BB&T Securities

March 27, 2014
Martha E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street NW
Washington, DC 20006-1506

Dear Ms. Asquith:

This letter summarizes our thoughts and concerns in response to FINRA's Request for Comment on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market (Regulatory Notice 14-02). Although we agree that safeguards and controls are appropriate and necessary for the protection of broker/dealers, their clients, and ultimately our industry, we believe some portions of the Proposal are either not necessary, or operationally challenging. We appreciate this opportunity to reply.

After reviewing the Proposal, speaking with other firms, and participating with various industry groups seeking to establish common perspectives, we recognize that this is not a simple matter. Moreover, complexity is magnified by the fact that similar rules and best practices are important not only to FINRA and its Members, but also to groups such as TMPG. This has caused many of the larger firms to seek parity between TMPG and FINRA. For medium to smaller firms, parity may result in more stringent requirements that will be difficult to administer while trying to remain competitive. Because our firm does not fall under TMPG, we have limited our comments only to what FINRA has outlined in its proposal with no attempt to map it to what other bodies may recommend.

Our response follows the outline of topics that FINRA is seeking comment on as provided in the Regulatory Notice:

1. **Market Participants and Consistency with Other Regulatory Regimes:** Retail clients rarely trade in these instruments on a forward settlement basis, and therefore we believe impact will be minimal to them. Impact on mortgage bankers will be material, not only to smaller firms with limited resources available for meeting of margin requirements, but also to larger firms that may become subject to lower margin call thresholds than their broker may currently allow. Our firm already utilizes a practice for the collection of variation margin; however, the proposal calls for a lower unsecured threshold that will negatively affect accounts that will be called for variation margin at a lower threshold than current processes require.

2. **Impact on Market Participants:** If there is an option to do so, we believe there is a risk of market participants shifting business toward non-FINRA members to avoid the margin requirements. This could result in a competitive disadvantage for FINRA members while not improving the risk management landscape. As mentioned above, some participants are relatively small and have limited resources to meet margin requirements.

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3. **Non-Exempt Accounts:** It is our view that the proposed maintenance requirement (2%) does not translate into a material amount of additional protection over and above the variation margin. In our opinion, more robust internal controls and risk practices exercised by members should provide a more desirable level of control. In addition, since the focus of many members has been on mortgage bankers, the broader view across all customer types should be expected to require additional analysis for successful implementation of the variation margin component of the proposal.

4. **Mortgage Bankers:** As mentioned, our firm currently enforces variation margin for mortgage banker accounts. However, because the proposed threshold of $250,000 is lower than the thresholds we utilize, the lower requirement will have a direct negative impact on the volume and frequency of transactions, as well as potentially affect the behavior of mortgage originators due to the tie-up of capital for margin purposes. Suggested alternative:

   When variation margin thresholds are ultimately decided, we suggest also considering member responsibility to evaluate counterparties for the purpose of setting and managing risk limits (#7 below). When considered together, we believe consideration should be given toward allowing members to establish tiered thresholds commensurate with counterparty financial strength rather than a "one size fits all" approach. For example, a $250,000 threshold may be appropriate for a counterparty demonstrating modest financial performance; yet, it may unfairly restrict another with substantial capital, equity, positive net earnings, and/or demonstrating steady growth. Addionally, members with sufficient capital may be willing to allow a higher degree of latitude for stronger counterparties. The "one size" threshold doesn't allow flexibility in that regard.

5. **Eligible Collateral:** Our firm accepts cash and US Government and Agency Securities to meet variation margin requirements. Allowing FINRA members to accept all types of marginable securities (including lower investment grade debt securities, equities that may be lower priced or securities with low liquidity) may create additional layers of risk management control as well as more frequent calls for collateral which could lead to more frequent disputes over the value of such collateral. This approach undermines the core values of market soundness and stability. We assume member firms will be allowed to enforce house rules limiting what is defined as acceptable collateral; however, if the rule allows for more volatile, less liquid, and lower priced securities to be used for margin purposes, firms with more prudent internal practices may find themselves in a less competitive position and find it necessary to "race to the bottom". We believe an acceptable collateral list should be short and of highest quality for the maximum protection to these markets.

6. **Close-out Requirements:** We do not believe a 5 day close-out period is adequate for several reasons. For other types of securities, industry standards allow up to 15 days (including allowable extensions) before close-out efforts must be undertaken to remedy a margin deficiency. In addition, SEC Net Capital Rules do not require capital charges to be taken for margin deficiencies. Because we do not believe the securities defined within the Proposal carry a higher degree of risk, we do not agree that they should be treated differently for the purpose of close-out, or for capital charges. Perhaps an alternative would be to commence taking capital charges on uncollected variation margin after the five days has elapsed, while leaving it to the member to decide the appropriate point in time for close-out, consistent with how other securities are treated. Members should also exercise discretion concerning other appropriate

actions which may include trading restrictions while deficiencies are unresolved. That said, fixing an absolute date for forcing termination rather than at the discretion of the non-defaulting party could have unforeseen consequences. The standard SIFMA Master Securities Forward Transaction Agreement provides that the non-defaulting party "may, at its option, declare an Event of Default . . . and . . . cancel and otherwise liquidate and close out all . . . Transactions. . ."

7. **Risk Limit Determination:** The proposal requires member firms to evaluate counterparties for the purpose of establishing and managing appropriate limits. For all market participants with whom our firm trades, risk based limits are assigned and managed on a daily basis. We believe this is prudent, especially considering time exposure arising from extended settlement periods. As mentioned in #4 above, we also believe that this component of the Proposal should allow for more flexibility for members to establish variation margin thresholds for stronger counterparties.

8. **De Minimis Transfer Amount:** Our firm currently collects margin from mortgage banking clients based on mark to market exposure. However, higher dollar levels are utilized when determinging if a margin deposit is required. Thresholds are determined based on financial condition of the counterparty. Therefore, if a lower de minimis level is implemented, we will experience higher impact to customers currently approved for higher thresholds. Specifically, calls will be required at lower dollar amounts, and issued more frequently than today (as mentioned in #4 above). Not only will the higher frequency of calls be disruptive to these clients, it may also present liquidity issues since more of their available funding will be tied up in margin deposits. We and the client will incur higher processing volumes and expenses related to funds movement between parties.

9. **Effective Date:** As is the case with many firms, our firm is dependent upon outside technology vendors for support in developing and implementing regulatory changes of this magnitude. This proposal covers forward trades spanning TBA/MBS markets for participants that are predominantly exempt but may also be non-exempt, and it carries the dual impact of variation and maintenance margin. It is our belief that implementation in less than 18 months will be difficult to achieve since it will not be prudent to commit vendor support or execute corresponding agreements until the final rule requirements have been determined.

10. **Other Concerns and suggestions:**

    a. **Definition of "forward settlement":** Because we do not believe the market related exposure of the securities covered by this Rule Proposal are of a higher risk profile as compared with any other security type, we do not agree with the point at which "forward settlement" is being defined. Industry standard practice for settlement purposes is T+3. We believe that in order for industry standards to be consistently applied, T+3 should be the standard here as well. Therefore, the point at which a margin call is deemed to be deficient should be T+3, plus 2 days to allow time for any additional resolution and to determine if an extendable event has occurred. Between trade date and T+5, we do not believe any trade situation should be considered abnormal, and as stated earlier, capital charges should not be required.

    b. **Investment Advisors:** This portion of the proposal is a bit confusing. First, does the proposed threshold apply to each money manager in the aggregate, or to each sub

account under the money manager? Second, since broker dealers do not typically carry detailed account information for the underlying clients of money managers, collection of margin at that level will be extremely difficult for the brokers as well as for Advisors. In addition, there is added complexity by the fact that some of the Advisor's clients may be exempt, and some may be non-exempt. Without involvement on the part of clearing firms and central depositories to facilitate this process, members may find it very difficult to monitor and collect maintenance or variable margin for these accounts. There are two possible outcomes of this, in our opinion, both negative:

1. money managers prohibit their clients from trading in these markets
2. broker dealers prohibit money managers from trading in these markets

We do not see any middle ground with respect to this part of the proposal.

c. **Risk Limits:** The proposal states that members must "make a determination in writing of a risk limit to be applied to each such counterparty". For clarification, we assume this refers to the member's internal policies and procedures governing the process of setting and managing risk limits for their counterparties. If that is correct, we believe the combination of this process, and the establishment of threshold(s) for the purpose of collecting variation margin should allow members to vary the threshold based on their assessment of risk associated with each counterparty. If our assumption is not correct, then we would be unable to adjust margin requirements in a timely manner because we could be potentially in breach of contract.

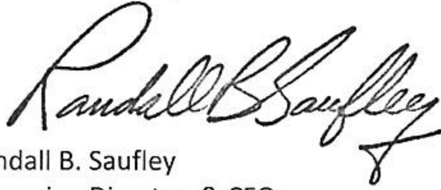
d. **Monitoring level of trading by mortgage bankers VS loan portfolio:** Our firm does not currently track, nor does it have a way to track precisely how much a mortgage banker needs to hedge at any given time. Adding that as a component of the rule will present a significant administrative challenge for many members. A possible alternative approach would be for members to require a periodic attestation from each mortgage banker's CFO stating that they remain within the levels necessary to hedge loan portfolios. Another approach would be verification from a reliable third party such as mortgage aggregators.

e. **Concentration Exposure (as measured against a member's net capital):** The Proposal suggests certain levels of concentration at which a member must not add to its open positions until the concentration is eliminated. Although we agree that this is a prudent measure, we believe one of those levels could be unnecessarily restrictive (5% for any account, or group of accounts under common control). The aggregate cap of 25% provides control that should allow for a higher percentage at the account or group level. Ten percent would allow for more flexibility at that level while overall levels are kept under control by the higher cap.

f. **Standardization of pricing rules:** When Rule 4210 is finalized, FINRA may want to suggest standardized pricing sources and calculation methodology. Otherwise inconsistencies between firms will result in unnecessary disputes over margin call calculations, along with settlement delays and associated operational costs.

Again, thank you for allowing us the opportunity to comment on this Proposal. Please contact us with any questions about the content of this letter.

Sincerely,



Randall B. Saufley
Managing Director & CFO