February 11, 2016

Submitted Electronically

Robert W. Errett
Deputy Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-025

Dear Mr. Errett:

I am pleased to submit this letter in response to the Securities and Exchange Commission's ("Commission") notice to solicit comments on proposed amendments ("Proposal") to Financial Industry Regulatory Authority (FINRA) Rule 4210 to establish margin requirements on Covered Agency Securities, including To-Be-Announced (TBA) securities.

As compared to FINRA Regulatory Proposal 14-02, the Proposal is a step in the right direction, as the number of counterparties and trading scenarios to which the Proposal would apply has been decreased. However the Proposal as written is still an effort to "repair" and "reduce risk" in a market that according to recent reports from Federal Reserve Bank of New York researchers is "deeply liquid" and "relatively stable", even as trading volumes have plummeted by more than 40% over the last few years due to a myriad of factors, but headlined by the Fed's accumulation and holding of MBS. At a high level, we see the Proposal as a solution to a problem that does not exist.

In support of the Proposal, FINRA has stated:

"to assert that no degradation has been observed in the TBA market (other than that associated with the collapse of Lehman) does not of itself demonstrate that there is no credit risk in this market. TBA market participants have exposure to significant counterparty credit risk, defined as the potential failure for the counterparty to meet its financial obligations. The lack of margining and proper risk management can lead to a buildup of significant counterparty exposure, which can create correlated defaults in the case of a systemic event."

To paraphrase the above, FINRA contends that just because a significant credit problem in the TBA market hasn't occurred yet, one may yet occur. While we agree that no one can predict what might happen in the future, the TBA market has exhibited many years of stability and consistency and weathered the financial crisis quite nicely with no instances of significant dealer losses due to non-settlement of Covered Agency securities (generally the primary culprit in Lehman's downfall was excessive leverage used to invest in what turned out to be illiquid low quality sub-prime mortgage related securities, not un-margined Covered Agency Securities).

We agree that there is credit risk in the TBA & MBS market, as there is in any securities transaction until the trade settles. We also agree that certain types of TBA transactions, specifically dollar rolls, are effectively funding transactions where margining to protect against credit exposures (much like margin held as collateral on repo transactions) would be good practice and firms engaged in this business would be wise to responsibly monitor such risks and collect margin as prudent business practice. However, the assertion that "a buildup of significant counterparty exposure" exists due to a lack of margining ignores two very simple and obvious facts. **The first - the majority of TBA trades are margined now, either through DTCC's MBSD or outside of MBSD by the large firms that already follow the TMPG's recommendations for margining**. Over 90% of all MBS is traded TBA and the vast majority of TBA volume is between DTCC's MBSD netting members. **The second fact ignored by the Proposal is that there has not been a documented instance of a member firm suffering a meaningful loss due to the non-settlement of Covered Agency securities transactions**. Blind luck is not the reason for this. Firms generally review and approve meaningful credit extended to counterparties with whom they trade Covered Agency securities and on an as needed basis will call customers for margin.

The remainder of this letter will address the specific questions posed by the Commission on page 54 of Release No. 34-76908; File No. SR-FINRA-2015-036.

Will the proposed rule change affect the operation of the TBA markets as it exists today? If so how?

At the highest level, the TBA market probably won't change a whole lot if the Proposal is implemented. The largest dealers dominate the market now and there is no reason that wouldn't continue although a slight uptick in the big dealers' volume should be expected if smaller players exit due to cost of compliance. Dealers and other participants in the MBS market will still have a need to hedge long inventory positions by shorting TBA. Mortgage Bankers will still need to hedge their pricing on forward mortgage production. The large dealers will continue trading billions and billions in TBA, mostly with each other via DTCC's MBSD netting and settlement service.

If approved, the Proposal may force more specified pool trades to settle T+1 to avoid the potential for margining. This will make the settlement for such trades sloppier due to principal payment taking and making due to an increase in trades being settled on bad factors, rather than on good settlement date.

What are the commenters' views with respect to the benefits and costs of the proposed rule change? What implementation and ongoing costs will result from complying with the proposed rule change?

Implementation Costs: The implementation costs incurred by firms attempting to comply will depend on the strength of a given firms' IT resources and business analyst resources and their depth of knowledge about how their current systems work and interact with one another. Buying or licensing a product off the shelf will run $100,000 plus in fees to a third party plus paying for either internal or external developer resources to tie the system into existing systems and processes. All in, it should cost $250,000 or more to implement, test and troubleshoot such a new system.

Ongoing Costs: This will depend on whether a system is internally developed or licensed from a third party. Third party pricing appears to be between $150,000 and $400,000 per year depending on the vendor and level of service chosen. At least two and maybe three full time employees will also be need to be added to serve as margin clerks and credit review analysts. Depending on the job market, experience, education, etc., this could easily run another $200,000 per year. All in, a reasonable ongoing annual cost estimate would be in the $300,000 to $400,000 range.

Benefits: If Dollar roll trades were required to be margined, it would be a reasonable extension of margining typically applied in the repo market. Otherwise the Proposal's impact on lowering systemic risk would be negligible.

Will the proposed rule change affect FINRA member firms differently based on their size? If so how? Will it create competitive advantages or disadvantages for member firms based on their size? If so how?

The Proposal will impact small firms disproportionately. Large, TMPG member firms already have a margining mechanism in place, so they should not be impacted any if at all. Smaller firms will be impacted because even if none of their trades would require them to collect the first dollar of margin, they would presumably be required to build out the system, implement processes and hire people to administer the credit requirements and monitor for margin. Smaller firms would have to decide whether to stay in this business and invest in the required compliance mechanism or exit the segment. Large firms will not face this decision as a result of the Proposal being implemented.

What is the impact on other affected parties, such as non-member firms and other market participants?

Impact on Mortgage Companies: Expect to see mortgage companies spread out forward TBA business to a wider variety of dealers to avoid margin payments.

Impact on Non-FINRA regulated bank dealers: Expect to see more Covered Agency trades migrate to non FINRA regulated bank dealers that are not required to collect margin.

Impact on customer's generally: Fewer competitors in a market segment typically leads to less competition which then leads to higher costs for customers. Generally, regulations from SRO's are intended to help consumers, not harm them.

Commenter's views on implementation time required to comply with the proposed rule change.

The Proposal sets forth a time frame of 6 months to implement counterparty credit risk limit establishment and enforcement procedures and 18 months to completely implement margining. Without any additional changes built into the proposed rule, we estimate needing at least 18 – 24 months to comply with the rule as a whole. We do not believe it is wise to separate the requirements into two distinct projects with differing completion dates. To identify all accounts which may transact in Covered Agency Securities transactions, set a written risk limit with each of such accounts that is enforceable via systematic restrictions, and integrating the systematic trading restriction requirements with a risk calculator imbedded in the margin calculation tool is an ambitious technology project for any firm, but especially so for smaller firms with more modest technology resources and budgets. A project of this magnitude will require a project manager and one or more business analyst roles with knowledge of a firm's current sales, trading, account management and compliance platforms and the integration of such platforms to achieve the goals set forth in the proposed rule change, not to mention the work required by a firm's technology / development team to execute the project whether or not a third party solution is purchased or licensed. In total, if executed per the Proposal as written, this is a substantial project that will consume a great deal of a firm's time and resources.

Commenter's views on the multifamily housing and project loan securities exception in new proposal? Does it create risks?

Multifamily and Project Loan Exclusion : Request to also exclude SBAs

In the Proposal, FINRA proposed granting an exception to the definition of Covered Agency Securities by excluding multifamily and project loan securities. The reasons stated for granting this exemption, while arbitrary, are reasonable and include: small size of market relative to all other Covered Agency Securities, regulatory burden would harm the market more than any negligible systemic risk reduction, and credit exposures dissimilar to the rest of the TBA market. We understand FINRA's exclusion of multifamily and project loan securities from the definition of Covered Agency Securities and for similar reasons, request that SBA Pool securities and SBA TBA securities also be excluded from Covered Agency Securities.

We think that SBA pools and SBA TBAs should be excluded from Covered Agency Securities due to the following reasons:

Arbitrary nature of the multifamily and project loan securities exclusion: FINRA proposed to exclude multifamily securities from the definition of Covered Agency Security only after 40+ commenters explicitly lobbied for the exclusion in their comment letters. Prior to these comments, even though the reasons for exclusion make sense, multifamily and project loan securities were lumped in with all the rest of the MBS market. The reasons that SBA pools should be excluded are very similar to the reasons FINRA has excluded multifamily and project loan securities.

Size of market: The SBA pool market is small, much smaller than the multifamily and project loan securities market. Annual SBA issuance is generally only $10 to $15 billion per year with total outstanding issues of less than $60 billion as of the end of 2015. Multifamily and project loan security issuance is generally $40-$50 billion per year. A market as small at the SBA market does not cause or contribute to the potential "Systemic Risk" that FINRA seeks to remedy via Covered Agency Security margining.

Nature of SBA TBAs: SBA TBAs are not used as a financing tool or a hedging tool by market participants. An SBA TBA is used to denote a new issue SBA security that has not yet been assigned a Cusip. All of the Guaranteed SBA Loans that will be pooled to create the new issue SBA pool (traded as an SBA TBA) are funded loans owned by the pooler and distinctly identifiable when the SBA TBA is being sold to customers. The TBA designation is replaced by a newly assigned SBA Cusip when all of the approvals are received from the SBA. SBA TBAs generally trade as TBA's for approximately 1-2 weeks prior to conversion to a good cusip, followed by settlement in approximately another week.

Floating rate securities: Around half of SBA pools are uncapped floating rate securities that do not experience the price volatility experienced by fixed rate multifamily project loan securities or fixed rate mortgage pools.

DTC Settlement of SBA Pools: SBA pools settle at DTC. Regular-way settlement on DTC fixed income trades is T+3. **The Proposal calls for margining of SBA pools after T+1 which is before the standard settlement date for such product**. This is likely an oversight in the rule-making effort. If SBA pools continue to be considered as Covered Agency securities in the final rule implementation, they should at least be marginable only after T+3.

Disproportionate impact on small to mid-sized FINRA member firms: Currently there are only 14 firms identified by the SBA as active pool assemblers (https://www.sba.gov/content/active-list-sba-pool-assemblers). Four are banks (not subject to the Proposal), one is a large international broker dealer and the rest are regional or mid-market FINRA member firms. Pool assemblers are vetted and approved by the SBA to create and sell newly issued pools, providing ongoing liquidity to the SBA lending program. Pool assemblers are also active in the secondary trading of SBA pools. Continuing to include SBA pools as Covered Agency Securities could disproportionately affect the regional and mid-sized FINRA member broker dealers in this space by driving business to the non-member firms not subject to the Proposal.

CONCLUSION

In conclusion, we urge the Commission to disapprove the Proposal as written. The Proposal clearly erects obstacles to smaller firms' continued ability to serve their customers in a resilient, and up until now, safe and efficient area of the fixed income market. We ask that the Commission continue to work with FINRA to produce rules that address systemic risk without unreasonably damaging the ability of small and medium sized member firms to compete.

Sincerely,

Allen Riggs
Chief Financial Officer
Vining Sparks IBG, LP