George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

March 28, 2014

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 2006-1506

Dear Ms. Asquith:

On behalf of George K. Baum & Company ("GKB"), I am pleased to submit this letter in response to the request for comments in Notice 14-02. Please also note that our firm is a member of both the Bond Dealers of America ("BDA") and the Securities Industry and Financial Markets Association ("SIFMA"). The BDA and SIFMA are submitting separate comment letters in response to the Request for Comment. GKB approves, endorses and supports the comments and suggestions being provided by them.

Covered Securities
FINRA's inclusion of specified MBS securities and CMOs disregards the very different nature and size of these markets in relation to systemic market risk. The specified MBS pool and CMO markets generally settle within a month and are not like TBA market in many respects: different and much more diverse market participants (eg. many more retail and investment advisor investors), much less speculation, and accordingly much less settlement and market risk (generally less than one month). For these and the cost issues discussed below, we urge FINRA to exclude these products from the proposed amendments to Rule 4210.

Retail Market Impact
A large number of participants in the specified MBS and CDO markets are smaller retail accounts and/or investment advisor accounts who will find the proposed maintenance margin requirements to be a barrier to their participation in these markets. The cost of establishing MSFTA agreements and requiring a maintenance margin deposit from them will therefore reduce both the breadth and depth of the market. For smaller broker dealers, the cost of establishing the required MSFTA documents with large numbers of small or retail accounts is operationally expensive and difficult at best. Further the additional operations costs to record, track and maintain margin accounts will require additional technology and personnel costs. Further, we believe that small and medium firms will be impacted mostly by the additional costs since they participate more broadly in these markets as compared to the TBA market.

Mortgage Origination Markets & Exempt Accounts
A significant percentage of the TBA market comes from mortgage origination platforms who use the TBA market to set their loan pricing and hedge their loan commitments for loans that will be delivered into a GNMA or FNMA security in 30/60/90 days. We believe that customers who use the TBA market solely to hedge their mortgage pipelines do not contribute to nor increase systemic risks in the market, and accordingly they should not bear the costs inherent in a proposed rule that is intended to control and mitigate systemic market risk. In these circumstances, any mark-to-market losses on the outstanding TBAs are generally matched by mark-to-market gains on the mortgage pipeline for the mortgage banking customer. Any increase in costs or additional capital needed by an entity that participates in the residential mortgage origination market will naturally lead to higher costs of mortgages for home buyers. Therefore, all other factors being held constant, the higher costs of hedging (in the form of margin

requirements) will be added to the costs of loans. While it is beneficial that mortgage pipeline hedging accounts are deemed to be Exempt accounts in the proposal (and therefore exempt from initial maintenance margin), the MTM margin requirement will require additional capital for mortgage origination entities without any reduction in systemic risk in the market.

In our opinion, no margin posting requirements should be required by a FINRA Rule for customer entities which use the TBA market in this manner. Firms should be given the flexibility to set their own counterparty exposure and margin requirement parameters for Exempt accounts, and any uncollateralized mark-to-markets should be handled by a reduction to Net Capital. We do not believe that the use of the TBA market for these purposes creates any additional or heightened market risk that needs to be addressed by additional rules from FINRA, particularly when the proposed rules will lead to a reduction in participation in these markets, higher costs and more concentration of risk in larger market participants.

Non FINRA Member Firms
If any participants in the TBA market (i.e. banks) are not subject to the same rules and restrictions set forth in the proposal, then FINRA member firms will undoubtedly be disadvantaged when competing with these other types of entities. Given the choice to trade with a counterparty which requires both an upfront margin and a maintenance margin versus one which does not, a market participant will always choose the one with lower or no margin requirements.

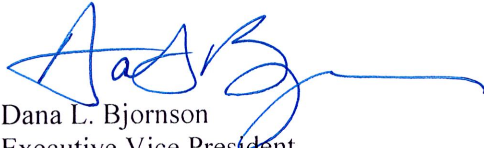
Cost Considerations
We understand that 99.7% of the par value of TBA trades are done by the top 50 firms. We believe that most of the risk is in these firms and not the smaller firms who deal in much smaller amounts. Against this background, the cost of purchasing or developing in-house the margining systems needed to track margin requirements on a daily basis is high. Early estimates we have seen indicate that a minimum of $100,000 per year is required to have a functional margining system, with some of the more robust systems costing in excess of $250,000 per year. This will make participating in the market place very difficult for any but the largest firms, again reducing the number of market participants and with it the breadth and depth of the market. The costs of daily pricing feeds from vendors is a substantial additional cost. The margining requirements will also require additional operational staff to run the systems, make the margin calls, monitor positions, etc. Again, smaller market participants will be forced to leave the market due to these significant additional costs.

Mismatch of Counterparty Credit Exposure
It is very typical for firms that work with many smaller entities or retail accounts on one side of a trade to then use a limited number of market participants or BDs on the other side to hedge those trades. This situation can create a potentially material mismatch in the margining requirements on the two sides of the trades. For example, consider the impact on a firm who has 100 smaller exempt accounts who buy or sell TBAs and other covered agency certificates securities on anything other than a T+1 basis. To hedge these trades with customers, the firm establishes MSFTAs with 4 different broker-dealers. In the simple example where each of the 100 accounts experience a margin maintenance requirement of $10,000 for a total of $1,000,000, then none of them would be required to post this maintenance margin given a minimum transfer amount of $250,000. On the other side, assuming the firm has perfectly hedged its positions, it would have to post $1,000,000 with its BD counterparties. This would require additional cash/capital of $1,000,000 just to make these margin calls, and would create an additional $1,000,000 decrease in net capital for the uncollateralized receivable from customers. This would not be a problem for larger firms, many who are members of MBSCC . However, this would impact the smaller to midsize entities the hardest and reduce the number of participants in these markets.

Conclusion
I urge FINRA to exclude specified MBS pools and CMO transactions from the proposal, to give member firms the flexibility to determine their own credit risk management and margining policies for Exempt accounts, and to not impose costly new operational rules which fall most heavily on small to mid-sized firms – the loss of which would substantially reduce both liquidity and market participation.

Thank you for the opportunity to comment on this important proposal.

Sincerely,



Dana L. Bjornson
Executive Vice President