

# **Bond Case Briefs**

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## **FINRA Requests Comment on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market.**

The proposal addresses, among other things, maintenance margin and variation margin requirements, risk limit determinations, concentrated exposures, and exemptions for de minimis transfer amounts and for transactions cleared through registered clearing agencies. You can find the full Regulatory Notice [here](#) and the proposed rule amendment available [here](#).

A summary of the proposed amendments follows:

The proposed rule change provides that all members would be required to collect variation margin for transactions in Covered Agency Securities when the current exposure exceeds \$250,000;

Members would be required to collect maintenance margin for transactions with non-exempt counterparties;

The proposed amendments apply to “Covered Agency Securities,” including TBA transactions for which the difference between the trade date and contractual settlement date is greater than one business day, inclusive of ARM transactions; Specified Pool Transactions, for which the difference between the trade date and contractual settlement date is greater than one business day; and transactions in CMOs issued in conformity with a program of an Agency, for which the difference between the trade date and contractual settlement date is greater than three business days;

Transactions cleared through a registered clearing agency, and subject to the margin requirements of that clearing agency, will not be subject to the proposed requirements;

The proposal provides that for transactions with exempt counterparties, maintenance margin will not be required;

If variation margin is not posted to secure the mark to market loss within five business days from the date the loss was created, the member is required to promptly take liquidating action, unless FINRA grants the member an extension; and

The proposal provides that for transactions with non-exempt accounts, members must collect variation margin and must collect maintenance margin equal to 2 percent of the market value of the securities.

The comment period expires February 26, 2014. The BDA will be submitting a comment letter to FINRA on these proposed amendments. Please reach out to us if you would like to be a part of that process.

Comment Period Expires: February 26, 2014

Executive Summary

FINRA is seeking comment on proposed amendments to FINRA Rule 4210 to establish margin requirements for transactions in the To Be Announced (TBA) market. The proposal, designed to reflect the growth of the TBA market and to replace current interpretive materials under Rule 4210 that have become outdated, is informed by the set of best practices adopted by the Treasury Market Practices Group (TMPG) of the Federal Reserve Bank of New York (FRBNY). Consistent with the overarching goal of many regulatory initiatives since the financial crisis, the proposal aims to reduce counterparty credit risk. The proposal would accomplish this in the TBA market by addressing, among other things, maintenance margin and variation (also referred to in the proposed rule language and this Notice as mark to market) margin requirements, risk limit determinations, concentrated exposures, and exemptions for de minimis transfer amounts and for transactions cleared through registered clearing agencies. The proposed rule amendment is available as Attachment A at [www.finra.org/notices/14-02](http://www.finra.org/notices/14-02).

View the full notice at:

<http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p439087.pdf>

Questions regarding this Notice should be directed to:

Glen Garofalo, Director, Credit Regulation, at (646) 315-8464;

Peter Tennyson, Director, Broker-Dealer Operations and Financial Responsibility, at (646) 315-8403;

Adam H. Arkel, Associate General Counsel, Office of General Counsel, at (202) 728-6961.