



November 10, 2015

By e-mail (rule-comments@sec.gov)

Mr. Robert Errett
Deputy Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SR-FINRA-2015-036: Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 4210 (Margin Requirements) To Establish Margin Requirements for the TBA Market

Dear Mr. Errett:

Matrix Applications, LLC (“**Matrix**”), a service bureau for financial institutions, appreciates the opportunity to submit its views regarding FINRA’s proposed amendments to FINRA Rule 4210 instituting more rigorous counterparty risk mitigation requirements applicable to broker-dealers participating in the TBA market. Such requirements would materially change how firms participate in the forward-settling mortgage-backed securities markets.

Matrix provides a service, MarginCalculator.com, which calculates and tracks two-way variation margin to manage counterparty credit risk between trade and settlement for MBS transactions. The views expressed below are based on client feedback.

We believe we have a unique perspective on the Rule and its challenges, and offer these comments:

1. **Maintenance Margin**

Under the existing proposal, FINRA would require a member firm to collect maintenance margin equal to 2% of the market value of the securities subject to the transaction. We believe that FINRA should consider rules that would be simpler to implement and would not unduly burden medium-sized counterparties by eliminating the requirement to collect maintenance margin. Should maintenance margin be required by FINRA, a tiered approach should be considered on maintenance margin for trades that are under a defined gross dollar amount.

2. **Covered Transactions**

The scope of the transactions to be covered is too broad in that it generally covers Agency MBS transactions that settle in more than one (or in some cases three) days. We believe that

transactions in which there is a short time between trade date and settlement date do not present systemic risk issues; therefore, we believe that the settlement window for the transactions to be covered under the proposed rule should be extended.

3. **Capital Charges**

The proposal should be revised to be consistent with Rule 4210 by permitting firms to take capital charges instead of collecting margin from counterparties.

4. **Counterparty Status**

FINRA should clarify when the various counterparty status determinations must be made and what level of diligence is required to determine status.

5. **Margin Calculation**

The margin calculations under the Proposal create operational complexity for firms in that they appear to require firms to perform one set of calculation for Agency MBS transactions and another set of calculations for the other types of transactions that they enter into with the same customer.

As a service bureau representing several clients who will be affected by the rule, we are working with our customers to address their concerns and its impact on operations, capital reserves and liquidity needs. In particular, firms are concerned that the operational costs to change the status quo to conform to the new rules may preclude them from continuing trading in forward-settling transactions.

Despite the objections of multiple players in the industry, we believe FINRA will move forward with the proposed rule within the parameters of its current notice. Some of the key concerns expressed by broker-dealers and fund managers will most likely be partially addressed; however, the operational and financial impact will be a reality for most firms operating in the TBA market. We believe FINRA should acknowledge that making in-house changes to existing operations will be beyond the scope of what many small and medium sized broker-dealers can afford.

We further suggest that FINRA makes it clear to its members that, subject to compliance with FINRA's outsourcing guidance, broker-dealers that are required to collect margin under the proposal may utilize third party service providers to assist them in their compliance with the proposed rule. The knowledge that the use of such services is acceptable may eliminate some of the concerns that small and medium sized broker-dealers may have regarding the significant operational challenges they will face in complying with the proposed rule.

Sincerely,

Matrix Applications, LLC