerging markets debt, investment grade and high yield corporate debt, sovereign debt, and mortgage-backed and asset-backed securities. Under normal market conditions, the Trust expects that the average effective duration of its portfolio will be no more than 1.5 years. See "The Trust's investments."

The Trust anticipates that, under current market conditions, substantially all of its portfolio will consist of below investment grade debt securities. Non-investment grade securities, commonly referred to as "junk bonds," are securities that are rated below investment grade by a national rating agency

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covering the security, or if unrated, are determined to be of comparable quality by BlackRock. S&P and Fitch consider securities rated below BBB- to be below investment grade and Moody's considers securities rated below Baa3 to be below investment grade. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to issuers' capacity to pay interest and repay principal. See "Risks Non-Investment Grade Securities Risk." The Trust may invest in individual securities of any credit quality. The Trust may invest in illiquid securities and securities for which prices are not readily available without limit.

Under normal market conditions, the Trust expects to invest at least 30% of its Managed Assets in non-U.S. securities. Initially, the Trust expects to invest approximately 30% of its Managed Assets in securities of emerging market issuers located in approximately 25 to 30 different countries. The Trust will generally invest in U.S. dollar-denominated securities or in non U.S. dollar-denominated securities for which currency exchange exposure versus the U.S. dollar has been hedged. However, the Trust may invest up to 10% of its Managed Assets in non-U.S. dollar-denominated securities whose currency exchange exposure versus the U.S. dollar remains unhedged. The Trust will not invest 25% or more of its Managed Assets in securities issued or guaranteed by any non-U.S. government, its agencies, instrumentalities or corporations. Foreign and emerging markets investing may entail significant risks. See "Risks Non-U.S. Securities Risk" and "Risks Emerging Markets Risk."

### INVESTMENT ADVISOR

BlackRock Advisors, Inc. ("BlackRock Advisors") is the Trust's investment advisor and BlackRock Advisors' affiliate, BlackRock Financial Management, Inc. ("BlackRock Financial Management"), provides certain day-to-day investment management services to the Trust. Throughout this Prospectus, we sometimes refer to BlackRock Advisors and BlackRock Financial Management collectively as "BlackRock." BlackRock Advisors receives an annual fee, payable monthly in arrears, in a maximum amount equal to 0.75% of the average weekly value of the Trust's Managed Assets. See "Management of the Trust."

### RISKS

The following describes various principal risks of investing in the APS and the Trust. A more detailed description of these and other risks of investing in the APS and the Trust are described under "Risks" in this Prospectus.

#### Risks of Investing in APS

**Interest Rate Risk.** The Trust issues APS, which pay dividends based on short-term interest rates. If short-term interest rates rise, dividend rates on the APS may rise so that the amount of dividends paid to holders of APS exceeds the income from the Trust's portfolio securities. While the Trust intends to manage this risk through its portfolio investments in Senior Loans and other floating rate securities, there is no guarantee these strategies will be implemented or will be successful in reducing or eliminating this interest rate risk. In addition, rising market interest rates

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could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the APS. See "Risks Interest Rate Risk."

**Auction Risk.** The dividend rate for the APS normally is set through an auction process. In the auction, holders of APS may indicate the dividend rate at which they would be willing to hold or sell their APS or purchase additional APS. The auction also provides liquidity for the sale of APS. An auction fails if there are more APS offered for sale than there are buyers. You may not be able to sell your APS at an auction if the auction fails. Finally, if you buy APS or elect to retain APS without specifying a dividend rate below which you would not wish to buy or continue to hold those APS, you could receive a lower rate of return on your APS than the market rate. See "Risks Auction Risk."

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**Secondary Market Risk.** If you try to sell your APS between auctions you may not be able to sell any or all of your APS or you may not be able to sell them for \$25,000 per APS plus accumulated dividends. If the Trust has designated a special rate period (a rate period of more than seven days), changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for APS are not required to maintain this market and the Trust is not required to redeem shares either if an auction or an attempted secondary market sale fails because of a lack of buyers. APS are not listed on a stock exchange or traded on the NASDAQ stock market. If you sell your APS to a broker-dealer between auctions, you may receive less than the price you paid for them, especially if market interest rates have risen since the last auction. See "Risks Secondary Market Risk."

**Ratings and Asset Coverage Risk.** It is expected that while Moody's will assign a rating of "Aaa" and S&P will assign a rating of "AAA" to the APS, such ratings do not eliminate or necessarily mitigate the risks of investing in APS. Moody's or S&P could withdraw or downgrade APS, which may make your shares less liquid at an auction or in the secondary market. If Moody's or S&P withdraws its rating or downgrades APS, the Trust may alter its portfolio or redeem APS in an effort to reinstate or improve, as the case may be, the rating, although there is no assurance that it will be able to do so to the extent necessary to restore the prior rating. The Trust also may voluntarily redeem APS under certain circumstances. See "Risks Ratings and Asset Coverage Risk."

**Leverage Risk.** The Trust intends to use financial leverage, including the issuance of APS and the use of reverse repurchase agreements, for investment purposes. The Trust currently anticipates its use of leverage to represent approximately 38% of the Trust's Managed Assets, including the proceeds of such leverage. To the extent that the aggregate outstanding liquidation preference of APS is less than 38% of the Trust's Managed Assets, the Trust may make further use of financial leverage through borrowings, including bank borrowings, reverse repurchase agreements and dollar rolls. The Trust's borrowings may have seniority over APS. Therefore, distributions or other payments to holders of APS in liquidation or otherwise may be subject to prior payment on outstanding borrowings. In the event of a default on the Trust's borrowings, lenders or counterparties may have the right to liquidate the collateral for these borrowings (i.e., the Trust's portfolio securities), which may reduce the Trust's assets and thereby cause the Trust to redeem some or all of the APS. See "Risks Leverage Risk."

#### **Risks of Investing in the Trust**

**Limited Operating History.** The Trust is a diversified, closed-end management investment company and has a limited operating history. See "Risks Limited Operating History."

**Senior Loans Risk.** As in the case of junk bonds, Senior Loans may be rated in lower grade rating categories, or may be unrated but of lower grade quality. As in the case of junk bonds, Senior Loans can provide higher yields than higher grade income securities, but are subject to greater credit and other risks. Although Senior Loan obligations often are secured by pledges of assets by the Borrower and have other structural aspects intended to provide greater protection to the holders of bank loans than the holders of unsecured and subordinated securities, there are also additional risks in holding Senior Loans. In particular, the secondary trading market for Senior Loans is not well developed, and therefore, Senior Loans present increased market risk relating to liquidity and pricing concerns.

The Trust may acquire Senior Loans of Borrowers that are experiencing, or are more likely to experience, financial difficulty, including Senior Loans of Borrowers that have filed for bankruptcy protection. Although Senior Loans in which the Trust will invest generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the Borrower's obligation in the event of nonpayment of scheduled interest or principal, or that such collateral could be readily liquidated. In the event that the Trust invests a portion of its assets in Senior Loans that are not secured by specific collateral, the Trust will not enjoy the benefits of collateralization with respect to such Senior Loans. In the case of collateralized Senior Loans, there is no assurance that sale of the

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collateral would raise enough cash to satisfy the Borrower's payment obligation or that the collateral can or will be liquidated. As a result, the Trust might not receive payments to which it is entitled and thereby may experience a decline in the value of its investment and its net asset value. In the event of bankruptcy, liquidation may not occur and the court may not give Lenders the full benefit of their senior positions. If the terms of a Senior Loan do not require the Borrower to pledge additional collateral, the Trust will be exposed to the risk that the value of the collateral will not at all times equal or exceed the amount of the Borrower's obligations under the Senior Loans. To the extent that a Senior Loan is collateralized by stock in the Borrower or its subsidiaries, such stock may lose all of its value in the event of bankruptcy of the Borrower. Uncollateralized Senior Loans involve a greater risk of loss. See "Risks Senior Loans Risk."

**Variable Debt Risk.** The absence of an active secondary market with respect to particular variable and floating rate instruments could make it difficult for the Trust to dispose of a variable or floating rate note if the issuer defaulted on its payment obligation or during periods that the Trust is not entitled to exercise its demand rights, and the Trust could, for these or other reasons, suffer a loss with respect to such instruments. See "Risks Variable Debt Risk."

**Non-Investment Grade Securities Risk.** The Trust will invest a substantial portion of its assets in securities that are below investment grade, including substantially all of the Trust's investments in Senior Loans and emerging market debt. Non-investment grade securities are commonly referred to as "junk bonds." Investments in lower grade securities will expose the Trust to greater risks than if the Trust owned only higher grade securities. Because of the substantial risks associated with lower grade securities, you could lose money on your investment in shares of the Trust, both in the short-term and the long-term.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

Securities rated Ba by Moody's are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C by Moody's are regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D by S&P are in default and the payment of interest and/or repayment of principal is in arrears.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. See "Risks Non-Investment Grade Securities Risk."

**Credit Risk.** Credit risk is the risk that an issuer of a security will become unable to meet its obligation to make interest and principal payments. In general, lower rated securities carry a greater degree of risk that the issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Trust's net asset value or dividends. Under normal circumstances, the Trust will invest substantially all of its portfolio in securities that are rated Ba/BB or below by Moody's, S&P or Fitch or that are unrated but judged to be of comparable quality by BlackRock. The

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Trust's investments in non-investment grade securities, including substantially all of its investments in Senior Loans and emerging markets debt, will expose it to a great deal of credit risk. These securities are subject to a greater risk of default. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market values of lower grade securities tend to be more volatile than investment grade securities. In addition, the Trust's use of credit derivatives will expose it to additional risk in the event that the bonds underlying the derivative default. In addition, the Trust's use of credit derivatives will expose it to additional risk in the event that the bonds underlying the derivatives default. See "Risks Credit Risk."

**Non-U.S. Securities Risk.** The Trust will invest in securities of non-U.S. issuers ("Non-U.S. Securities"). Such investments involve certain risks not involved in domestic investments. Securities markets in foreign countries often are not as developed, efficient or liquid as securities markets in the United States. Therefore, the prices of Non-U.S. Securities often are volatile. Certain foreign countries may impose restrictions on the ability of issuers of Non-U.S. Securities to make payments of principal and interest to investors located outside the country. In addition, the Trust will be subject to risks associated with adverse political and economic developments in foreign countries, which could cause the Trust to lose money on its investments in Non-U.S. Securities. The ability of a foreign sovereign issuer, especially an emerging market country, to make



timely and ultimate payments on its debt obligations will also be strongly influenced by the sovereign issuer's balance of payments, including export performance, its access to international credits and investments, fluctuations of interest rates and the extent of its foreign reserves. The cost of servicing external debt will also generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates which are adjusted based upon international interest rates. See "Risks Non-U.S. Securities Risk."

**Emerging Market Risk.** The Trust may invest in Non-U.S. Securities of issuers in so-called "emerging markets" (or lesser developed countries). Such investments are particularly speculative and entail all of the risks of investing in securities of Non-U.S. issuers but to a heightened degree. Foreign investment in certain emerging market issuers may be restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain emerging market issuers and increase the costs and expenses of the Trust. Certain emerging market countries require governmental approval prior to investments by foreign persons in a particular issuer, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors. See "Risks Emerging Markets Risk."

**Foreign Currency Risk.** Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Trust's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. In addition, certain countries, particularly emerging markets countries, may impose foreign currency exchange controls or other restrictions on the transferability or convertability of currency. See "Risks Foreign Currency Risk."

**Mortgage-Related Securities Risk.** The risks associated with mortgage-related securities include: (1) credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; (2) adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on mortgage-related securities secured by loans on certain types of commercial properties than on those secured by loans on residential properties;

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(3) prepayment risk, which can lead to significant fluctuations in value of the mortgage-related security; (4) loss of all or part of the premium, if any, paid; and (5) decline in the market value of the security, whether resulting from changes in interest rates or prepayments on the underlying mortgage collateral. See "Risks Mortgage-Related Securities Risk."

**Prepayment Risk.** During periods of declining interest rates or for other purposes, borrowers may exercise their option to prepay principal earlier than scheduled. For fixed-income securities, such payments often occur during periods of declining interest rates, forcing the Trust to reinvest in lower yielding securities. This is known as call or prepayment risk. Non-investment grade securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ("call protection"). An issuer may redeem a non-investment grade security if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Trust, prepayment risk may be enhanced. See "Risks Prepayment Risk."

**Asset-Backed Securities Risk.** Asset-backed securities involve certain risks in addition to those presented by mortgage-related securities, including that these securities do not have the benefit of the same security interest in the underlying collateral as mortgage-related securities and are more dependent on the borrower's ability to pay; and credit card receivables are generally unsecured, and the debtors are entitled to the protection of a number of state and Federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due; and most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing such receivables. See "Risks Asset-Backed Securities Risk."

**Collateralized Bond Obligations Risk.** Income from the pool of lower grade securities collateralizing a collateralized bond obligation ("CBO") is typically separated into tranches representing different degrees of credit quality. The top tranche of CBOs, which represents the highest credit quality in the pool, has the greatest collateralization and pays the lowest interest rate. Lower CBO tranches represent lower degrees of credit quality and pay higher interest rates to compensate for the attendant risks. The bottom tranche specifically receives the residual interest payments (*i.e.*, money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The return on the lower tranches of CBOs are especially sensitive to the rate of defaults in the collateral pool, which increases the risk of the Trust losing its investments in lower CBO tranches. See "Risks Collateralized Bond Obligations Risk."

**Inflation Risk.** Inflation risk is the risk that the value of assets or income from the Trust's investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real, or inflation adjusted, value of the Trust's common stock and distributions can decline and the interest payments on Trust borrowings, if any, may increase or the value of dividend payments on the Trust's preferred stock, if any, may decline. See "Risks Inflation Risk."

**Non-Payment Risk.** The debt securities in which the Trust invests are subject to the risk of non-payment of interest and principal. When a borrower or issuer fails to make scheduled interest or principal payments on a debt security, the value of the security, and hence the Trust's net asset value, and potentially the value of the Trust's shares of beneficial interest, may go down. While a senior position in the capital structure of a borrower may provide some protection with respect to the Trust's investments in senior loans, losses may still occur. See "Risks Non-Payment Risk."

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**Liquidity Risk.** The Trust may invest in Senior Loans and other securities for which there is no readily available trading market or which are otherwise illiquid. Most Senior Loans are valued by an independent pricing service that uses market quotations of investors and traders in Senior Loans. The Trust may not be able to readily dispose of such securities at prices that approximate those at which the Trust could sell such securities if they were more widely-traded and, as a result of such illiquidity, the Trust may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Trust's net asset value and ability to make dividend distributions.

As a result, BlackRock will have to rely on third party service providers for valuation to a large extent. Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Trust's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted.

Some Senior Loans are not readily marketable and may be subject to restrictions on resale. Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for some of the Senior Loans in which the Trust will invest. Where a secondary market exists, the market for some Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Senior Loans that are illiquid may impair the Trust's ability to realize the full value of its assets in the event of a voluntary or involuntary liquidation of such assets and thus may cause a decline in the Trust's net asset value. The Trust has no limitation on the amount of its assets which may be invested in securities that are not readily marketable or are subject to restrictions on resale. See "Risks Liquidity Risk."

**Credit Derivatives Risk.** The use of credit derivatives is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If BlackRock is incorrect in its forecasts of default risks, market spreads or other applicable factors, the investment performance of the Trust would diminish compared with what it would have been if these techniques were not used. Moreover, even if BlackRock is correct in its forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being protected. The Trust's risk of loss in a credit derivative transaction varies with the form of the transaction. For example, if the Trust purchases a default option on a security, and if no default occurs with respect to the security, the Trust's loss is limited to the premium it paid for the default option. In contrast, if there is a default by the grantor of a default option, the Trust's loss will include both the premium that it paid for the option and the decline in value of the underlying security that the default option protected. See "Risks Credit Derivatives Risk."

**Strategic Transactions Risk.** Strategic transactions in which the Trust may engage also involve certain risks and special considerations, including engaging in hedging and risk management transactions such as interest rate and foreign currency transactions, credit default swaps, options, futures, swaps and other derivatives transactions ("Strategic Transactions"). Strategic Transactions will be entered into to seek to manage the risks of the Trust's portfolio of securities or to enhance its total returns, but may have the effect of limiting the gains from favorable market movements. The use of Strategic Transactions to enhance gains may be particularly speculative. Strategic Transactions involve risks, including that (1) the loss on the Strategic Transaction position may be larger than the gain in the portfolio position being hedged and (2) the derivative instruments used in Strategic Transactions may not be liquid and may require the Trust to pay additional amounts of money. Successful use of Strategic Transactions depends on BlackRock's ability to predict correctly market movements which, of course, cannot be assured. Losses on Strategic Transactions may reduce the Trust's net asset value and its ability to pay dividends if they are not offset by gains on the portfolio positions being hedged. The Trust may also lend the securities it owns to others, which allows the Trust the opportunity to earn additional income. Although the Trust will require the borrower of the securities to post collateral for the loan and the terms of the loan will require that the Trust be able to reacquire the loaned securities

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if certain events occur, the Trust is still subject to the risk that the borrower of the securities may default, which could result in the Trust losing money and a decline in the Trust's net asset value. The Trust may also purchase securities for delayed settlement. This means that the Trust is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement. See "Risks Strategic Transactions."

**Market Disruption Risk.** The war with Iraq, its aftermath and the continuing occupation of the country by coalition forces are likely to have a substantial impact on the United States and world economies and securities markets. The duration and nature of the war and occupation and the potential costs of rebuilding the Iraqi infrastructure and political systems cannot be predicted with any certainty. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the common shares. See "Risks Market Disruption Risk."

**Anti-Takeover Provisions.** The Trust's Agreement and Declaration of Trust, as amended and restated, includes provisions that could limit the ability of other entities or persons to acquire control of the Trust or convert the Trust to open-end status. These provisions could deprive the holders of common shares of opportunities to sell their common shares at a premium over the then current market price of the common shares or at net asset value. See "Risks Anti-Takeover Provisions."

## TRADING MARKET

The APS are not listed on an exchange. Instead, you may buy or sell the APS at an auction that normally is held weekly, by submitting orders to a broker-dealer that has entered into an agreement with the auction agent and the Trust (a "Broker-Dealer"), or to a broker-dealer that has entered into a separate agreement with a Broker-Dealer. In addition to the auctions, Broker-Dealers and other broker-dealers may maintain a secondary trading market in APS outside of auctions, but may discontinue this activity at any time. There is no assurance that a secondary market will provide shareholders with liquidity. You may transfer shares outside of auctions only to or through a Broker-Dealer or a broker-dealer that has entered into a separate agreement with a Broker-Dealer.

The table below shows the first auction date for the APS and the day on which each subsequent auction will normally be held for the APS. The first auction date for the APS will be the business day before the dividend payment date for the initial rate period for the APS. The start date for subsequent rate periods will normally be the business day following the auction dates unless the then-current rate period is a special rate period or the first day of the subsequent rate period is not a business day.

	Initial auction date	Subsequent auction day
Series T7		
Series W7		
Series R7		

\*

All dates are 2004

## DIVIDENDS AND RATE PERIODS

The table below shows the dividend rate for the initial rate period on the APS offered in this Prospectus. For subsequent rate periods, APS will pay dividends based on a rate set at auctions,

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normally held weekly. In most instances, dividends are also paid weekly, on the day following the end of the rate period. The rate set at auction will not exceed the maximum applicable rate. See "Description of APS Dividends and Rate Periods."

In addition, the table below also shows the date from which dividends on the APS will accumulate at the initial rate, the dividend payment date for the initial rate period and the day on which dividends will normally be paid. If the day on which dividends otherwise would be paid is not a business day, then your dividends will be paid on the first business day that falls after that day.

Finally, the table below shows the number of days of the initial rate period for the APS. Subsequent rate periods generally will be seven days. The dividend payment date for special rate periods of more than seven days will be set out in the notice designating a special rate period. See "Description of APS Dividends and Rate Periods Declaration of Special Rate Periods."

	<b>Initial Dividend Rate</b>	<b>Date of Accumulation at Initial Rate</b>	<b>Dividend Date for Rate Period</b>	<b>Payment Subsequent Initial Dividend Payment Date</b>	<b>Number of Days of Initial Rate Period</b>
Series T7					
Series W7					
Series R7					

\*

All dates are 2004

### REDEMPTION

The Trust may be required to redeem APS if, for example, the Trust does not meet an asset coverage ratio required by law or to correct a failure to meet a rating agency guideline in a timely manner. The Trust voluntarily may redeem APS under certain conditions. See "Description of APS Redemption" and "Description of APS Rating Agency Guidelines and Asset Coverage."

### LIQUIDATION PREFERENCE

The liquidation preference of the APS will be \$25,000 per share, plus an amount equal to accumulated but unpaid dividends. See "Description of APS Liquidation."

### RATINGS

The shares of APS are expected to be issued with a rating of "Aaa" from Moody's and "AAA" from S&P. In order to maintain these ratings, the Trust must own portfolio securities of a sufficient value and with adequate credit quality and diversification to meet the rating agencies' guidelines. See "Description of APS Rating Agency Guidelines and Asset Coverage."

### VOTING RIGHTS

The Investment Company Act of 1940, as amended (the "Investment Company Act"), requires that the holders of preferred shares, including APS, voting as a separate class, have the right to elect at least two trustees at all times and to elect a majority of the trustees at any time when two years' dividends on the preferred shares are unpaid. In each case, the remaining trustees will be elected by holders of common shares and preferred shares, including APS, voting together as a single class. The holders of preferred shares, including APS, will vote as a separate class or classes on certain other matters as required under the Trust's Agreement and Declaration of Trust, as amended and restated, the Investment Company Act and Delaware law. See "Description of APS Voting Rights" and "Certain provisions in the Agreement and Declaration of Trust."

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### U.S. FEDERAL INCOME TAX STATUS

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The Trust intends to elect to be treated for U.S. federal income tax purposes as a regulated investment company. As a regulated investment company, the Trust generally will not be required to pay corporate-level federal income taxes on any ordinary income or capital gains that it distributes to its shareholders as dividends. To maintain its regulated investment company status, the Trust must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of its ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. See "U.S. federal income tax matters."

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### Financial highlights (unaudited)

Information contained in the table below shows the unaudited operating performance of the Trust from August 30, 2004 through September 30, 2004. Since the Trust commenced investment operations on August 30, 2004, the table covers less than five weeks of operations, during which a substantial portion of the Trust's portfolio was held in temporary investments pending investment in securities and other assets that meet the Trust's investment objectives and policies. Accordingly, the information presented may not provide a meaningful picture of the Trust's future operating performance.

#### Financial Highlights (unaudited) For the period(1) ended September 30, 2004

	<b>Global Floating Rate Income Trust (BGT)</b>
<b>PER COMMON SHARE OPERATING PERFORMANCE:</b>	
Net asset value, beginning of period	\$ 19.10(2)
<b>Investment operations:</b>	
Net investment income	\$ 0.05
Net realized and unrealized gain	0.04
Net increase from investment operations	0.09
Capital charges with respect to issuance of common shares	(0.04)
Net asset value, end of period	\$ 19.15
Market value, end of period	\$ 20.00
<b>TOTAL INVESTMENT RETURN(3)</b>	<b>0.00%</b>
<b>RATIOS TO AVERAGE NET ASSETS OF COMMON SHAREHOLDERS:(4)</b>	
Expenses before waivers	0.98%
Expenses after waivers	0.78%
Net investment income	3.05%
<b>SUPPLEMENTAL DATA:</b>	
Average net assets of common shareholders (000)	\$ 438,810

**Financial Highlights (unaudited)**  
**For the period(1) ended September 30, 2004**

Portfolio turnover		0%
Net assets of common shareholders, end of period (000)	\$	440,515

- (1) Commencement of investment operations was August 30, 2004. This information includes the initial investment by BlackRock Funding, Inc.
- (2) Net asset value, beginning of period reflects a deduction of \$0.90 per share sales charge from the initial offering price of \$20.00 per share.
- (3) Total investment return is calculated assuming a purchase of common shares at the current market price on the first day and a sale at the current market price on the last day of the period reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Trust's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. The total investment return, which is for less than a full year, is not annualized. Past performance is not a guarantee of future results.
- (4) Annualized.

The information above represents the unaudited operating performance for a common share outstanding, total investment return, ratios to average net assets and other supplemental data for the period indicated. This information has been determined based upon financial information provided in the financial statements and market value data for the Trust's common shares.

See Notes to Financial Statements

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## The Trust

The Trust is a recently organized, diversified, closed-end management investment company registered under the Investment Company Act. The Trust was organized as a Delaware statutory trust on April 20, 2004 pursuant to an Agreement and Declaration of Trust, governed by the laws of the State of Delaware. On August 30, 2004, the Trust issued an aggregate of 23,000,000 common shares of beneficial interest, par value \$0.001 per share, pursuant to an initial public offering and commenced its investment operations. On October 13, 2004, the Trust issued an additional 475,000 common shares pursuant to an over-allotment provision for net proceeds, after expenses, to the Trust of approximately \$9,072,500. The Trust's common shares are traded on the New York Stock Exchange under the symbol "BGT." The Trust's principal office is located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and its telephone number is (888) 825-2257.

The following provides information about the Trust's outstanding shares as of October 13, 2004:

Title of Class	Amount Authorized	Amount held by the Trust or for its Account	Amount Outstanding
Common Shares	Unlimited	0	23,481,021
APS	Unlimited	0	0
Series T7	6,027	0	0
Series W7	6,027	0	0
Series R7	6,027	0	0

## Use of proceeds

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The net proceeds of this offering will be approximately \$240,672,620 after payment of the sales loads and estimated offering expenses. The Trust will invest the net proceeds of this offering in accordance with the Trust's investment objectives and policies as stated below. We currently anticipate that the Trust will be able to invest substantially all of the net proceeds of this offering in securities that meet the Trust's investment objectives and policies within three months after the completion of this offering. Pending such investment, it is anticipated that the proceeds will be invested in short-term securities.

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### Capitalization (unaudited)

The following table sets forth the capitalization of the Trust as of October 13, 2004, and as adjusted to give effect to the issuance of the APS (including estimated offering expenses and sales loads of \$2,434,500) offered hereby.

	Actual	As Adjusted
Shareholder's equity APS, \$0.001 par value, \$25,000 stated value per share, at liquidation value, unlimited shares authorized (no shares issued; 9,738 shares issued, as adjusted*	\$	\$ 243,450,000
Common shares, \$0.001 per value per share; unlimited shares authorized, 23,481,021 shares outstanding*	23,481	23,481
Paid-in surplus	447,540,020	444,762,640
Balance of undistributed net investment income	1,846,607	1,846,607
Accumulated net realized gain/loss from investment transactions	(108,102)	(108,102)
Net unrealized appreciation/depreciation of investments	2,672,133	2,672,133
<b>Net assets attributable to common shares</b>	<b>451,974,139</b>	<b>692,646,759</b>

\*

None of these outstanding shares are held by or for the account of the Trust.

### Portfolio composition

As of October 13, 2004, approximately 98% of the market value of the Trust's portfolio was invested in long-term securities and approximately 2% of the market value of the Trust's portfolio was invested in short-term securities. The following table sets forth certain information with respect to the composition of the Trust's investment portfolio as of October 13, 2004, based on the higher rating assigned.

S&P(1)	Moody's(1)	Value	%
"A"	"A"	\$ 2,351,000	0.5%
"BBB"	"Baa"	21,604,000	4.5%
"BB"	"Ba"	211,043,000	44.0%
"B"	"B"	224,736,000	47.0%
"CCC"	"Caa"	2,373,000	0.5%
Unrated(2)	Unrated(2)	6,623,000	1.5%
Short-term	Short-term	8,900,000	2.0%
<b>TOTAL</b>		<b>477,630,000</b>	<b>100%</b>

(1)

Ratings: Using the higher of S&P's or Moody's ratings on the Trust's portfolio securities. S&P rating categories may be modified further by a plus (+) or minus (-) in "AA," "A," "BBB," "BB," "B" and "CCC" ratings. Moody's rating categories may be modified further by a 1, 2 or 3 in "Aa," "A," "Baa," "Ba," "B" and "Caa" ratings.

(2)

Refers to securities that have not been rated by Moody's or S&P.

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## The Trust's investments

The following section describes the Trust's investment objectives, significant investment policies and investment techniques. More complete information describing the Trust's significant investment policies and techniques, including the Trust's fundamental investment restrictions, can be found in the Statement of Additional Information, which is herein incorporated by reference.

### INVESTMENT OBJECTIVES AND POLICIES

The Trust's investment objective is to provide a high level of current income. The Trust, as a secondary objective, also seeks the preservation of capital to the extent consistent with its primary objective of high current income. The Trust will pursue its objectives by investing in a global portfolio of floating rate securities, including investing a significant amount in U.S. and non-U.S. Senior Loans. Senior Loans are made to corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior Loans pay interest at rates which are redetermined periodically by reference to a base lending rate, primarily LIBOR, plus a premium. It is anticipated that the proceeds of the Senior Loans in which the Trust will acquire interests primarily will be used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancing and internal growth and for other corporate purposes of borrowers.

Under normal market conditions, the Trust will invest at least 80% of its Managed Assets in floating and variable rate instruments of U.S. and non-U.S. issuers, including a substantial portion of its assets in senior, secured loans made to corporate and other business entities. The Trust will provide shareholders with notice at least 60 days prior to changing this non-fundamental policy of the Trust unless such change was previously approved by shareholders. As of the date of this Prospectus, the Trust anticipates investing approximately 65% of its Managed Assets in Senior Loans. The Trust may also invest up to 20% of its Managed Assets in fixed rate instruments of U.S. and non-U.S. issuers, including developed and emerging markets debt, investment grade and high yield corporate debt, sovereign debt, and mortgage-related and asset-backed securities.

Under normal market conditions, the Trust expects its portfolio to have a duration of no more than 1.5 years (including the effect of anticipated leverage). In comparison to maturity (which is the date on which the issuer of a debt instrument is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result in changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it takes into account a security's yield, coupon payments and its principal payments in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. In general, a portfolio of securities with a longer duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter duration. For example, a hypothetical portfolio with a duration of 1.5 years means that a 1% decrease in interest rates will increase the net asset value of the portfolio by approximately 1.5%; if interest rates increase by 1%, the net asset value will decrease by 1.5%. If this portfolio were leveraged, its net asset value, in the example, may fall more than 1.5% because changes in the net asset value of the Trust are borne entirely by the common shareholders.

Under current market conditions, the Trust expects that substantially all of its portfolio will consist of below investment grade debt securities, commonly referred to as "junk bonds," rated as such at the time of investment, meaning that such bonds are rated by national rating agencies below the four highest grades or are unrated but judged to be of comparable quality by BlackRock. S&P and Fitch consider securities rated below BBB- to be below investment grade and Moody's considers securities

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rated below Baa3 to be below investment grade. Securities of below investment grade quality are regarded as having predominantly speculative characteristics with respect to issuers' capacity to pay interest and repay principal. See "Risks Non-Investment Grade Securities Risk." The

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remainder of the Trust's assets will be invested in investment grade debt securities. The Trust may invest in individual securities of any credit quality.

The Trust expects to invest at least 30% of its Managed Assets in securities of non-U.S. issuers. Initially, the Trust expects to invest approximately 30% of its Managed Assets in securities of emerging market issuers located in approximately 25 to 30 different countries. The Trust will generally invest in U.S. dollar-denominated securities or in non U.S. dollar-denominated securities for which currency exchange exposure versus the U.S. dollar has been hedged. However, the Trust may invest up to 10% of its Managed Assets in non-U.S. dollar-denominated securities whose currency exchange exposure versus the U.S. dollar remains unhedged. The Trust will not invest 25% or more of its Managed Assets in securities issued or guaranteed by any non-U.S. government, its agencies, instrumentalities or corporations. Investing in foreign and emerging markets securities may entail significant risks. See "Risks Non-U.S. Securities Risk" and "Risks Emerging Markets Risk."

The Trust may engage in foreign currency transactions, including foreign currency forward contracts, options, swaps and other strategic transactions in connection with its investments in Non-U.S. Securities.

The Trust may invest in illiquid securities and securities for which prices are not readily available without limit. The Trust may implement various temporary "defensive" strategies at times when BlackRock determines that conditions in the markets make pursuing the Trust's basic investment strategy inconsistent with the best interests of its shareholders. These strategies may include investing all or a portion of the Trust's assets in U.S. Government obligations and high-quality, short-term debt securities.

The Trust can borrow money to buy additional securities. This practice is known as "leverage." The Trust may borrow from banks or other financial institutions or through reverse repurchase agreements, dollar rolls and other investment techniques. The Trust currently anticipates borrowing funds and/or issuing preferred shares in an aggregate amount of approximately 38% of its Managed Assets. See "Risks Leverage Risk."

The Trust cannot change its investment objectives without the approval of the holders of a majority of the outstanding common shares and, once the APS are issued, the common shares and APS voting together as a single class, and of the holders of a majority of the outstanding APS voting as a separate class. A "majority of the outstanding" means (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy, or (2) more than 50% of the shares, whichever is less. See "Description of APS Voting Rights" for additional information with respect to the voting rights of holders of APS.

## SENIOR LOANS

Senior Loans hold the most senior position in the capital structure of a business entity (the "Borrower"), are typically secured with specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by subordinated debt holders and stockholders of the Borrower. The proceeds of Senior Loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancings and to finance internal growth and for other corporate purposes. Senior Loans typically have rates of interest which are redetermined either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. These base lending rates are primarily the London-Interbank Offered Rate ("LIBOR"), and secondarily the prime rate offered by one or more major U.S. banks (the "Prime Rate") and the certificate of deposit ("CD") rate or other base lending rates used by commercial lenders.

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## Portfolio securities

Senior Loans typically have a stated term of between five and nine years, and have rates of interest which typically are redetermined either daily, monthly, quarterly or semi-annually. Longer interest rate reset periods generally increase fluctuations in the Trust's net asset value as a result of changes in market interest rates. The Trust is not subject to any restrictions with respect to the maturity of Senior Loans held in its portfolio. As a result, as short-term interest rates increase, interest payable to the Trust from its investments in Senior Loans should increase, and as short-term interest rates decrease, interest payable to the Trust from its investments in Senior Loans should decrease. Because of prepayments, BlackRock expects the average life of Senior Loans to be shorter than the stated maturity.

Senior Loans and other floating-rate debt instruments are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Trust, a reduction in the value of the investment and a potential decrease in the net asset value of the Trust. There can be no assurance that the liquidation of any collateral securing a Senior Loan would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated. In the event of bankruptcy of a Borrower, the Trust could experience delays or limitations with respect to its ability to realize the benefits of the

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collateral securing a Senior Loan. The collateral securing a Senior Loan may lose all or substantially all of its value in the event of bankruptcy of a Borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate such Senior Loans to presently existing or future indebtedness of the Borrower or take other action detrimental to the holders of Senior Loans including, in certain circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. If interest were required to be refunded, it could negatively affect the Trust's performance.

Many Senior Loans in which the Trust will invest may not be rated by a rating agency, will not be registered with the Securities and Exchange Commission or any state securities commission and will not be listed on any national securities exchange. The amount of public information available with respect to Senior Loans will generally be less extensive than that available for registered or exchange listed securities. In evaluating the creditworthiness of Borrowers, BlackRock will consider, and may rely in part, on analyses performed by others. Borrowers may have outstanding debt obligations that are rated below investment grade by a rating agency. Many of the Senior Loans in the Trust will have been assigned ratings below investment grade by independent rating agencies. In the event Senior Loans are not rated, they are likely to be the equivalent of below investment grade quality. Because of the protective features of Senior Loans, BlackRock believes that Senior Loans tend to have more favorable loss recovery rates as compared to more junior types of below investment grade debt obligations. BlackRock does not view ratings as the determinative factor in its investment decisions and relies more upon its credit analysis abilities than upon ratings.

No active trading market may exist for some Senior Loans and some loans may be subject to restrictions on resale. A secondary market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to realize full value and thus cause a material decline in the Trust's net asset value. In addition, the Trust may not be able to readily dispose of its Senior Loans at prices that approximate those at which the Trust could sell such loans if they were more widely-traded and, as a result of such illiquidity, the Trust may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. During periods of limited supply and liquidity of Senior Loans, the Trust's yield may be lower. See "Risks Liquidity Risk" and "Risks Senior Loans Risk."

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When interest rates decline, the value of a fund invested in fixed-rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a fund invested in fixed-rate obligations can be expected to decline. Although changes in prevailing interest rates can be expected to cause some fluctuations in the value of Senior Loans (due to the fact that floating rates on Senior Loans only reset periodically), the value of Senior Loans is substantially less sensitive to changes in market interest rates than fixed-rate instruments. As a result, BlackRock expects the Trust's policy of investing a substantial portion of its assets in floating-rate Senior Loans will make the Trust less volatile and less sensitive to changes in market interest rates than if the Trust invested in fixed-rate obligations. Similarly, a sudden and significant increase in market interest rates may cause a decline in the value of these investments and in the Trust's net asset value. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can reduce the value of Senior Loans and other debt obligations, impairing the Trust's net asset value.

The Trust may purchase and retain in its portfolio a Senior Loan where the Borrower has experienced, or may be perceived to be likely to experience, credit problems, including involvement in or recent emergence from bankruptcy reorganization proceedings or other forms of debt restructuring. Such investments may provide opportunities for enhanced income as well as capital appreciation, although they also will be subject to greater risk of loss. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Trust may determine or be required to accept equity securities or junior debt securities in exchange for all or a portion of a Senior Loan.

The Trust may purchase Senior Loans on a direct assignment basis. If the Trust purchases a Senior Loan on direct assignment, it typically succeeds to all the rights and obligations under the loan agreement of the assigning lender and becomes a lender under the loan agreement with the same rights and obligations as the assigning lender. The Trust may also purchase, without limitation, participations in Senior Loans. The participation by the Trust in a lender's portion of a Senior Loan typically will result in the Trust having a contractual relationship only with such lender, not with the Borrower. As a result, the Trust may have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by such lender of payments from the Borrower. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participations in a loan to a Borrower, and generally are offered by banks or other financial institutions or lending syndicates. The Trust may participate in such syndications, or can buy part of a loan, becoming a part lender. When purchasing loan participations, the Trust assumes the credit risk associated with the Borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests in which the Trust intends to invest may not be rated by any nationally recognized rating service. Given the current structure of the markets for loan participations and assignments, the Trust expects to treat these securities as illiquid.

BlackRock may use an independent pricing service or prices provided by dealers to value most loans and other debt securities at their market value. BlackRock will use the fair value method to value Senior Loans or other securities if market quotations for them are not readily available or are deemed unreliable. A market quotation may be deemed unreliable, for example, if it varies significantly from a recent trade, the security is

thinly traded, or there is a significant event subsequent to the market quotation. A security that is fair valued may be valued at a price higher or lower than actual market quotations or the value determined by other funds using their own fair valuation procedures. Because foreign securities trade on days when the common shares are not priced, net asset value can change at times when common shares cannot be sold.

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## **NON-INVESTMENT GRADE SECURITIES**

The Trust anticipates that, under current market conditions, substantially all of its portfolio, including its investments in Senior Loans and emerging markets debt, will be invested in securities rated below investment grade, such as those rated Ba or lower by Moody's and BB or lower by S&P or securities comparably rated by other rating agencies or in unrated securities determined by BlackRock to be of comparable quality. Securities rated Ba by Moody's are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C are regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D are in default and the payment of interest and/or repayment of principal is in arrears. When BlackRock believes it to be in the best interests of the Trust's shareholders, the Trust will reduce its investment in lower grade securities.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

The prices of debt securities generally are inversely related to interest rate changes; however, the price volatility caused by fluctuating interest rates of securities also is inversely related to the coupon of such securities. Accordingly, lower grade securities may be relatively less sensitive to interest rate changes than higher quality securities of comparable maturity, because of their higher coupon. This higher coupon is what the investor receives in return for bearing greater credit risk. The higher credit risk associated with lower grade securities potentially can have a greater effect on the value of such securities than may be the case with higher quality issues of comparable maturity, and will be a substantial factor in the Trust's relative share price volatility.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

The ratings of Moody's, S&P and the other rating agencies represent their opinions as to the quality of the obligations which they undertake to rate. Ratings are relative and subjective and, although ratings may be useful in evaluating the safety of interest and principal payments, they do not evaluate the market value risk of such obligations. Although these ratings may be an initial criterion for selection of portfolio investments, BlackRock also will independently evaluate these securities and the ability of the issuers of such securities to pay interest and principal. To the extent that the Trust invests in lower grade securities that have not been rated by a rating agency, the Trust's ability to achieve its investment objectives will be more dependent on BlackRock's credit analysis than would be the case when the Trust invests in rated securities.

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## **EMERGING MARKETS INVESTMENTS**

Investing in emerging market issuers may involve unique risks compared to investing in the securities of U.S. issuers. These securities may be U.S. dollar-denominated or non-U.S. dollar-denominated and include: (a) debt obligations issued or guaranteed by foreign national, provincial, state, municipal or other governments with taxing authority or by their agencies or instrumentalities, including Brady Bonds; (b) debt obligations of supranational entities; (c) debt obligations and other fixed-income securities of foreign corporate issuers; (d) debt obligations of U.S. corporate issuers; (e) debt securities issued by corporations that generate significant profits from emerging market countries; and (f) structured securities, including but not limited to, warrants, options and other derivatives, whose price is directly linked to emerging market securities or indices. The Trust may also invest in securities denominated in currencies of emerging market countries. Emerging market countries generally include every nation in the world except the United States, Canada, Japan, Australia, New Zealand and most countries located in Western

Europe. There is no minimum rating criteria for the Trust's investments in such securities. Some of these risks do not apply to issuers in larger, more developed countries. These risks are more pronounced to the extent the Trust invests significantly in one country. Less information about non-U.S. issuers or markets may be available due to less rigorous disclosure and accounting standards or regulatory practices. Many non-U.S. markets are smaller, less liquid and more volatile than U.S. markets. In a changing market, BlackRock may not be able to sell the Trust's portfolio securities in amounts and at prices the Advisors consider reasonable. The U.S. dollar may appreciate against non-U.S. currencies or an emerging market government may impose restrictions on currency conversion or trading. The economies of non-U.S. countries may grow at a slower rate than expected or may experience a downturn or recession. Economic, political and social developments may adversely affect non-U.S. securities markets.

#### **SOVEREIGN GOVERNMENT AND SUPRANATIONAL DEBT**

The Trust may invest in all types of debt securities of governmental issuers in all countries, including emerging market countries. These sovereign debt securities may include: fixed income securities issued or guaranteed by governments, governmental agencies or instrumentalities and political subdivisions located in emerging market countries; fixed income securities issued by government owned, controlled or sponsored entities located in emerging market countries; interests in entities organized and operated for the purpose of restructuring the investment characteristics of instruments issued by any of the above issuers; Brady Bonds, which are debt securities issued under the framework of the Brady Plan as a means for debtor nations to restructure their outstanding external indebtedness; participations in loans between emerging market governments and financial institutions; or fixed income securities issued by supranational entities such as the World Bank or the European Economic Community. A supranational entity is a bank, commission or company established or financially supported by the national governments of one or more countries to promote reconstruction or development. Sovereign government and supranational debt involve all the risks described herein regarding foreign and emerging markets investments as well as the risk of debt moratorium, repudiation or renegotiation.

#### **CORPORATE BONDS**

The Trust may invest in corporate bonds. The investment return of corporate bonds reflects interest on the security and changes in the market value of the security. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The market value of a corporate bond also may be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the market place. There is a risk that the issuers of

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the securities may not be able to meet their obligations on interest or principal payments at the time called for by an instrument.

#### **ASSET-BACKED SECURITIES**

The Trust may invest in asset-backed securities. Asset-backed securities are a form of structured debt obligations. The securitization techniques used for asset-backed securities are similar to those used for mortgage-related securities. The collateral for these securities may include home equity loans, automobile and credit card receivables, boat loans, computer leases, airplane leases, mobile home loans, recreational vehicle loans and hospital account receivables. The Trust may invest in these and other types of asset-backed securities that may be developed in the future. Asset-backed securities present certain risks that are not presented by mortgage-related securities. Primarily, these securities may provide the Trust with a less effective security interest in the related collateral than do mortgage-related securities. Therefore, there is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities.

#### **MORTGAGE-RELATED SECURITIES**

Mortgage-related securities are structured debt obligations collateralized by pools of commercial or residential mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. These securities may include complex instruments such as collateralized mortgage obligations, stripped mortgage-backed securities, mortgage pass-through securities, interests in real estate mortgage investment conduits ("REMICs"), real estate investment trusts ("REITs"), including debt and preferred stock issued by REITs, as well as other real estate-related securities. The mortgage-related securities in which the Trust may invest include those with fixed, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Trust may invest in residential and commercial mortgage-related securities, including residual interests, issued by governmental entities and private issuers, including subordinated mortgage-related securities.

#### **COLLATERALIZED BOND OBLIGATIONS**

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The Trust may invest in collateralized bond obligations ("CBOs"), which are structured securities backed by a diversified pool of high yield, public or private fixed income securities. These may be fixed pools or may be "market value" (or managed) pools of collateral. The pool of high yield securities is typically separated into tranches representing different degrees of credit quality. The top tranche of CBOs, which represents the highest credit quality in the pool, has the greatest collateralization and pays the lowest interest rate. Lower CBO tranches represent lower degrees of credit quality and pay higher interest rates intended to compensate for the attendant risks. The bottom tranche specifically receives the residual interest payments (*i.e.*, money that is left over after the higher tranches have been paid) rather than a fixed interest rate. The return on the lower tranches of CBOs is especially sensitive to the rate of defaults in the collateral pool. Under normal market conditions, the Trust expects to invest in the lower tranches of CBOs.

### **SECOND LIEN LOANS AND DEBT SECURITIES**

The Trust may invest in loans and other debt securities that have the same characteristics as Senior Loans except that such loans are second in lien property rather than first. Such "second lien" loans

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and securities like Senior Loans typically have adjustable floating rate interest payments. Accordingly, the risks associated with "second lien" loans are higher than the risk of loans with first priority over the collateral. In the event of default on a "second lien" loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible, that no collateral value would remain for the second priority lien holder and therefore result in a loss of investment to the Trust.

### **COLLATERALIZED LOAN OBLIGATIONS**

The Trust may invest in certain asset-backed securities as discussed above. Asset-backed securities are payment claims that are securitized in the form of negotiable paper that is issued by a financing company (generally called a Special Purpose Vehicle or "SPV"). These securitized payment claims are, as a rule, corporate financial assets brought into a pool according to specific diversification rules. The SPV is a company founded solely for the purpose of securitizing these claims and its only asset is the risk arising out of this diversified asset pool. On this basis, marketable securities are issued which, due to the diversification of the underlying risk, generally represent a lower level of risk than the original assets. The redemption of the securities issued by the SPV takes place at maturity out of the cash flow generated by the collected claims.

A collateralized loan obligation ("CLO") is a structured credit security issued by an SPV that was created to reapportion the risk and return characteristics of a pool of assets. The assets, typically Senior Loans, are used as collateral supporting the various debt tranches issued by the SPV. The key feature of the CLO structure is the prioritization of the cash flows from a pool of debt securities among the several classes of CLO. The Trust does not currently expect that investments in CLOs will be a significant portion of its investment program (*i.e.*, no more than 5% of its Managed Assets).

### **SENIOR LOAN BASED DERIVATIVES**

The Trust may obtain exposure to Senior Loans and baskets of Senior Loans through the use of derivative instruments. Such derivative instruments have recently become increasingly available. BlackRock reserves the right to utilize these instruments and similar instruments that may be available in the future. The Trust currently intends to invest in a derivative instrument known as the Select Aggregate Market Index ("SAMI"), which provides investors with exposure to a reference basket of Senior Loans. SAMIs are structured as floating rate instruments. SAMIs consist of a basket of credit default swaps whose underlying reference securities are senior secured loans. While investing in SAMIs will increase the universe of floating rate debt securities to which the Trust is exposed, such investments entail risks that are not typically associated with investments in other floating rate debt securities. The liquidity of the market for SAMIs will be subject to liquidity in the secured loan and credit derivatives markets. Investment in SAMIs involves many of the risks associated with investments in derivative instruments discussed generally below. The Trust may also be subject to the risk that the counterparty in a derivative transaction will default on its obligations. Derivative transactions generally involve the risk of loss due to unanticipated adverse changes in securities prices, interest rates, the inability to close out a position, imperfect correlation between a position and the desired hedge, tax constraints on closing out positions and portfolio management constraints on securities subject to such transactions. The potential loss on derivative instruments may be substantial relative to the initial investment therein.

### **CREDIT-LINKED NOTES**

The Trust may invest in credit-linked notes ("CLN") for risk management purposes, including diversification. A CLN is a derivative instrument. It is a synthetic obligation between two or more

parties where the payment of principal and/or interest is based on the performance of some obligation (a reference obligation). In addition to credit risk of the reference obligations and interest rate risk, the buyer/seller of the CLN is subject to counterparty risk. The Trust does not currently expect that investments in CLNs will be a significant portion of its investment program (*i.e.*, no more than 5% of its Managed Assets).

## STRATEGIC TRANSACTIONS

In addition to credit derivatives and Senior Loan-based derivatives, the Trust may, but is not required to, use various strategic transactions described below to generate total return, facilitate portfolio management and mitigate risks. Such strategic transactions are generally accepted under modern portfolio management and are regularly used by many mutual funds and other institutional investors. Although BlackRock seeks to use the practices to further the Trust's investment objectives, no assurance can be given that these practices will achieve this result.

The Trust may purchase and sell derivative instruments such as exchange-listed and over-the-counter put and call options on securities, financial futures, equity, fixed-income and interest rate indices, and other financial instruments, purchase and sell financial futures contracts and options thereon, enter into various interest rate transactions such as swaps, caps, floors or collars and enter into various currency transactions such as currency forward contracts, currency futures contracts, currency swaps or options on currency or currency futures or credit transactions and credit default swaps. The Trust also may purchase derivative instruments that combine features of these instruments. Collectively, all of the above are referred to as "Strategic Transactions." The Trust generally seeks to use Strategic Transactions as portfolio or risk management to seek to protect against possible adverse changes in the market value of securities held in or to be purchased for the Trust's portfolio, protect the value of the Trust's portfolio, facilitate the sale of certain securities for investment purposes, manage the effective interest rate exposure of the Trust, protect against changes in currency exchange rates, manage the effective maturity or duration of the Trust's portfolio or establish positions in the derivatives markets as a temporary substitute for purchasing or selling particular securities. The Trust may use Strategic Transactions to enhance potential gain, although the Trust will commit variation margin for Strategic Transactions that involve futures contracts in accordance with the rules of the Commodity Futures Trading Commission.

Strategic Transactions have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use Strategic Transactions depends on BlackRock's ability to predict pertinent market movements, which cannot be assured. Thus, the use of Strategic Transactions may result in losses greater than if they had not been used, may require the Trust to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Trust can realize on an investment or may cause the Trust to hold a security that it might otherwise sell. The use of currency transactions can result in the Trust incurring losses as a result of the imposition of exchange controls, suspension of settlements or the inability of the Trust to deliver or receive a specified currency. Additionally, amounts paid by the Trust as premiums and cash or other assets held in margin accounts with respect to Strategic Transactions are not otherwise available to the Trust for investment purposes. A more complete discussion of Strategic Transactions and their risks is contained in the Trust's Statement of Additional Information.

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## NON-U.S. SECURITIES

The Trust will initially invest at least 30% of its Managed Assets in securities issued by foreign countries, their agencies or instrumentalities or by non-U.S. companies. The Trust will consider a company a non-U.S. company if it meets one or more of the following tests: (i) such company was organized outside the United States; (ii) such company's primary business office is outside the United States; (iii) the principal trading market for such company's assets are located outside the United States; (iv) 50% or more of such company's securities are located outside the United States; or (v) 50% or more of such issuer's revenues are derived from outside the U.S. Foreign securities markets generally are not as developed or efficient as those in the United States. Securities of some non-U.S. issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in most foreign securities markets are less than in the United States and, at times, volatility of price can be greater than in the United States.

Because evidences of ownership of such securities usually are held outside the United States, the Trust would be subject to additional risks if it invested in foreign securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the foreign securities to investors located outside the country of the issuer, whether from currency blockage or otherwise.

## **CREDIT DERIVATIVES**

The Trust may engage in credit derivative transactions. There are two broad categories of credit derivatives: default price risk derivatives and market spread derivatives. Default price risk derivatives are linked to the price of reference securities or loans after a default by the issuer or borrower, respectively. Market spread derivatives are based on the risk that changes in market factors, such as credit spreads, can cause a decline in the value of a security, loan or index. There are three basic transactional forms for credit derivatives: swaps, options and structured instruments. The Trust currently intends to invest primarily in credit default swaps. A credit default swap is an agreement between two counterparties that allows one counterparty (the "seller") to be "long" a third party credit risk and the other party (the "buyer") to be "short" the credit risk. Typically, the seller agrees to make regular fixed payments to the buyer with the same frequency as the underlying reference bond. In exchange, the seller typically has the right upon default of the underlying bond to put the bond to the buyer in exchange for the bond's par value plus interest.

## **OTHER INVESTMENT COMPANIES**

The Trust may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies that invest primarily in securities of the types in which the Trust may invest directly. The Trust generally expects to invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Trust receives the proceeds of the offering of its common shares, or during periods when there is a shortage of attractive opportunities in the fixed income market. As a shareholder in an investment company, the Trust would bear its ratable share of that investment company's expenses, and would remain subject to payment of the Trust's advisory and other fees and expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Trust invests in other investment companies. BlackRock will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available bond investments. The securities of other investment companies may also be leveraged and will therefore be subject to the

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same leverage risks to which the Trust is subject. As described in this Prospectus in the sections entitled "Risks" and "Description of borrowings," the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares. Investment companies may have investment policies that differ from those of the Trust. In addition, to the extent the Trust invests in other investment companies, the Trust will be dependent upon the investment and research abilities of persons other than BlackRock.

## **Description of borrowings**

The Trust may borrow from banks and other financial institutions and may also borrow additional funds using such investment techniques as BlackRock may from time to time determine in an amount, which borrowings when combined with the aggregate outstanding leverage represented by the APS, is currently intended to be approximately 38% of the Trust's Managed Assets. Of these investment techniques, the Trust expects primarily to use reverse repurchase agreements and dollar roll transactions.

## **REVERSE REPURCHASE AGREEMENTS**

Borrowings may be made by the Trust through reverse agreements under which the Trust sells portfolio securities to financial institutions such as banks and broker-dealers and agrees to repurchase them at a particular date and price. Such agreements are considered to be borrowings under the Investment Company Act unless the Trust designates on its books and records an amount of assets equal to the amount of the Trust's obligations under the reverse repurchase agreements. The Trust may utilize reverse repurchase agreements when it is anticipated that the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the transaction.

## **DOLLAR ROLL TRANSACTIONS**

Borrowings may be made by the Trust through dollar roll transactions. A dollar roll transaction involves a sale by the Trust of a mortgage-backed or other security concurrently with an agreement by the Trust to repurchase a similar security at a later date at an agreed-upon price. The securities that are repurchased will bear the same interest rate and stated maturity as those sold, but pools of mortgages collateralizing those securities may have different prepayment histories than those sold. During the period between the sale and repurchase, the Trust will not be entitled to receive interest and principal payments on the securities sold. Proceeds of the sale will be invested in additional instruments for the Trust, and the income from these investments will generate income from the Trust. If such income does not exceed the income, capital appreciation and gain or loss that would have been realized on the securities sold as part of the dollar roll, the use of this technique will diminish

the investment performance of the Trust compared with what the performance would have been without the use of dollar rolls.

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## Risks

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. Therefore, before investing you should consider carefully the following risks that you assume when you invest in APS.

### RISKS OF INVESTING IN THE APS

#### INTEREST RATE RISK

The Trust issues APS, which pay dividends based on short-term interest rates. If short-term interest rates rise, dividend rates on the APS may rise so that the amount of dividends paid to holders of APS exceeds the income from the Trust's portfolio securities. While the Trust intends to manage this risk through its portfolio investments in Senior Loans and other floating rate securities, there is no guarantee these strategies will be implemented or will be successful in reducing or eliminating this interest rate risk. In addition, rising market interest rates could negatively impact the value of the Fund's investment portfolio, reducing the amount of assets serving as asset coverage for the APS.

#### AUCTION RISK

The dividend rate for the APS normally is set through an auction process. In the auction, holders of APS may indicate the dividend rate at which they would be willing to hold or sell their APS or purchase additional APS. The auction also provides liquidity for the sale of APS. An auction fails if there are more APS offered for sale than there are buyers. You may not be able to sell your APS at an auction if the auction fails. Finally, if you buy APS or elect to retain APS without specifying a dividend rate below which you would not wish to buy or continue to hold those APS, you could receive a lower rate of return on your APS than the market rate. See "Description of APS" and "The auction Auction Procedures."

#### SECONDARY MARKET RISK

If you try to sell your APS between auctions you may not be able to sell any or all of your APS or you may not be able to sell them for \$25,000 per APS plus accumulated dividends. If the Trust has designated a special rate period (a rate period of more than seven days), changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-Dealers that maintain a secondary trading market for APS are not required to maintain this market and the Trust is not required to redeem shares either if an auction or an attempted secondary market sale fails because of a lack of buyers. APS are not listed on a stock exchange or traded on the NASDAQ stock market. If you sell your APS to a Broker-Dealer between auctions, you may receive less than the price you paid for them, especially if market interest rates have risen since the last auction.

#### RATINGS AND ASSET COVERAGE RISK

It is expected that while Moody's will assign a rating of "Aaa" and S&P will assign a rating of "AAA" to the APS, such ratings do not eliminate or necessarily mitigate the risks of investing in APS. Moody's or S&P could withdraw or downgrade APS, which may make your APS less liquid at an auction or in the secondary market. If Moody's or S&P withdraws its rating or downgrades APS, the Trust may alter its portfolio or redeem APS in an effort to reinstate or improve, as the case may be, the rating,

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although there is no assurance that it will be able to do so to the extent necessary to restore the prior rating. The Trust also may voluntarily redeem APS under certain circumstances. See "Description of APS Rating Agency Guidelines and Asset Coverage" for a description of the asset maintenance tests the Trust must meet.

#### LEVERAGE RISK

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The Trust intends to use financial leverage, including the issuance of APS, for investment purposes. The Trust currently anticipates its use of leverage to represent approximately 38% of the Trust's Managed Assets, including the proceeds of such leverage. To the extent that the aggregate outstanding liquidation preference of APS is less than 38% of the Trust's Managed Assets, the Trust may make further use of financial leverage through borrowings, including bank borrowings, reverse repurchase agreements and dollar rolls. The Trust's borrowings may have seniority over APS. Therefore, distributions or other payments to holders of APS in liquidation or otherwise may be subject to prior payment on outstanding borrowings. In the event of a default on the Trust's borrowings, lenders or counterparties may have the right to liquidate the collateral for these borrowings (*i.e.*, the Trust's portfolio securities), which may reduce the Trust's assets and thereby cause the Trust to redeem some or all of the APS.

### **RISKS OF INVESTING IN THE TRUST**

#### **LIMITED OPERATING HISTORY**

The Trust is a diversified, closed-end management investment company and has a limited operating history.

#### **SENIOR LOANS RISK**

As in the case of junk bonds, Senior Loans may be rated in lower grade rating categories, or may be unrated but of lower grade quality. As in the case of junk bonds, Senior Loans can provide higher yields than higher grade income securities, but are subject to greater credit and other risks. Although Senior Loan obligations often are secured by pledges of assets by the Borrower and have other structural aspects intended to provide greater protection to the holders of bank loans than the holders of unsecured and subordinated securities, there are also additional risks in holding Senior Loans. In particular, the secondary trading market for Senior Loans is not well developed, and therefore, Senior Loans present increased market risk relating to liquidity and pricing concerns.

The Trust may acquire Senior Loans of Borrowers that are experiencing, or are more likely to experience, financial difficulty, including Senior Loans of Borrowers that have filed for bankruptcy protection. Although Senior Loans in which the Trust will invest generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the Borrower's obligation in the event of nonpayment of scheduled interest or principal, or that such collateral could be readily liquidated. In the event that the Trust invests a portion of its assets in Senior Loans that are not secured by specific collateral, the Trust will not enjoy the benefits of collateralization with respect to such Senior Loans. In the case of collateralized Senior Loans, there is no assurance that sale of the collateral would raise enough cash to satisfy the Borrower's payment obligation or that the collateral can or will be liquidated. As a result, the Trust might not receive payments to which it is entitled and thereby may experience a decline in the value of its investment and its net asset value. In the event of bankruptcy, liquidation may not occur and the court may not give Lenders the full benefit of their

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senior positions. If the terms of a Senior Loan do not require the Borrower to pledge additional collateral, the Trust will be exposed to the risk that the value of the collateral will not at all times equal or exceed the amount of the Borrower's obligations under the Senior Loans. To the extent that a Senior Loan is collateralized by stock in the Borrower or its subsidiaries, such stock may lose all of its value in the event of bankruptcy of the Borrower. Uncollateralized Senior Loans involve a greater risk of loss.

#### **VARIABLE DEBT RISK**

The absence of an active secondary market with respect to particular variable and floating rate instruments could make it difficult for the Trust to dispose of a variable or floating rate note if the issuer defaulted on its payment obligation or during periods that the Trust is not entitled to exercise its demand rights, and the Trust could, for these or other reasons, suffer a loss with respect to such instruments.

#### **NON-INVESTMENT GRADE SECURITIES RISK**

The Trust will invest a substantial portion of its assets in securities that are below investment grade, including substantially all of the Trust's investments in Senior Loans and emerging market debt. Non-investment grade securities are commonly referred to as "junk bonds." Investments in lower grade securities will expose the Trust to greater risks than if the Trust owned only higher grade securities. Because of the substantial risks associated with lower grade securities, you could lose money on your investment in shares of the Trust, both in the short-term and the long-term.

Lower grade securities, though high yielding, are characterized by high risk. They may be subject to certain risks with respect to the issuing entity and to greater market fluctuations than certain lower yielding, higher rated securities. The retail secondary market for lower grade

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securities may be less liquid than that of higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust's net asset value.

Securities rated Ba by Moody's are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. Securities rated C by Moody's are regarded as having extremely poor prospects of ever attaining any real investment standing. Securities rated D by S&P are in default and the payment of interest and/or repayment of principal is in arrears.

Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

### **CREDIT RISK**

Credit risk is the risk that an issuer of a security will become unable to meet its obligation to make interest and principal payments. In general, lower rated securities carry a greater degree of risk than the

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issuer will lose its ability to make interest and principal payments, which could have a negative impact on the Trust's net asset value or dividends. Under normal circumstances, the Trust will invest substantially all of its portfolio in securities that are rated Ba/BB or below by Moody's, S&P or Fitch or that are unrated but judged to be of comparable quality by BlackRock. The Trust's investments in non-investment grade securities, including substantially all of its investments in Senior Loans and emerging markets debt, will expose it to a great deal of credit risk. These securities are subject to a greater risk of default. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. Lower grade securities tend to be less liquid than investment grade securities. The market values of lower grade securities tend to be more volatile than investment grade securities. In addition, the Trust's use of credit derivatives will expose it to additional risk in the event that the bonds underlying the derivative default. In addition, the Trust's use of credit derivatives will expose it to additional risk in the event that the bonds underlying the derivatives default.

### **NON-U.S. SECURITIES RISK**

Investing in Non-U.S. Securities may involve certain risks not involved in domestic investments, including, but not limited to: (1) future foreign economic, financial, political and social developments; (2) different legal systems; (3) the possible imposition of exchange controls or other foreign governmental laws or restrictions; (4) lower trading volume; (5) much greater price volatility and illiquidity of certain foreign securities markets; (6) different trading and settlement practices; (7) less governmental supervision; (8) high and volatile rates of inflation; (9) fluctuating interest rates; (10) less publicly available information; and (11) different accounting, auditing and financial record keeping standards and requirements.

Certain countries in which the Trust may invest historically have experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt for certain of these countries will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates which are adjusted based upon international interest rates. In addition, with respect to certain foreign countries, there is a risk of: (1) the possibility of expropriation of assets; (2) confiscatory taxation; (3) difficulty in obtaining or enforcing a court judgment; (4) economic, political or social instability; and (5) diplomatic developments that could affect investments in those countries. Certain investments in foreign securities also may be subject to foreign withholding taxes. Dividend income from foreign corporations may not be eligible for the reduced rate for qualified dividend income. In addition, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as: (1) growth of gross domestic product; (2) rates of inflation; (3) capital reinvestment; (4) resources; (5) self-sufficiency; and (6) balance of payments position.

The ability of a foreign sovereign issuer, especially an emerging market country, to make timely and ultimate payments on its debt obligations will also be strongly influenced by the sovereign issuer's balance of payments, including export performance, its access to international credits and investments, fluctuations of interest rates and the extent of its foreign reserves. A country whose exports are concentrated in a few

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commodities or whose economy depends on certain strategic imports could be vulnerable to fluctuations in international prices of these commodities or imports. To the extent that a country receives payment for its exports in currencies other than dollars, its ability to make debt payments denominated in dollars could be adversely affected. If a sovereign issuer cannot generate sufficient earnings from foreign trade to service its external debt, it may need to depend on continuing

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loans and aid from foreign governments, commercial banks and multinational organizations. Additional factors that may influence the ability or willingness to service debt include, but are not limited to, a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole, and its government's policy towards the International Monetary Fund, the World Bank and other international agencies to which a government debtor may be subject. Initially, 30% of the Trust's portfolio is expected to be issued by issuers located in countries considered to be emerging markets, and such foreign sovereign and foreign corporate debt investments are particularly speculative, as discussed below in "Risks Emerging Markets Risk."

The cost of servicing external debt will also generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates which are adjusted based upon international interest rates. Heightened risks of investing in emerging market sovereign debt include:

- > Risk of default by a governmental issuer or guarantor. In the event of a default, the Trust may have limited legal recourse against the issuer and/or guarantor; and
- > Risk of restructuring certain debt obligations (such as Brady Bonds).

This may include reducing and rescheduling interest and principal payments or requiring lenders to extend additional credit, which may adversely affect the value of these investments. There may be less publicly available information about a foreign company than about a U.S. company, and foreign companies may not be subject to accounting, auditing, and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. In addition, if a deterioration occurs in the country's balance of payments, it could impose temporary restrictions on foreign capital remittances.

As a result of these potential risks, BlackRock may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country. The Trust may invest in countries in which foreign investors, including BlackRock, have had no or limited prior experience.

The Trust may engage in foreign currency transactions, including foreign currency forward contracts, options, swaps and other strategic transactions in connection with its investments in Non-U.S. Securities.

## **EMERGING MARKETS RISK**

Investing in securities of issuers based in underdeveloped emerging markets entails all of the risks of investing in Non-U.S. Securities to a heightened degree. These heightened risks include: (i) greater risks of expropriation, confiscatory taxation, nationalization, and less social, political and economic stability; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in lack of liquidity and in price volatility; and (iii) certain national policies which may restrict the Trust's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests.

In addition to brokerage commissions, custodial services and other costs relating to investment in emerging markets are generally more expensive than in the United States. Such markets have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. The inability of the Trust to make intended securities purchases due to settlement problems could cause the Trust to miss attractive investment opportunities. An inability to dispose of a

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security due to settlement problems could result in losses to the Trust due to subsequent declines in the value of the security.

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Foreign investment in certain emerging market issuers may be restricted or controlled to varying degrees. These restrictions or controls may at times limit or preclude foreign investment in certain emerging market issuers and increase the costs and expenses of the Trust. Certain emerging market countries require governmental approval prior to investments by foreign persons in a particular issuer, limit the amount of investment by foreign persons in a particular issuer, limit the investment by foreign persons only to a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries and/or impose additional taxes on foreign investors. Certain emerging market countries may also restrict investment opportunities in issuers in industries deemed important to national interests. Emerging market countries may require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if a deterioration occurs in an emerging market country's balance of payments, the country could impose temporary restrictions on foreign capital remittances. The Trust could be adversely affected by delays in, or a refusal to grant, any restrictions on investments. Investing in local markets in emerging market countries may require the Trust to adopt special procedures, seek local government approvals or take other actions, each of which may involve additional costs to the Trust.

#### **FOREIGN CURRENCY RISK**

Because the Trust may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Trust and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Trust's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. In addition, certain countries, particularly emerging markets countries, may impose foreign currency exchange controls or other restrictions on the transferability or convertibility of currency.

#### **MORTGAGE-RELATED SECURITIES RISK**

The risks associated with mortgage-related securities include:

- > credit risks associated with the performance of the underlying mortgage properties and of the borrowers owning these properties;
- > adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on mortgage-related securities secured by loans on certain types of commercial properties than on those secured by loans on residential properties;
- > prepayment risk, which can lead to significant fluctuations in value of the mortgage-related security;
- > loss of all or part of the premium, if any, paid; and
- > decline in the market value of the security, whether resulting from changes in interest rates or prepayments on the underlying mortgage collateral.

#### **PREPAYMENT RISK**

During periods of declining interest rates or for other purposes, the Borrowers may exercise their option to prepay principal earlier than scheduled. For fixed income securities, such payments often

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occur during period of declining interest rates, forcing the Trust to reinvest in lower yielding securities. This is known as call or prepayment risk. Non-investment grade bonds frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ("call protection"). An issuer may redeem a high yield obligation if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Senior Loans typically have no such call protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Trust, prepayment risk may be enhanced.

#### **ASSET-BACKED SECURITIES RISK**

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Asset-backed securities involve certain risks in addition to those presented by mortgage-related securities:

- > primarily, these securities do not have the benefit of the same security interest in the underlying collateral as mortgage-related securities and are more dependent on the borrower's ability to pay;
- > credit card receivables are generally unsecured, and the debtors are entitled to the protection of a number of state and Federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due; and
- > most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing such receivables. There is a possibility that recoveries on repossessed collateral may not, in some cases, be able to support payments on these securities.

### **COLLATERALIZED BOND OBLIGATIONS RISK**

Income from the pool of lower grade securities collateralizing CBOs is typically separated into tranches representing different degrees of credit quality. The top tranche of CBOs, which represents the highest credit quality in the pool, has the greatest collateralization and pays the lowest interest rate. Lower CBO tranches represent lower degrees of credit quality and pay higher interest rates to compensate for the attendant risks. The bottom tranche specifically receives the residual interest payments (*i.e.*, money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The return on the lower tranches of CBOs are especially sensitive to the rate of defaults in the collateral pool, which increases the risk of the Trust losing its investments in lower CBO tranches.

### **INFLATION RISK**

Inflation risk is the risk that the value of assets or income from the Trust's investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real, or inflation adjusted, value of the Trust's common stock and distributions can decline and the interest payments on Trust borrowings, if any, may increase or the value of dividend payments on the Trust's preferred stock, if any, may decline.

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### **NON-PAYMENT RISK**

The debt securities in which the Trust invests are subject to the risk of non-payment of interest and principal. When a borrower or issuer fails to make scheduled interest or principal payments on a debt security, the value of the security, and hence the Trust's net asset value, may go down. While a senior position in the capital structure of a borrower may provide some protection with respect to the Trust's investments in senior loans, losses may still occur.

### **LIQUIDITY RISK**

The Trust may invest in Senior Loans and other securities for which there is no readily available trading market or which are otherwise illiquid. The Trust may not be able to readily dispose of such securities at prices that approximate those at which the Trust could sell such securities if they were more widely-traded and, as a result of such illiquidity, the Trust may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. In addition, the limited liquidity could affect the market price of the securities, thereby adversely affecting the Trust's net asset value and ability to make dividend distributions.

Most Senior Loans are valued by an independent pricing service that uses market quotations of investors and traders in Senior Loans. As a result, BlackRock will have to rely on third party service providers for valuation to a large extent. Economic and other events (whether real or perceived) can reduce the demand for certain Senior Loans or Senior Loans generally, which may reduce market prices and cause the Trust's net asset value per share to fall. The frequency and magnitude of such changes cannot be predicted.

Some Senior Loans are not readily marketable and may be subject to restrictions on resale. Senior Loans generally are not listed on any national securities exchange or automated quotation system and no active trading market may exist for some of the Senior Loans in which the Trust will invest. Where a secondary market exists, the market for some Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Senior Loans that are illiquid may impair the Trust's ability to realize the full value of its assets in the event of a voluntary or involuntary liquidation of such assets and thus may cause a decline in the Trust's net asset value. The Trust has no limitation on the amount of its assets which may be invested in securities which are not readily marketable or are subject to restrictions on resale.

#### **CREDIT DERIVATIVES RISK**

The use of credit derivatives is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. If BlackRock is incorrect in its forecasts of default risks, market spreads or other applicable factors, the investment performance of the Trust would diminish compared with what it would have been if these techniques were not used. Moreover, even if BlackRock is correct in its forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being protected. The Trust's risk of loss in a credit derivative transaction varies with the form of the transaction. For example, if the Trust purchases a default option on a security, and if no default occurs with respect to the security, the Trust's loss is limited to the premium it paid for the default option. In contrast, if there is a default by the grantor of a default option, the Trust's loss will include both the premium that it paid for the option and the decline in value of the underlying security that the default option protected.

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#### **STRATEGIC TRANSACTIONS**

Strategic Transactions in which the Trust may engage also involve certain risks and special considerations, including engaging in hedging and risk management transactions such as interest rate and foreign currency transactions, credit default swaps, options, futures, swaps and other derivatives transactions. Strategic Transactions will be entered into to seek to manage the risks of the Trust's portfolio of securities or enhance total returns, but may have the effect of limiting the gains from favorable market movements. The use of Strategic Transactions to enhance gains may be particularly speculative. Strategic Transactions involve risks, including (1) that the loss on the Strategic Transaction position may be larger than the gain in the portfolio position being hedged and (2) that the derivative instruments used in Strategic Transactions may not be liquid and may require the Trust to pay additional amounts of money. Successful use of Strategic Transactions depends on BlackRock's ability to predict correctly market movements which, of course, cannot be assured. Losses on Strategic Transactions may reduce the Trust's net asset value and its ability to pay dividends if they are not offset by gains on the portfolio positions being hedged. The Trust may also lend the securities it owns to others, which allows the Trust the opportunity to earn additional income. Although the Trust will require the borrower of the securities to post collateral for the loan and the terms of the loan will require that the Trust be able to reacquire the loaned securities if certain events occur, the Trust is still subject to the risk that the borrower of the securities may default, which could result in the Trust losing money, which would result in a decline in the Trust's net asset value. The Trust may also purchase securities for delayed settlement. This means that the Trust is generally obligated to purchase the securities at a future date for a set purchase price, regardless of whether the value of the securities is more or less than the purchase price at the time of settlement.

#### **MARKET DISRUPTION RISK**

The war with Iraq, its aftermath and the continuing occupation of that country by coalition forces are likely to have a substantial impact on the U.S. and world economies and securities markets. The duration and nature of the war and occupation and the potential costs of rebuilding the Iraqi infrastructure and political systems cannot be predicted with any certainty. The war and occupation, terrorism and related geopolitical risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events could also have an acute effect on individual issuers or related groups of issuers. These risks could also adversely affect securities markets, interest rates, auctions, secondary trading, ratings, credit risk, inflation, deflation and other factors relating to the APS.

#### **ANTI-TAKEOVER PROVISIONS**

The Trust's Agreement and Declaration of Trust, as amended and restated, (the "Agreement and Declaration of Trust") contains provisions limiting (1) the ability of other entities or persons to acquire control of the Trust, (2) the Trust's freedom to engage in certain transactions and (3) the ability of the Trust's board of trustees or shareholders to amend the Trust's Agreement and Declaration of Trust. These provisions of the Trust's Agreement and Declaration of Trust may be regarded as "anti-takeover" provisions. These provisions could have the effect of depriving the shareholders of opportunities to sell their common shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Trust in a tender offer or similar transaction. See "Anti-Takeover provisions in the Agreement and Declaration of Trust."

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## Management of the Trust

### TRUSTEES AND OFFICERS

The board of trustees is responsible for the overall management of the Trust, including supervision of the duties performed by BlackRock. There are eight trustees of the Trust. A majority of the trustees are not "interested persons" (as defined in the Investment Company Act). The names and business addresses of the trustees and officers of the Trust and their principal occupations and other affiliations during the past five years are set forth under "Management of the Trust" in the Statement of Additional Information.

### INVESTMENT ADVISOR AND SUB-ADVISOR

BlackRock Advisors acts as the Trust's investment advisor. BlackRock Financial Management acts as the Trust's sub-advisor. BlackRock Advisors, located at 100 Bellevue Parkway, Wilmington, Delaware 19809, and BlackRock Financial Management, located at 40 East 52nd Street, New York, New York 10022, are wholly owned subsidiaries of BlackRock, Inc., which is one of the largest publicly traded investment management firms in the United States with approximately \$310 billion of assets under management as of June 30, 2004. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products, including the BlackRock Funds and BlackRock Liquidity Funds. In addition, BlackRock provides risk management and investment system services to institutional investors under the BlackRock Solutions® name. The BlackRock organization has over 16 years of experience managing closed-end products and, as of June 30, 2004, advised a closed-end family of 52 active funds with over \$14 billion in assets. Clients are served from the company's headquarters in New York City, as well as offices in Boston, Edinburgh, Hong Kong, San Francisco, Sydney, Tokyo and Wilmington. BlackRock, Inc. is a member of The PNC Financial Services Group, Inc. ("PNC"), one of the largest diversified financial services organizations in the United States, and is majority-owned by PNC and by BlackRock employees.

### INVESTMENT PHILOSOPHY

BlackRock chooses securities and sectors that it believes will outperform other securities and sectors based on fundamentals and not just interest rates. BlackRock manages fixed income portfolios by using a strategy that invests in sectors of the fixed income market that BlackRock believes are undervalued by moving out of sectors that BlackRock believes are fairly or overvalued. BlackRock researches and is active in analyzing the sectors which it believes are under, fairly and overvalued in order to achieve a portfolio's investment objective. BlackRock has in-depth expertise in all sectors of the fixed income market. BlackRock specializes in managing fixed income portfolios against both published and customized benchmarks and has been doing this since the inception of its fixed income products in 1988.

In selecting securities for the Trust's portfolio, BlackRock will seek to identify issuers and industries that BlackRock believes are likely to experience stable or improving financial conditions. BlackRock believes this strategy should enhance the Trust's ability to seek total return. BlackRock's analysis includes:

- > credit research on the issuers' financial strength;
- > assessment of the issuers' ability to meet principal and interest payments;
- > general industry trends;

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- > the issuers' managerial strength;
- >

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changing financial conditions;

- > borrowing requirements or debt maturity schedules; and
- > the issuers' responsiveness to change in business conditions and interest rates.

BlackRock considers relative values among issuers based on anticipated cash flow, interest or dividend coverage, asset coverage and earnings prospects.

The BlackRock organization's philosophy has not changed since the inception of the firm. The technology that enables BlackRock to implement its investment strategies, however, is constantly evolving. BlackRock's commitment to maintaining and developing its state-of-the-art analytics in the most efficient manner is manifest in (1) the development of proprietary tools, (2) the use of external tools to assist in its analysis and (3) the integration of all of these tools into a unique portfolio level risk management system. By continually updating its analytics and systems, BlackRock attempts to better quantify and evaluate the risk of each investment decision.

BlackRock's style is designed with the objective of generating excess returns with lower risk than its benchmarks and competitors. The use of these advanced analytics attempts to provide real time analysis of a vast array of risk measures designed to measure the potential impact of various strategies on total return. As a result BlackRock seeks to add consistent value and control performance volatility consistent with the Trust's investments.

### BLACKROCK'S PORTFOLIO MANAGEMENT TEAM

BlackRock uses a team approach to managing its portfolios. BlackRock believes that this approach offers substantial benefits over one that is dependent on the market wisdom or investment expertise of only a few individuals.

### INVESTMENT MANAGEMENT AGREEMENT

Pursuant to an investment management agreement between BlackRock Advisors and the Trust (the "Investment Management Agreement"), the Trust has agreed to pay for the investment advisory services and facilities provided by BlackRock Advisors a fee payable monthly in arrears at an annual rate equal to 0.75% of the average weekly value of the Trust's Managed Assets (the "Management Fee"). BlackRock has voluntarily agreed to waive receipt of a portion of its management fee in the amount of 0.20% of the average weekly value of the Trust's Managed Assets for the first five years of the Trust's operations (through August 31, 2009), and for a declining amount for an additional three years (through August 31, 2012). The Trust will also reimburse BlackRock Advisors for certain expenses BlackRock Advisors incurs in connection with performing certain services for the Trust. In addition, with the approval of the board of trustees, a pro rata portion of the salaries, bonuses, health insurance, retirement benefits and similar employment costs for the time spent on Trust operations (other than the provision of services required under the investment management agreement) of all personnel employed by BlackRock Advisors who devote substantial time to Trust operations may be reimbursed to BlackRock Advisors. Managed Assets are the total assets of the Trust, which includes any proceeds from the preferred shares, minus the sum of accrued liabilities (other than indebtedness attributable to leverage). This means that during periods in which the Trust is using leverage, the fee paid to BlackRock Advisors will be higher than if the Trust did not use leverage because the fee is calculated as a percentage of the Trust's Managed Assets, which include those assets purchased with leverage.

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In addition to the management fee of BlackRock Advisors, the Trust pays all other costs and expenses of its operations, including compensation of its trustees (other than those affiliated with BlackRock Advisors), custodian, transfer and dividend disbursing agent expenses, legal fees, leverage expenses, rating agency fees listing fees and expenses, fees and expenses of independent auditors and its counsel and counsel to the independent trustees, expenses of repurchasing shares, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

For the first eight years of the Trust's operation, BlackRock Advisors has undertaken to waive its investment advisory fees and expenses payable by the Trust in the amounts, and for the time periods, set forth below:

**Twelve Month Period Ending**

**Percentage Waived (As a Percentage of  
Average Weekly Managed Assets)\***

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Twelve Month Period Ending	Percentage Waived (As a Percentage of Average Weekly Managed Assets)*
August 31, 2005**	0.20%
August 31, 2006	0.20%
August 31, 2007	0.20%
August 31, 2008	0.20%
August 31, 2009	0.20%
August 31, 2010	0.15%
August 31, 2011	0.10%
August 31, 2012	0.05%

\* Including net assets attributable to preferred shares or other leverage.

\*\* From the commencement of operations.

BlackRock Advisors has not undertaken to waive any portion of the Trust's fees and expenses beyond August 31, 2012 or after termination of the investment management agreement.

## Description of APS

The following is a brief description of the terms of the APS. For the complete terms of the APS, including the meanings of the defined terms used herein but not otherwise defined, please refer to the detailed description of the APS in the Statement attached as Appendix A to the Statement of Additional Information.

### GENERAL

The Trust's Agreement and Declaration of Trust, as amended and restated, authorizes the issuance of an unlimited number of preferred shares, par value \$0.001 per share, in one or more classes or series with rights as determined by the board of trustees without the approval of common shareholders. The Statement currently authorizes the issuance of 6,027 APS, Series T7, 6,027 APS, Series W7 and 6,027 APS, Series R7. All APS will have a liquidation preference of \$25,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared). See "Liquidation."

The APS will rank on parity with any other series of APS, and with shares of any other series of preferred shares of the Trust, as to the payment of dividends and the distribution of assets upon liquidation. All shares of APS carry one vote on matters that APS can be voted. The APS, when issued, will be fully paid and non-assessable and have no preemptive, conversion or cumulative voting rights. The APS will not be convertible into common shares or other capital stock of the Trust.

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A preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The ratings on the APS are not recommendations to purchase, hold or sell those shares, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines described below also do not address the likelihood that an owner of APS will be able to sell such shares in an auction or otherwise.

### DIVIDENDS AND RATE PERIODS

The following is a general description of dividends and rate periods. The Initial Rate Period is as set forth below:

**Initial Rate  
Period**

Series T7	days
Series W7	days
Series R7	days

Any subsequent rate periods of shares of APS will generally be seven days. The Trust, subject to certain conditions, may change the length of subsequent rate periods by designating them as special rate periods. See "Declaration of special rate periods" below.

*Dividend Payment Dates.* Dividends on the APS will be payable when, as and if declared by the board of trustees, out of legally available funds in accordance with the Agreement and Declaration of Trust, the Statement and applicable law. Dividends are scheduled to be paid for the APS as follows:

	<u>Initial Dividend Payment Date</u>	<u>Subsequent Dividend Payment Date</u>
Series T7		
Series W7		
Series R7		

If dividends are payable on a day that is not a business day, then dividends will be payable on the next business day. In addition, the Trust may specify different dividend payment dates for any special rate period of more than 28 rate period days.

Dividends will be paid through The Depository Trust Company (the "Securities Depository") on each Dividend Payment Date. The Securities Depository, in accordance with its current procedures, is expected to distribute dividends received from the Trust in next-day funds on each Dividend Payment Date to Agent Members. These Agent Members are in turn expected to distribute such dividends to the persons for whom they are acting as agents. However, each of the current Broker-Dealers has indicated to the Trust that dividend payments will be available in same-day funds on each Dividend Payment Date to customers that use such Broker-Dealer or that Broker-Dealer's designee as Agent Member.

*Calculation of Dividend Payment.* The Trust computes the dividends per share payable on shares of a series of by multiplying the applicable rate for shares of such series in effect by a fraction. The numerator of this fraction will normally be seven (*i.e.*, the number of days in the Dividend Period) and the denominator will normally be 360. In either case, this rate is then multiplied by \$25,000 to arrive at dividends per share.

Dividends on shares of each series of APS will accumulate from the date of their original issue. For each dividend payment period after the initial dividend period, the dividend rate will be the dividend rate determined at auction once each of the requirements of the Statement are satisfied.

Prior to each auction, Broker-Dealers will notify holders of the term of the next succeeding rate period as soon as practicable after the Broker-Dealers have been so advised by the Trust. After each auction, on the auction date, Broker-Dealers will notify holders of the applicable rate for the next succeeding rate period and of the auction date of the next succeeding auction.

The dividend rate that results from an auction for each series of APS will not be greater than the maximum applicable rate. The maximum applicable rate for any regular rate period will be the higher of the applicable percentage of the reference rate or the applicable spread over the reference rate. The reference rate will be the applicable LIBOR Rate (as defined below) (for a dividend period of fewer than 365 days) or the applicable Treasury Index Rate (as defined below) (for a dividend period of 365 days or more). The applicable percentage of the reference rate and the applicable spread over the reference rate for any regular rate period will generally be determined on the credit ratings assigned to the APS by Moody's and S&P on the auction date for such period (as set forth in the table below). If Moody's and S&P shall not make such rating available, the rate shall be determined by reference to equivalent ratings issued by a substitute rating agency. In the case of a special rate period, (1) the maximum applicable rate will be specified by the Trust in the notice of special rate period for such rate period, (2) the applicable percentage of the reference rate and the applicable spread over the reference rate will be determined on the date two business days before the first day of such special rate period and (3) the reference rate will be the applicable LIBOR Rate (for a rate period of fewer than 365 days) or the Treasury Index Rate (for a rate period of 365 days or more).

<b>CREDIT RATINGS</b>		<b>APPLICABLE PERCENTAGE OF THE REFERENCE RATE</b>	<b>APPLICABLE SPREAD</b>
<b>MOODY'S</b>	<b>S&amp;P/FITCH</b>		

## CREDIT RATINGS

Aaa	AAA	125%	125 bps
Aa3 to Aa1	AA- to AA+	150%	150 bps
A3 to A1	A- to A+	200%	200 bps
Baa3 to Baa1	BBB- to BBB+	250%	250 bps
Ba1 and lower	BB+ and lower	300%	300 bps

Assuming the Trust maintains an AAA/Aaa rating on the APS, the practical effect of the different methods used to calculate the maximum applicable rate is shown in the table below:

REFERENCE RATE	MAXIMUM APPLICABLE RATE USING THE APPLICABLE PERCENTAGE OF THE REFERENCE RATE	MAXIMUM APPLICABLE RATE USING THE APPLICABLE SPREAD OVER THE REFERENCE RATE	METHOD USED TO DETERMINE THE MAXIMUM APPLICABLE RATE
1%	1.25%	2.25%	Spread
2%	2.50%	3.25%	Spread
3%	3.75%	4.25%	Spread
4%	5.00%	5.25%	Spread
5%	6.25%	6.25%	Either
6%	7.50%	7.25%	Percentage

Prior to each dividend payment date, the Trust is required to deposit with the auction agent sufficient funds for the payment of declared dividends. The failure to make such deposit will not result in the cancellation of any auction. The Trust does not intend to establish any reserves for the payment of dividends.

The Trust will take all reasonable action necessary to enable Moody's and S&P to provide ratings for each series of APS. If such ratings are not made available by Moody's or S&P, the underwriters or

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their affiliates and successors, after consultation with the Trust, will select one or more other rating agencies to act as substitute rating agencies.

The "LIBOR Rate" is the applicable London Inter-Bank Offered Rate for deposits in U.S. dollars for the period most closely approximating the applicable dividend period for a series of APS. For a more detailed description, please see the Statement.

The "Treasury Index Rate" is the average yield to maturity for certain U.S. Treasury securities having substantially the same length to maturity as the applicable dividend period for a series of APS. For a more detailed description, please see the Statement.

*Effect of Failure to Pay Dividends in a Timely Manner.* If the Trust fails to pay the auction agent the full amount of any dividend for any APS in a timely manner, but the Trust cures such failure and pays any late charge before 12:00 noon, New York City time on the third business day following the date the failure occurred, no auction will be held for the APS, for the first subsequent dividend period thereafter, and the dividend rate for the APS for that subsequent dividend period will be the maximum rate. However, if the Trust does not effect a timely cure, no auction will be held for the APS for the first subsequent dividend period thereafter (and for any dividend period thereafter, to and including the dividend period during which the failure is cured and the late charge is paid), and the dividend rate for the APS for each subsequent dividend period will be the maximum rate with the prevailing rating for the series of APS being deemed Baa1/BBB.

*Restrictions on Dividends and Other Distributions.* Under the Investment Company Act, the Trust may not (i) declare any dividend with respect to the APS if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to the Trust's borrowings that are senior securities representing indebtedness (as defined in the Investment Company Act) would be less than 200% (or such other percentage as may in the future be specified in or under the Investment Company Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its APS) or (ii) declare any other distribution on the APS or purchase or redeem APS if at the time of the declaration (and after giving effect thereto), asset coverage with respect to the Trust's senior securities representing indebtedness would be less than 300% (or such other percentage as may in the future be specified in or under the Investment Company Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares of beneficial interest). "Senior securities representing indebtedness"

generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of beneficial interest) and evidencing indebtedness and could include the Trust's obligations under any borrowings. For purposes of determining asset coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term "senior security" does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term "senior security" also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the Trust at the time the loan is made; a loan is presumed under the Investment Company Act to be for temporary purposes if it is repaid within 60 days and is not extended or renewed; otherwise it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% asset coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of APS, such asset coverages may be calculated on the basis of values calculated as of a time within 48 hours (not including Sundays or holidays) next preceding the time of the applicable determination.

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In addition, a declaration of a dividend or other distribution on or purchase or redemption of APS may be prohibited (i) at any time when an event of default under any borrowings has occurred and is continuing; or (ii) after giving effect to such declaration, the Trust would not have eligible portfolio holdings with an aggregated discounted value at least equal to any asset coverage requirements associated with such borrowings; or (iii) the Trust has not redeemed the full amount of borrowings, if any, required to be redeemed by any provision for mandatory redemption. While the APS are outstanding, the Trust generally may not declare, pay or set apart for payment any dividend or other distribution in respect of its common shares. In addition, the Trust may not call for redemption or redeem any of its common shares. However, the Trust is not confined by the above restrictions if:

- > immediately after such transaction, the Discounted Value of the Trust's portfolio would be equal to or greater than the Preferred Shares Basic Maintenance Amount and the Investment Company Act Preferred Shares Asset Coverage (see " Rating Agency Guidelines and Asset Coverage" below);
- > full cumulative dividends on each series of APS due on or prior to the date of the transaction have been declared and paid or shall have been declared and sufficient funds for the payment thereof deposited with the auction agent; and
- > the Trust has redeemed the full number of APS required to be redeemed by any provision for mandatory redemption contained in the Statement.

The Trust generally will not declare, pay or set apart for payment any dividend on any class or series of shares of the Trust ranking, as to the payment of dividends, on a parity with APS unless the Trust has declared and paid or contemporaneously declares and pays full cumulative dividends on each series of the APS through its most recent dividend payment date. However, when the Trust has not paid dividends in full upon the shares of each series of APS through the most recent dividend payment date or upon any other class or series of shares of the Trust ranking, as to the payment of dividends, on a parity with APS through their most recent respective dividend payment dates, the amount of dividends declared per share on APS and such other class or series of shares will in all cases bear to each other the same ratio that accumulated dividends per share on the APS and such other class or series of shares bear to each other.

*Declaration of Special Rate Periods.* The Trust may, under certain circumstances, declare a special rate period for a particular series of APS. Upon declaring a special rate period, the Trust will give notice to the auction agent and each Broker-Dealer. The notice will request that the next succeeding Rate Period for the series of APS be a number of days (other than 7) evenly divisible by seven as specified in such notice and not more than 1,820 days long; provided, however, that a special rate period may be a number of days not evenly divisible by seven if all shares of the series of APS are to be redeemed at the end of such special rate period. The Trust may not request a special rate period unless sufficient clearing bids for shares of such series were made in the most recent auction (that is, in general, the number of shares subject to buy orders by potential holders is at least equal to the number of shares subject to sell orders by existing holders). In addition, full cumulative dividends, any amounts due with respect to mandatory redemptions and any additional dividends payable prior to such date must be paid in full or deposited with the auction agent. Prior to declaring a special rate period, the Trust will confirm that, as of the auction date next preceding the first day of such special rate period, it has eligible assets with an aggregate discounted value at least equal to the APS Basic Maintenance Amount (as defined below). The Trust also intends to consult with the Broker-Dealers and provide notice to each rating agency which is then rating the APS and so requires. A notice of special rate period also will specify whether the APS will be subject to optional redemption during such special rate period and, if so, the redemption premium, if any, required to be paid by the Trust in connection with such optional redemption. If the Trust proposes to designate any special rate period, not fewer

than 20 (or such lesser number of days as may be agreed from time to time by the auction agent and each Broker-Dealer) nor more than 30 business days prior to the first day of such Special Rate Period, notice shall be mailed to Holders of such series of APS. Each such notice shall state (A) that the Trust proposes to exercise its option to designate a succeeding special rate period, specifying the special rate period's first day and (B) that the Trust will by 11:00 A.M., New York City time, on the second business day next preceding the first day of such special rate period, notify the auction agent, who will promptly notify the Broker-Dealers, of either (x) its determination, subject to certain conditions, to proceed with such special rate period, subject to the terms of any specific redemption provisions, or (y) its determination not to proceed with such special rate period, in which latter event the succeeding Rate Period shall be a minimum rate period. No later than 11:00 A.M., New York City time, on the second business day next preceding the first day of any proposed special rate period, the Trust shall deliver to the auction agent, who will promptly deliver to the Broker-Dealers, either: (i) A notice stating (A) that the Trust has determined to designate the next succeeding Rate Period as a special rate period, specifying the first and last days thereof and (B) the terms of any specific redemption provisions; or (ii) a notice stating that the Trust has determined not to exercise its option to designate a special rate period. If the Trust fails to deliver either such notice with respect to any designation of any proposed special rate period to the auction agent by 11:00 A.M., New York City time, on the second business day next preceding the first day of such proposed special rate period, the Trust shall be deemed to have delivered a notice to the auction agent with respect to such Rate Period to the effect set forth in clause (ii) above, thereby resulting in a minimum rate period. The Trust must also have received confirmation from Moody's and S&P or any substitute rating agency that the proposed special rate period will not adversely affect such rating agency's then-current rating on the APS, and the lead Broker-Dealer designated by the Trust, initially UBS Securities LLC must not have objected to the declaration of a special rate period.

## REDEMPTION

*Mandatory Redemption.* The Trust is required to maintain (a) a Discounted Value of eligible portfolio securities equal to the APS Basic Maintenance Amount and (b) the Investment Company Act Preferred Shares Asset Coverage. Eligible portfolio securities for purposes of (a) above will be determined from time to time by the rating agencies then rating the APS. If the Trust fails to maintain such asset coverage amounts and does not timely cure such failure in accordance with the requirements of the rating agency that rates the APS, the Trust must redeem all or a portion of the APS. This mandatory redemption will take place on a date that the board of trustees specifies out of legally available funds in accordance with the Agreement and Declaration of Trust, as amended and restated, the Statement and applicable law, at the redemption price of \$25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared) to the date fixed for redemption. The number of APS that must be redeemed in order to cure such failure will be allocated pro rata among the outstanding preferred shares of the Trust. The mandatory redemption will be limited to the number of APS necessary to restore the required Discounted Value or the Investment Company Act Preferred Shares Asset Coverage, as the case may be.

*Optional Redemption.* The Trust, at its option, may redeem the APS, in whole or in part, out of funds legally available therefor. Any optional redemption will occur on any dividend payment date at the optional redemption price per share of \$25,000 per share plus an amount equal to accumulated but unpaid dividends to the date fixed for redemption plus the premium, if any, specified in a special redemption provision. No shares of APS may be redeemed if the redemption would cause the Trust to violate the Investment Company Act or applicable law. Shares of APS may not be redeemed in part if

fewer than 300 APS would remain outstanding after the redemption. The Trust has the authority to redeem the APS for any reason.

The redemption price for a series of APS may include the payment of redemption premiums to the extent required under any applicable specific redemption provisions. The Trust will not make any optional redemption unless, after giving effect thereto, (i) the Trust has available certain deposit securities with maturities or tender dates not later than the day preceding the applicable redemption date and having a value not less than the amount (including any applicable premium) due to holders of the series of APS by reason of the redemption of the series of APS on such date fixed for the redemption and (ii) the Trust has eligible assets with an aggregate discounted value at least equal to the APS Basic Maintenance Amount. Notwithstanding the foregoing, a series of APS may not be redeemed at the option of the Trust unless all dividends in arrears on the outstanding series of the APS, and any other outstanding preferred shares of the Trust, have been or are being contemporaneously paid or set aside for payment. This would not prevent the lawful purchase or exchange offer for a series of APS made on the same terms to holders of all outstanding preferred shares of the Trust.

## LIQUIDATION

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In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Trust, the holders of preferred shares will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per Preferred Share plus accrued and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common shares. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preferred shares will not be entitled to any further participation in any distribution of assets by the Trust.

For purpose of the foregoing paragraph, a voluntary or involuntary liquidation of the Trust does not include:

- > the sale of all or substantially all the property or business of the Trust;
- > the merger or consolidation of the Trust into or with any other business trust or corporation; or
- > the merger or consolidation of any other business trust or corporation into or with the Trust.

### RATING AGENCY GUIDELINES AND ASSET COVERAGE

The Trust is required under guidelines of Moody's and S&P to maintain assets having in the aggregate a Discounted Value at least equal to the Preferred Shares Basic Maintenance Amount. Moody's and S&P have each established separate guidelines for calculating Discounted Value. To the extent any particular portfolio holding does not satisfy a rating agency's guidelines, all or a portion of the holding's value will not be included in the rating agency's calculation of Discounted Value. The Moody's and S&P guidelines do not impose any limitations on the percentage of the Trust's assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of the Trust's portfolio. The amount of ineligible assets included in the Trust's portfolio at any time may vary depending upon the rating, diversification and other characteristics of the eligible assets included in the portfolio. The APS Basic Maintenance Amount includes the sum of (a) the aggregate liquidation preference of the APS then outstanding and (b) certain accrued and projected payment obligations of the Trust.

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The Trust is also required under the Investment Company Act to maintain asset coverage of at least 200% with respect to senior securities which are equity shares, including the APS ("Investment Company Act Preferred Shares Asset Coverage"). The Trust's Investment Company Act Preferred Shares Asset Coverage is tested as of the last business day of each month in which any senior equity securities are outstanding. The minimum required Investment Company Act Preferred Shares Asset Coverage amount of 200% may be increased or decreased if the Investment Company Act is amended. Based on the composition of the portfolio of the Trust and market conditions as of October 13, 2004, the Investment Company Act Preferred Shares Asset Coverage with respect to all of the Trust's preferred shares, assuming the issuance on that date of all APS offered hereby and giving effect to the deduction of related sales load and related offering costs estimated at \$240,672,620 would have been computed as follows:

Value of Trust assets less liabilities not constituting senior securities	=	692,646,759	=	285%
Senior securities representing indebtedness plus liquidation value of the preferred shares		243,450,000		

In the event the Trust does not timely cure a failure to maintain (a) a Discounted Value of its portfolio equal to the Preferred Shares Basic Maintenance Amount or (b) the Investment Company Act Preferred Shares Asset Coverage, in accordance with the requirements of the rating agency or agencies then rating the APS or the Investment Company Act, as the case may be, the Trust will be required to redeem APS as described under "Redemption Mandatory Redemption" above.

The Trust may, but is not required to, adopt any modifications to the guidelines that may be established by Moody's or S&P. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any rating agency providing a rating for the APS may, at any time, change, suspend or withdraw any such rating. The board of trustees may, without shareholder approval, amend, alter or repeal any or all of the definitions and related provisions which have been adopted by the Trust pursuant to the rating agency guidelines in the event the Trust receives written confirmation from Moody's or S&P, as the case may be, that any such amendment, alteration or repeal would not impair the rating then assigned to the APS.

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As described by Moody's and S&P, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The rating on the APS is not a recommendation to purchase, hold or sell those shares, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The rating agency guidelines referred to above also do not address the likelihood that an owner of APS will be able to sell such shares in an auction or otherwise. The rating is based on current information furnished to Moody's and S&P by the Trust and the Advisor and information obtained from other sources. The rating may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information.

The common shares have not been rated by a nationally recognized statistical rating organization.

The rating agency's guidelines will apply to the APS only so long as the rating agency is rating the shares. The Trust will pay certain fees to Moody's and S&P for rating the APS.

### VOTING RIGHTS

Except as otherwise provided in this prospectus and in the Statement of Additional Information or as otherwise required by law, holders of APS will have equal voting rights with holders of common shares

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and any other preferred shares (one vote per share) and will vote together with holders of common shares and any preferred shares as a single class.

Holders of outstanding preferred shares, including APS, voting as a separate class, are entitled to elect two of the Trust's trustees. The remaining trustees are elected by holders of common shares and preferred shares, including APS, voting together as a single class. In addition, if at any time dividends (whether or not earned or declared) on outstanding preferred shares, including APS, are due and unpaid in an amount equal to two full years of dividends, and sufficient cash or specified securities have not been deposited with the auction agent for the payment of such dividends, then, the sole remedy of holders of outstanding preferred shares, including APS, is that the number of trustees constituting the board of trustees will be automatically increased by the smallest number that, when added to the two trustees elected exclusively by the holders of preferred shares including APS as described above, would constitute a majority of the board of trustees. The holders of preferred shares, including APS, will be entitled to elect that smallest number of additional trustees at a special meeting of shareholders held as soon as possible and at all subsequent meetings at which trustees are to be elected. The terms of office of the persons who are trustees at the time of that election will continue. If the Trust thereafter shall pay, or declare and set apart for payment, in full, all dividends payable on all outstanding preferred shares, including APS, the special voting rights stated above will cease, and the terms of office of the additional trustees elected by the holders of preferred shares, including APS, will automatically terminate.

As long as any APS are outstanding, the Trust will not, without the affirmative vote or consent of the holders of at least a majority of the APS outstanding at the time (voting together as a separate class):

- (a) authorize, create or issue, or increase the authorized or issued amount of, any class or series of shares ranking prior to or on a parity with the APS with respect to payment of dividends or the distribution of assets on liquidation or authorize, create or issue additional shares of or increase the authorized amount of the APS or any other preferred shares, unless, in the case of shares of preferred shares on parity with the APS, the Trust obtains written confirmation from Moody's (if Moody's is then rating the APS) and from S&P (if S&P is then rating the APS) or any substitute rating agency (if any such substitute rating agency is then rating the APS) that the issuance of a class or series would not impair the rating then assigned by such rating agency to the APS and the Trust continues to comply with Section 13 of the Investment Company Act, the Investment Company Act Preferred Shares Asset Coverage requirements and the Preferred Shares Basic Maintenance Amount requirements, in which case the vote or consent of the holders of the APS is not required;
- (b) amend, alter or repeal the provisions of the Agreement and Declaration of Trust or the Statement, by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of the APS or holders of APS; provided, however, that (i) none of the actions permitted by the exception to (a) above will be deemed to affect such preferences, rights or powers, (ii) a division of APS will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of APS and (iii) the authorization, creation and issuance of classes or series of shares ranking junior to the APS with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Trust, will be deemed to affect such preferences, rights or powers only if Moody's or S&P is then rating the APS and such issuance would, at the time thereof, cause the Trust not to satisfy the Investment Company Act Preferred Shares Asset Coverage or the Preferred Shares Basic Maintenance Amount;

(c) authorize the Trust's conversion from a closed-end to an open-end investment company; or

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