



January 18, 2022

Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
Submitted via e-mail to comments@sec.gov

Re: Comments in Respect of Proposed Amendments to FINRA Rule 4210 Related to the Margining of Covered Agency Transactions, File Number SR-FINRA-2021-010

Secretary Countryman:

On behalf of the eleven Federal Home Loan Banks (FHLBanks), we are submitting this letter to draw your attention to a concern about the disproportionate effect that Financial Industry Regulatory Authority (FINRA) Rule 4210, which will require the margining of certain "Covered Agency Transactions" (as defined in the above-referenced rulemaking), may have on minority and women owned broker-dealers.

The FHLBanks are government-sponsored enterprises of the United States, organized under the authority of the Federal Home Loan Bank Act of 1932, as amended, that are regulated by the Federal Housing Finance Agency (FHFA). The FHLBanks operate pursuant to an FHFA mandate to conduct business with minority and women owned broker-dealers in the capital markets and, generally, seek to expand their business with minority and women owned businesses. Insofar as Covered Agency Transactions are concerned, small and mid-sized broker-dealers have a tendency to be disproportionately owned by minority and women and do not have the same financial, capital, and operational resources available to them as large broker-dealers.

The margining requirements imposed by FINRA Rule 4210 will not only have a direct economic effect on broker-dealers and their counterparties by requiring the exchange of margin with counterparties.¹ They will also require broker-dealers to incur significant legal and operational costs. Incurring such costs may be unduly burdensome for many minority and women owned broker-dealers.

FINRA has acknowledged that the margining of Covered Agency Transactions could be disproportionately burdensome for small and mid-sized broker-dealers and, to afford relief thereto, seeks to amend the margining requirements for Covered Agency Transactions, approved by the Securities and Exchange Commission (Commission) in 2015, to remove a maintenance margin requirement and permit broker-dealers to take a capital charge in lieu of collecting margin up to \$25 million in the aggregate.²

¹ We note that FINRA Rule 4210 imposes a one-way collection requirement on broker-dealers but, in practice, market participants agree to two-way margining.

² See, e.g., Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend the Requirements for Covered Agency Transactions Under FINRA Rule 4210 (Margin Requirements) as Approved Pursuant to SR-FINRA-2015-036, 86 Fed. Reg. 28161 (May 25, 2021).



While the FHLBanks commend FINRA's efforts, the FHLBanks are concerned that the relief afforded is insufficient. Removing the maintenance margin requirement affords limited relief, because in many instances, under the margining requirements adopted in 2015, the maintenance margin requirement would not have applied to many counterparties by virtue of there being an exemption from maintenance margin for "exempt accounts" (as defined in the above-referenced rulemaking, i.e., certain regulated entities and entities with large amounts invested). In addition, allowing a broker-dealer to incur a capital charge in lieu of collecting margin still has a negative economic impact on a broker-dealer and will also require new legal and operational processes to ensure compliance. As a result, even with the proposed amendments, many minority and women owned broker-dealers may still elect to curtail, or withdraw entirely from, engaging in Covered Agency Transactions, which at the margin may reduce the market liquidity for such instruments and by extension increase the cost of housing finance.

In light of the foregoing, we urge the Commission to review the impacts of FINRA Rule 4210, including the disparate impacts on the minority and women owned broker-dealer community, and weigh those impacts against the benefits of margining Covered Agency Transactions, which we believe are minimal. Therefore, we respectfully request that the Commission stay implementation of FINRA Rule 4210 and FINRA's proposed amendments thereto so that FINRA has an opportunity to conduct diligence on the impact of the margining requirements on minority and women owned broker-dealers prior to the margining requirements of FINRA Rule 4210 becoming effective. It may be appropriate for FINRA to provide revised thresholds or other regulatory relief for small broker-dealers who would bear a disproportionate, possibly fatal, compliance cost that would drive these dealers out of the Covered Agency Transactions Market.

We understand that the comment period for the above-referenced rulemaking has passed, but understand that the deadline for the Commission to make a determination vis-à-vis FINRA's May 2021 amendments to the version of FINRA Rule 4210 that the Commission approved in 2015 is January 20, 2022 and, as such, appreciate the Commission's consideration of our comments.

Please do not hesitate to contact Greg Teare at the Federal Home Loan Bank of Indianapolis [REDACTED]; [REDACTED] with any questions you may have.

Sincerely,



Kirk R. Malmberg
President and Chief Executive Officer
Federal Home Loan Bank of Atlanta

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