February 11, 2016

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

Subject: File Number SR – FINRA – 2015 – 036

Dear Mr. Fields:

The Association of Institutional INVESTORS (the "Association") welcomes this opportunity to submit comments to the U.S. Securities and Exchange Commission (the "Commission") regarding specific questions or matters relevant to the asset management industry raised by the Commission in its January 14th Order concerning the pending proposed rule change of the Financial Industry Regulatory Authority, Inc. ("FINRA") with respect to FINRA Rule 4210. This rule change would establish margin requirements for the To Be Announced ("TBA") market.

The Association is an organization of the oldest, largest, and most trusted federally registered investment advisers in the United States. Collectively, the Association's members manage investments for more than 80,000 ERISA pension plans, 401Ks, and mutual funds on behalf of more than 100 million American workers and retirees who rely on our firms to prudently manage participants' retirement savings and investments in part due to the fiduciary duty we owe these organizations and families. We recognize the significance of this role, and our comments are intended to reflect not just the concerns of the Association, but also the interests of the companies, labor unions, municipalities, families, and individuals we serve.

The Association submitted a comment letter to the Commission regarding the proposed rule change on November 10, 2015, wherein we expressed that our member firms generally support the development of margining requirements for the forward settling TBA market pursuant to the coordinated efforts of the Treasury Market Practices Group ("TMPG") and FINRA. Click here to view this letter to the Commission.

To follow are comments of the Association of Institutional INVESTORS regarding Various Items Delineated in the Commission's January 14th Order:

1) **Effective Date of Proposed Rule Change** – The Association supports the proposal by FINRA pursuant to its Partial Amendment No. 1 that the proposed rule change, except for "risk limit determination requirements", would become effective eighteen months from the date such rule change is approved by the Commission. Since 2012, the Association has actively promoted cooperation on the part of asset management firms with banks and broker-dealers regarding the development of standard margin agreements for use by participants in the TBA market. We have also developed educational material designed to assist buy-side client investors, custodians and cogent third party vendors in gaining a basic understanding of industry practices or margin requirements and settlement of TBA transactions. We feel the ongoing process of implementing rules-based TBA margin requirements will entail a major documentation and educational undertaking with all of these groups. We also believe that implementing rules-based margining presents significant legal and operational challenges requiring considerable added resources. Thus, we believe the eighteen month timeframe proposed by FINRA is essential to the success of these anticipated extensive outreach initiatives. The Association also believes that this amount of time will be necessary to address the resulting legal and operational challenges. We wholeheartedly support and appreciate the Commission's and FINRA's willingness to afford the industry a sufficiently reasonable timeframe to implement the proposed rule change. Naturally, we would recommend approval of this timeframe by the Commission if and when the proposed rule change is approved.

2) **Will the proposed rule change affect the operation and structure of the TBA market as it exists today?** – As noted in the Association's letter of November 10, 2015, we believe the counterparty risk inherent in the TBA market is adequately addressed by variation margin, which captures daily mark to market risks associated with forward settling TBA transactions. On the other hand, the requirement of maintenance margin in the TBA market for non-exempt accounts, as proposed by FINRA, is unnecessary as the TBA market has shown less volatility than other margin securities or products (e.g., equity options, OTC swaps). Requiring unilateral maintenance margin introduces additional counterparty, legal and operational risks as more fully described in our letter of November 10, 2015. Accordingly, we believe regulatory officials and industry leaders should analyze the validity of maintenance margin over time if it is included in the rule change that is ultimately approved by the Commission. Changes with respect to maintenance margin should be considered at a later time if such analysis shows that requiring non-exempt accounts to unilaterally deliver maintenance margin could: a) have an adverse impact on Agency MBS market liquidity and lead to increased mortgage borrowing costs; b) expose non-exempt accounts to member firm counterparty risk and

In fact increase systemic risk; and c) provide incentive for non-exempt accounts to direct Agency MBS trading away from member firms.

3) **Views with Respect to the Benefits and Costs of the Proposed Rule Change** – If the rule change is adopted, asset management firms will experience certain benefits and incur considerable costs. As already noted hereinabove, the tasks relating to implementing rules-based TBA margining requirements are extensive in terms of the work in connection with a) executing or re-negotiating Master Securities Forward Transaction Agreements with FINRA dealers and b) the educational outreach by asset management firms to their respective client bases. There will also be related new systems development needed to accommodate margining that will increase buy-side IT budgets. While these costs may in some cases ultimately lead to overall operational enhancements and efficiencies (for example, the process of incorporating technology advancements into sophisticated electronic connections with third party vendors is an on-going process whether or not it happens to include updates to adjust for margin requirements in the TBA market), there is the concern that expenditures could impact funding of other IT advancements, staffing, or utilization of other resources also intended to enhance client servicing. Moreover, requirements of the proposed rule that are not recommended under the TMPG margining best practice (e.g., forced closeout, maintenance margin) will require additional enhancements which will be added to those being imposed in relation to other new rules promulgated by U.S. and non-U.S. regulators. Thus, on balance, our Association takes the position that this proposed rule change will more than likely have a mixed result on overall business activities from a cost / benefit standpoint.

4) **Impact of Proposed Rule Change on Other Affected Parties** – In the case of the proposed rule change, the member firms of the Association, in effect, are "other affected parties". In other words, we are a pivotal group among the non-members of FINRA that are significantly affected by a market requirement which applies directly to the broker-dealer members of FINRA. Suffice it say that the experience of our Association is that both FINRA and the TMPG have made much appreciated efforts to engage our members and our trade group in the process of providing input concerning the efficacy of this proposal. In a very professional way, they recognized that asset managers, their customers and the TBA market would be extensively impacted by TBA margining; and they clearly responded to the best of their ability, subject to their own procedural requirements, to our interest in sharing our views with their various officials and professional staff. Hopefully, this experience will be a helpful model in connection with similar rulemaking activities that might lie ahead.

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In conclusion, consistent with our long-standing commitment to reducing risk in the financial markets, the Association believes that it would be appropriate at this time to move forward with a proposed rule change subject to the comments expressed in this letter and in the Association's letter of November 10, 2015. Therefore, the Association respectfully requests consideration of the above-stated comments. Please feel free to contact Joseph Sack, Staff Adviser to the Association, with any questions regarding this comment letter.

On behalf of the Association of Institutional INVESTORS,

John R. Gidman,
President