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Via Electronic Delivery

May 2, 2016

Brent J. Fields
Secretary
Securities and Exchange
Commission, 100 F Street NE.
Washington, DC 20549–1090

Re: SR-FINRA-2015-036 - Proposed Rule Change to Amend FINRA Rule 4210 (Margin Requirements) to Establish Margin Requirements for the TBA Market

Dear Mr. Fields:

Thomson Reuters appreciates the opportunity to comment on SR-FINRA-2015-036 (the "TBA Margining Proposal"). Thomson Reuters[1] through our Financial & Risk business unit provides buy-side, sell-side and corporate customers with information, analytics, workflow, transaction and technology solutions and services that enable effective price discovery and support efficiency, liquidity and compliance. In particular, our wealth management offerings[2] include a complete suite of products that enable retail and institutional brokers to manage the daily tasks of their front, middle and back office operations. Our clients are participants in the TBA market and would be directly impacted by this proposal.

We understand the importance of appropriately managing counterparty risk especially in cases where losses in the TBA market could result in systemic concerns for the financial markets as a whole. Our concerns are focused on the extent to which FINRA has failed to address recommendations to simplify the implementation of the TBA Margining proposal in a manner consistent with its intent to address systemic concerns in the TBA market. While FINRA has acknowledged concerns raised by the industry focused on implementation, Amendment #2 does not include modifications consistent with these

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[2]For more information on Thomson Reuters Wealth Management offerings, see here.

recommendations[3]. We urge the Commission to make its own determination as to the merits of recommendations to simplify implementation such that an approved TBA margining rule both mitigates risk in the TBA market and minimizes implementation and ongoing costs. We believe the following recommendations would achieve a lower cost, more efficient implementation without compromising FINRA's intent of addressing systemic risk in the TBA market.

Simplify Implementation of Cash Account Exemption

We are concerned with the current complexities associated with implementing the cash account exception. In particular the exclusion of accounts for which there is a "dollar roll" or "round robin" settlement is not feasible to implement. Settlement processing is typically not known by the trader at the time of the trade and may only be known days or even weeks into the margining process. Even when known, the requirement to single out these trades in order to take advantage of the exception represents data/system integration issues that we believe will be difficult to surmount.

Rather than addressing operational concerns, FINRA merely states: "If members believe that it is too onerous to offer these exceptions to their customers, they are not obligated under the rule to do so." As FINRA notes, "these exceptions are intended to address the concerns of smaller customers engaging in non-margined, cash account business." We believe the concerns of smaller customers are legitimate and that FINRA should provide a simplified cash account exemption. We are concerned about the impact on retail investors who may face new requirements in spite of the fact that their activity is in no way the focus of the TBA Margining proposal.

Increase Thresholds for Minimum Transfer Amount and Gross Open Position Limits

While system and operational changes would still be required to monitor for transfer amounts and gross open positions, we agree with other commenters that these thresholds should be raised. Based on discussions with our clients, we believe higher thresholds in both the minimum transfer amount and the gross open position would have a material impact in reducing the level of automation and operations staff required to support TBA margining. Specifically, we recommend increasing the minimum transfer amount to $500,000 and the gross open position to $10 million. Based on data provided in the original FINRA filing, "The agency and GSE MBS market is one of the largest fixed income markets, with approximately $5 trillion of securities outstanding and approximately $750 billion to $1.5 trillion in gross unsettled and unmargined dealer to customer transactions." We do not believe these modest increases in thresholds will materially impact FINRA's intent to address losses to dealers that may result in systemic risk and instability.

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[3]See Christopher B. Killian, Securities Industry and Financial Markets Association (February 11, 2016); and also Mike Nicholas, Bond Dealers of America (February 11, 2016) ("industry commenters")

Consider Capital Charges instead of Maintenance Margin

While FINRA states that the use of capital charges instead of maintenance margin, "does not suffice to address counterparty risk," we are unclear as to why that is the case. Capital charges ensure that the dealer can absorb the loss of a counterparty default. From a systemic risk perspective, we see the capital charge alternative as achieving the same goal with a much lower operational burden.

Consider Impact of MBS Novation & MBSD

We do not believe the TBA Margining Proposal should be considered in a vacuum. MBS Novation is scheduled for June 2017 and the industry is actively working to implement this initiative. We expect MBS Novation to also address counterparty risk issues within the TBA market. Even beyond MBS Novation, there may be other opportunities to utilize the margining infrastructure of MBSD to achieve the goals of the TBA Margining proposal. Rather than exploring the use of MBSD to achieve further systemic risk reduction, FINRA simply states: "coordination with MBSD is outside the scope of the proposed rule change." Given the current regulatory burden on firms including implementation of the recently approved Department of Labor Fiduciary Rule, we do not believe that opportunities to reduce implementation effort should be outside the scope of consideration. We believe this is inconsistent with a considered economic analysis of alternate implementation approaches.

Harmonize with Current Margining System Functionality and Processes

Industry commenters have discussed the numerous ways in which the TBA Margining proposal differs from current margining system functionality and processes including which transactions are permitted, when customers have to pay, when liquidation is required and how customers are categorized. These differences reduce the ability to leverage existing system functionality and processes, increasing not only cost but also complexity. For example, while we agree with commenters that variation margin and mark-to market margin should not impact segregation requirements, we would require changes to our system to ensure that there was no impact to segregation functionality as a result of TBA Margining.

Implementation Time

We understand that margining functionality would be required within eighteen months of rule approval. We believe twenty-four months is a more reasonable timeframe to allow for adequate interpretative guidance that is likely to impact system requirements. From an order of magnitude perspective, we believe this project is similar in scale and complexity to the SEC Money Market Reform initiative which included a two year implementation period. In addition to implementing MBS Novation and the DOL Fiduciary Rule, we and our clients are actively engaged in preparing for the move to T+2 as well as TRACE reporting changes. The initiation of this project should consider the reduction in risk to be achieved by T+2 and MBS Novation and sequenced accordingly.

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We sincerely hope the Commission will consider these recommendations for reducing the economic burden associated with implementing TBA Margining while staying true to the intent to focus on systemic risk reduction.

Regards,

Manisha Kimmel

Manisha Kimmel
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Thomson Reuters