

MEMO# 29479

November 9, 2015

ICI Submits Comment Letter on FINRA Proposal to Require Margin for TBA Transactions

[29479]

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TO: DERIVATIVES MARKETS ADVISORY COMMITTEE No. 78-15
FIXED-INCOME ADVISORY COMMITTEE No. 34-15
INVESTMENT ADVISER MEMBERS No. 26-15
SECURITIES OPERATIONS ADVISORY COMMITTEE RE: ICI SUBMITS COMMENT LETTER ON
FINRA PROPOSAL TO REQUIRE MARGIN FOR TBA TRANSACTIONS

ICI submitted a comment letter to the Securities and Exchange Commission (“SEC” or “Commission”) on a proposal by the Financial Industry Regulatory Authority (“FINRA”) to amend FINRA Rule 4210, which applies to transactions in the To Be Announced (“TBA”) market (“TBA Margin Proposal”). [\[1\]](#) The TBA Margin Proposal follows a 2014 proposal by FINRA to amend Rule 4210 (“2014 FINRA Proposal”), and reflects comments received by FINRA on the 2014 FINRA Proposal although the TBA Margin Proposal is largely unchanged from the 2014 FINRA Proposal.

ICI’s letter, which is attached, is summarized briefly below. ICI’s comment letter recommends that FINRA:

- **Require Two-Way Margining.** The new rule should require broker-dealers to post variation margin to customers when Covered Agency Transactions are in-the-money to the customer.
- **Revise the Definition of “Covered Agency Transactions.”** Transactions settling within three business days should not be treated as Covered Agency Transactions because they do not pose material risk beyond the ordinary settlement cycle.
- **Eliminate the Close-Out Obligation.** FINRA members should be permitted to take a capital charge in lieu of collecting variation margin from an exempt account for a Covered Agency Transaction.
- **Increase the Minimum Transfer Amount.** FINRA should raise the minimum transfer amount to \$500,000 to make it consistent with international standards.
- **Provide an Appropriate Transition Period.** Customers and FINRA members should be given 18 months to comply with the TBA Margin Proposal, once adopted.

Jennifer S. Choi
Associate General Counsel

[Attachment](#)

endnotes

[1] For a description of the TBA Margin Proposal, please see ICI Memorandum No. 29385 (Sept. 30, 2015), available at https://www.ici.org/my_ici/memorandum/memo29386. FINRA Rule 6710(u) defines “TBA” to mean, among other things, a transaction in an Agency Pass-Through Mortgage-Backed Security or a Small Business Administration-Backed Asset-Backed Security where the parties agree that the seller will deliver to the buyer a pool or pools of a specified face amount and meeting certain other criteria but the specific pool or pools to be delivered at settlement are not specified at the time of execution.

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