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SIFMA Urges FINRA to Reconsider Extended Settlement Margin Proposal.

SIFMA expressed concern regarding a FINRA proposal to amend the application of margin requirements under FINRA Rule 4210 to "when issued" and other extended settlement transactions.

In its comment letter, SIFMA stated that FINRA's proposals are "so extensive" from an operational perspective for member firms and in terms of impact on customers and issuers that FINRA should consider "removing" the proposals and commencing a dialogue with members to better understand the impact of the proposal.

SIFMA urged a number of changes to the FINRA proposal, noting, among other things, that:

- FINRA should reconsider the distinction between IPOs and other types of when-issued offerings, stating that "extended settlement" in new issues is "generally driven by the financing terms/needs of the issuers or the logistical requirements of documenting the offering";
- the proposal to permit capital charges instead of margin collection for certain types of transactions may disadvantage smaller firms, which may not be able to participate in new issue offerings;
- most closing/settlement dates of non-equity/debt securities new issues are driven by various considerations unrelated to the ability or willingness of investors to pay and should not be considered "extensions of credit" as contemplated by margin regulations;
- the FINRA T+2 definition of "extended settlement" is inconsistent with Regulation T;
- it is not clear whether FINRA can impose margin requirements on municipal securities under Rule 4210; and
- the proposals should not apply to secondary market transactions, because bona fide delivery-versus-payment customers "are largely institutional investors of substantial size."

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