CREDIT SUISSE

March 28, 2014

Submitted Via Email to pubcom@finra.org

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Comment on Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market

Dear Ms. Asquith:

Credit Suisse Securities (USA) LLC ("Credit Suisse") is pleased to offer its comments in response to the request for comment by the Financial Industry Regulatory Authority ("FINRA") on its proposed amendments to FINRA Rule 4210 to establish margin requirements for transactions in the "to-be-announced" ("TBA") market (the "Proposal"). Credit Suisse appreciates FINRA's efforts to bolster responsible practices for all members that participate in the TBA market.

As an active member of the Securities Industry and Financial Markets Association ("SIFMA"), Credit Suisse has participated in drafting SIFMA's comment letter[1] and wishes to express our strong support for the opinions expressed therein. We are submitting this comment letter separately to emphasize certain points that are essential to Credit Suisse's business.

I. Proposal Timeframes and Tolerance for Relatively Small Margin Disputes

Credit Suisse has clients all over the world, presenting certain operational challenges to implementing the Proposal. For clients who do not operate on New York business day hours, it will be difficult (if not impossible) for Credit Suisse to collect margin on a T+1 basis. While Credit Suisse does not oppose taking a capital charge for uncollected margin on the day following the day the margin deficit is created, Credit Suisse believes it is very important to confirm that FINRA members would be permitted under the Proposal to agree to negotiated time periods for the satisfaction of margin calls, provided that those time periods did not exceed the time before liquidating action would be required and provided that any required capital charges are taken. Such flexibility would enable Credit Suisse to meet the Proposal's requirements with respect to varying types of clients based on each client's unique position.

[1] See Letter from Mary Kay Scucci & Christopher B. Killian, SIFMA, to Marcia E. Asquith, FINRA (Mar. 28, 2014).

Further, in cases of a bona fide good faith dispute over the amount of margin required or the occurrence of a holiday in the counterparty locale, Credit Suisse believes that FINRA should create a process for automatic extensions of the period before liquidating action is required by at least five business days. FINRA could implement this process by creating new electronic codes for requesting an extension on these grounds, consistent with the existing process for requesting extensions under Regulation T and Exchange Act Rule 15c3-3.

Credit Suisse would also like to express its particular support for SIFMA's recommendation that FINRA members be permitted not to take liquidating action when a margin deficit remains outstanding beyond the liquidation period due to a relatively small bona fide dispute over the amount of margin due, provided that the member continues to take a capital charge for such deficit based on its valuation. Requiring all disputes over margin calls to be resolved and reconciled down to the penny (or even to $250,000) would place a large and unnecessary burden on operations staff at member firms and their counterparties.

II. Flexibility in Managing Risk

Credit Suisse believes that it is important that each firm be allowed to consider its own needs and its client's needs in setting a reasonable threshold below which margin would not be collected. Credit Suisse believes that a specifically mandated de minimis transfer amount is overly prescriptive and does not reflect the process by which firms currently conduct credit analyses for clients. A firm should be able to rely on its entire relationship with a client to set appropriate limits, rather than having to follow a particular limit for transactions in Covered Agency Securities.

III. Implementation Period

Credit Suisse believes that an implementation period of at least eighteen months after approval of the Proposal will be essential. Implementation of the Proposal will require significant legal agreement negotiation and renegotiation with clients, system changes in order to collect maintenance margin and diligence on clients and certain clients' subaccounts.

As a primary dealer, Credit Suisse has been working diligently for nearly eighteen months to implement the agency mortgage-backed-securities margining recommendation in the Treasury Market Practice Group's ("TMPG's") Best Practices for Treasury, Agency Debt and Agency Mortgage-Backed Securities Markets (the "TMPG Margining Recommendation"). In implementing the TMPG Margining Recommendation, Credit Suisse has executed margining agreements with a portion of its clients consistent with the industry average.[2] As with other

[2] At the end of January 2014, primary dealers had, on average, executed margining agreement with roughly 55% of their counterparties, which covered roughly 75% of the notional amount of their Covered Agency Securities

primary dealers in the TBA market, while the margining agreements executed so far cover a majority of the notional amount of Credit Suisse's Covered Agency Securities (as defined in the Proposal) transactions, Credit Suisse is still in the process of implementing agreements with a significant number of counterparties. Further, given that existing margining agreements are not necessarily consistent with the Proposal (especially with respect to time periods for margin collection and liquidation, minimum transfer amounts, thresholds and initial margin), Credit Suisse expects it will be obligated to renegotiate a large number of the agreements already in place in order to implement the Proposal. Credit Suisse expects that the negotiation and implementation of margining agreements with the remaining counterparties and the requisite renegotiation with clients with whom agreements are already in place will take at least as long as the previous negotiations and, therefore, that an implementation period of no less than eighteen months is necessary.

One reason why the negotiation process is expected to take at least eighteen months is the information that must be obtained by Credit Suisse from money manager clients with respect to such clients' subaccounts. Credit Suisse expects to use similar documentation to comply with the Proposal as with the TMPG Margining Recommendation. As part of its documentation process, Credit Suisse will require certain account information from money manager clients about their subaccounts in order to conduct sufficient due diligence and review. Given that certain money manager clients have hundreds of subaccounts, Credit Suisse expects the information production burden on the money manager clients to be overwhelming and the negotiation with such clients to take months.

In addition, the Proposal's requirement to collect maintenance margin for non-exempt accounts will require significant changes to Credit Suisse's operational systems and processes.

For all of the above reasons, Credit Suisse believes that an implementation period of at least eighteen months should be allowed to implement the Proposal after approval.

IV. Impact on Smaller Clients

Credit Suisse would also like to express concern that the proposed 2% maintenance margin could cause an unfair burden on smaller clients trading in Covered Agency Securities, causing them to leave the business altogether. This could have an effect on available liquidity in the mortgage market. Credit Suisse believes that FINRA should keep this in mind as it considers the Proposal.

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transactions. See Federal Reserve Bank of New York, "TMPG Meeting Minutes" (Feb. 11, 2014), *available at* http://www.newyorkfed.org/tmpg/february_minutes_2014.pdf. Credit Suisse is happy to provide firm-specific data to the regulators, upon a timely request.

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Credit Suisse appreciates the opportunity to comment on the Proposal. Should you have any questions regarding our comments, please do not hesitate to contact the undersigned at (212) 325-3308.

Sincerely,

Robert H. Huntington
Managing Director