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May 2, 2016

VIA ELECTRONIC SUBMISSION

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

**Re: Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.;
Notice of Filing of Amendment No. 2 and Designation of a Longer Period for
Commission Action on Proceedings to Determine Whether to Approve or
Disapprove a 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**

Secretary Fields:

On behalf of the banks of the Farm Credit System (the “**FC Banks**”), we appreciate this opportunity to comment on the proposed amendments to Financial Industry Regulatory Authority (“**FINRA**”) Rule 4210, as modified by Partial Amendment Nos. 1 and 2, to require the margining of certain agency mortgage-backed securities (the “**Proposed Rule**”).¹

We concur with the positions asserted by the Federal Home Loan Banks (the “**FHLBanks**”) in their comment letter filed with the Securities and Exchange Commission (the “**Commission**”) on May 2, 2016 in response to the Second Amendment Release. For the reasons discussed in that letter, the FC Banks respectfully request that the Commission disapprove the Proposed Rule on the basis that it is inconsistent with FINRA’s mandate to generally protect the public interest and investors.

¹ For the avoidance of doubt, unless otherwise defined, capitalized terms used in this letter have the meanings afforded to them in the Federal Register releases for the: (1) initial version of the Proposed Rule, 80 Fed. Reg. 63,603 (Oct. 20, 2015) (the “**Proposed Rule Release**”); (2) January 13, 2016 amendment of the Proposed Rule, 81 Fed. Reg. 3532 (Jan. 21, 2016) (the “**First Amendment Release**”); and (3) March 21, 2016 amendment of the Proposed Rule, 81 Fed. Reg. 22,347 (April 15, 2016) (the “**Second Amendment Release**”).

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In the FC Bank's comment letter to the Commission dated November 10, 2015, which was filed in response to the Commission's request for comments following publication of the Proposed Rule Release, the FC Banks commented that the FINRA should amend the Proposed Rule to (i) require two-way margining for Covered Agency Transactions and (ii) permit a FINRA member's counterparty to segregate any required maintenance margin posted to the FINRA member with an independent third-party custodian.²

However, FINRA has repeatedly responded that it would not be appropriate to adopt such recommendations as part of the Proposed Rule and has failed to explain its reasoning for these conclusions.³ On the issue of two-way margining, FINRA has responded that it "does not propose to address such a requirement at this time as part of the proposed rule."⁴ And on segregation of posted margin, FINRA provided a similar response, stating that it would be best addressed in separate rulemaking or guidance, as appropriate.⁵ In light of this, and for the reasons discussed below, the FC Banks respectfully request that the SEC disapprove the Proposed Rule.

Pursuant to Section 15A of the Securities Exchange Act of 1934 (the "**Exchange Act**"), FINRA's rules must, among other things, generally "protect investors and the public interest."⁶ The Securities and Exchange Commission ("**SEC**"), when considering whether to disapprove a registered securities association's (an "**RSA**") proposed rule change, must find that the proposed rule change is inconsistent with the provisions of the Exchange Act and SEC rules and regulations promulgated thereunder that are applicable to the RSA.⁷ Accordingly, if an RSA's proposed rule change is inconsistent with its mandate to generally protect the public interest and investors, the SEC has authority to disapprove it.

² See the November 10, 2015 CoBank Letter on behalf of the Farm Credit Banks regarding: Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 4210 (Margin Requirements) To Establish Margin Requirements for the TBA Markets, available at <https://www.sec.gov/comments/sr-finra-2015-036/finra2015036-51.pdf>.

³ To our knowledge, FINRA has not provided an explanation as to why it is inappropriate to require the segregation of a customer's collateral as a part of the Proposed Rule. We acknowledge FINRA's indication, in the Proposed Rule Release, that requiring two-way margining could "impose substantial additional burdens on members, or otherwise raise issues that are beyond the scope of the proposed rule change" and FINRA's general support of two-way margining (Proposed Rule Release at page 63,620). However, FINRA does not specifically identify the burdens and issues that two-way margining would impose on FINRA-members, nor does it take into account the benefits that two way margining would afford to non-FINRA members and the mortgage-backed securities market generally, namely decreased credit exposure to a FINRA member's default.

⁴ See First Amendment Release at page 3,540 and Second Amendment Release at page 22,357.

⁵ See *id.* at page at 3,544 and 22,357, respectively.

⁶ 15 U.S.C. § 78o-3(b)(6).

⁷ 15 U.S.C. § 78s(b)(2).

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In the FC Banks' view, for the same reasons raised by the FHLBanks, which are summarized below, FINRA's refusal to incorporate the requested protections for investors in Covered Agency Transactions into the Proposed Rule reflects FINRA's interest in protecting its members rather than the general public interest and investors. The Commission should disapprove the Proposed Rule on this basis.

1. The Proposed Rule does not fully implement the recommendations issued by the Treasury Market Practices Group ("TMPG"),⁸ which the Proposed Rule purports to codify and which (i) call for two-way margining and (ii) are intended to mitigate risk for the benefit of *all* market participants, *not just dealers*.⁹
2. The Proposed Rule's failure to require two-way margining is not in line with market practice, as reflected by the form of Master Securities Forward Transfer Agreement developed by the Securities Industry and Financial Markets Association ("SIFMA").¹⁰
3. The Proposed Rule fails to recognize the counterparty credit risk borne by non-FINRA members. Like the FHLBanks, the FC Banks are highly creditworthy government sponsored enterprises. In most, if not all, instances, the FC Banks are more creditworthy than their FINRA member counterparties.
4. Two-way margining and segregation of margin have been adopted by other regulators on the basis that they reduce systemic risk.¹¹

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⁸ See "Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets", available at https://www.newyorkfed.org/medialibrary/microsites/tmpg/files/TMPG_June%202015_Best%20Practices. The TMPG is sponsored by the New York Federal Reserve Bank.

⁹ See First Amendment Release at page 3533.

¹⁰ Two-way margining is also a hallmark of the repurchase market. See, e.g., SIFMA's 1996 form of Master Repurchase Agreement, paragraph four of which calls for two-way margining.

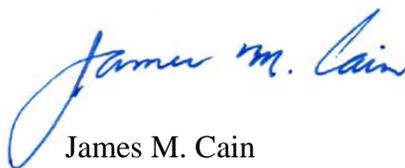
¹¹ See Margin and Capital Requirements for Covered Swap Entities Agencies, 80 Fed. Reg. 74,840 (Nov. 30, 2015), ("Swaps Margin Rule") available at <https://www.gpo.gov/fdsys/pkg/FR-2015-11-30/pdf/2015-28671.pdf>.

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We appreciate the opportunity to comment. Please contact Jamie Cain at [REDACTED]
or [REDACTED], or Ray Ramirez at [REDACTED] or
[REDACTED], with any questions you might have.

Respectfully submitted,



James M. Cain
Partner

cc: FC Bank Presidents
FC Bank General Counsel