MEMORANDUM

TO: File Number SR-FINRA-2015-036

FROM: Jessica Mark
Law Clerk
Office of Financial Responsibility, Division of Trading and Markets
U.S. Securities and Exchange Commission

DATE: June 14, 2016

RE: Meeting with Brean Capital, LLC

On June 14, 2016, Commission staff met telephonically with representatives of Brean Capital, LLC to discuss Financial Industry Regulatory Authority, Inc. ("FINRA") proposed rule change to amend FINRA Rule 4210 (Margin Requirements) to establish margin requirements for the TBA market, as modified by amendment nos. 1 and 2 (Release No. 34-77579) and amendment No. 3, as submitted by FINRA.

Commission staff at the meeting were Thomas McGowan, Timothy Fox, Sheila Swartz, and Jessica Mark from the Division of Trading and Markets.

Telephone Conference June 14, 2016 with Brean Capital, LLC

Call Agenda

1. Overall: Following the recent submission of amendment 3 to the proposed rule, Brean Capital, LLC remains extremely concerned the proposed changes to FINRA Rule 4210 will unnecessarily drive brokerage business in covered agency transactions away from introducing brokers and toward a very small number of extremely large investment banks and financial institutions, thereby adding to systemic risk, reducing competition and reducing liquidity in the market.

2. Current problems with bilateral margining. We are concerned that the proposed changes to FINRA Rule 4210 will broaden and make permanent recent bilateral margining practices (and abuses) when guidance to the market should move in the opposite direction. We have the following concerns regarding bilateral margining as currently seen in the market:

    a. Increase to system instability; Example

    b. Diminished liquidity

    c. Incorrect marking

    d. Market dominant party insistence on severely lopsided thresholds

3. Specific concerns with proposed changes to FINRA Rule 4210. In the event the Commission is inclined to adopt some aspects of the proposed changes to FINRA Rule 4210, the proposed changes, as amended by amendment 3, remain deficient in the following respects:

    a. Doubling margin requirements on introducing brokers

    b. Broker capital shortfalls in riskless trades with registered investment companies

    c. Damage to in-the-money brokers acting on a riskless basis by demanding position liquidation with a short exposure counterparty that fails to post margin

    d. Failure to take into account offsetting trades in determining a party's exposure

    e. Failure to specify which counterparties' position marking needs to be followed

4. Questions