CLEARY GOTTLIEB STEEN & HAMILTON LLP

ONE LIBERTY PLAZA
NEW YORK, NY 10006-1470
(212) 225-2000
FACSIMILE (212) 225-3999
WWW.CLEARYGOTTLIEB.COM

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ANDREW WEAVER
HELENA K. GRANNIS
GRANT M. BINDER
RESIDENT COUNSEL

Writer's Direct Dial: +1 212 225 2262
E-Mail: daman@cgsh.com

June 27, 2012

BY ELECTRONIC MAIL TO RULE-COMMENTS@SEC.GOV

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. SR–FINRA–2012– 024

Dear Ms. Murphy:

I thank FINRA and the Commission for this opportunity to comment on FINRA's proposed amendments to its Rule 4210 (the "Proposed Amendments"). I generally support the amendments included in FINRA's rule filing dated 5/23/2012 (the "Rule Filing"), especially the modernization of the treatment of option spread strategies. I believe, however, that the consequences of the proposed changes to the margin requirements for "non-margin eligible, non-equity securities" have not been fully considered. I recommend that FINRA investigate the extent to which FINRA members presently extend credit against these securities and withdraw or modify this element of the proposed amendments. I also have some technical comments on the drafting of the Proposed Amendments.

Non-Margin Eligible, Non-Equity Securities.

According to the Rule Filing, FINRA proposes to increase the margin requirement applicable to long positions in "non-margin eligible, non-equity securities" to 100% (Rule Filing,

p.10, n.15) from the 25% requirement that currently applies under Rule 4210(c)(1).[1] The securities that would become unmarginable (*i.e.*, securities on which FINRA members would not be able to extend any credit) under the Proposed Amendments include any non-investment grade debt securities that are not registered under Section 5 of the Securities Act.[2] Since the high yield debt market is to a great proportion an institutional market, where it is usual for debt to trade under Rule 144A, the Proposed Amendments would cut off credit to a substantial part of the high yield debt market. This could have significant adverse effects on FINRA members, investors and issuers. At the very least, this amendment should not be made until after FINRA has investigated the extent of the credit that FINRA members currently provide to this market and the likely impact of withdrawing this credit from the market.

In addition to considering the economic effects of making these securities unmarginable, FINRA should review the reasons for taking such a step. If the concern is the liquidity of these securities, and the FINRA members' ability to liquidate customer long positions, then FINRA should consider the fact that the Commission permits broker-dealers to treat some of these securities as having a "ready market" for purposes of the Commission's Net Capital Rule. *See* FINRA Interp. SEA Rule 15c3-1(c)(2)(vii) /10 and /11. If the concern is the potential volatility of positions in these securities, then FINRA should consider whether the margin requirement on short positions in these securities could also apply to long positions.

Technical Comments

To impose a 100% maintenance margin requirement on non-margin eligible equity securities (and, if my recommendations above are not followed, non-margin eligible non-equity securities), FINRA should revise Rule 4210(c) to add a new subsection that sets that requirement. Although the Proposed Amendment would limit Rule 4210(c)(1) to margin equity securities, that is not sufficient to impose a 100% margin requirement on the securities not covered by Rule 4210(c). Also, since Rule 4210(e)(2)(A), (B) and (C) are no longer functioning as exceptions to Rule 4210(c), the structure of the rule would be simplified if these margin requirements for non-equity securities were moved from Rule 4210(e) into Rule 4210(c).

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[1] Although FINRA is also proposing to apply a 100% margin requirement to non-margin eligible equity securities, the change to the treatment of non-equity securities is much greater. Non-margin eligible equity securities are already subject to a 100% initial margin requirement under Regulation T, so the Proposed Amendments only affect their use to meet maintenance margin requirements and margin requirements for non-purpose loans. Because all non-equity securities qualify for "good faith" margin under Regulation T, the 25% margin requirement under Rule 4210(c)(1) is currently both the initial and maintenance margin requirement for the non-margin eligible non-equity securities.

[2] The non-equity securities that would be rendered unmarginable by the Proposed Amendments are not limited to this category. Also rendered unmarginable would be any other non-investment grade non-equity securities that do not meet the requirements of the current definition of "other marginable non-equity securities," *i.e*, because they have an original issuance of less than $25 million, are issued by a company that does not report under Section 13(a) or 15(d) of the Exchange Act and is not an insurance company meeting the conditions of Section 12(g)(2)(G) of the Exchange Act, or are in default on interest or principal.

The term "non-margin eligible, non-equity security," which is used in amended Rule 4210(c)(4), is not defined. Although it might be construed as referring to any non-equity security that is not a margin eligible non-equity security, from the context, the term should also exclude exempted securities, a highly rated foreign sovereign debt securities and listed non-equity securities.

* * *

Thank you again for the opportunity to comment on the Proposed Amendments. If you have any questions about these comments, or would like to discuss any of them further, please do not hesitate to contact me at the phone number or e-mail address listed above.

Sincerely,

David Aman

cc: Rudolph R. Verra, Managing Director, Risk Oversight and Operational Regulation
Glen Garofalo, Director, Credit Regulation
Steve Yannolo, Project Manager, Credit Regulation