VINING SPARKS

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Thank you for entertaining commentary on the proposed amendment to FINRA Rule 4521 and the new proposed Supplementary Liquidity Schedule as outlined in Regulatory Notice 18-02. Funding and liquidity issues are of paramount importance to our firm and the financial services industry overall. We support measures that allow firms continued access to the secured funding markets. The following are some observation and concerns about your recently proposed regulatory changes in this area.

Comments on New SLS Reporting Thresholds and Requested Information to be included in the SLS

The threshold to identify firms that FINRA seeks to learn more about regarding their liquidity profiles, specifically firms that have greater than $1 billion of external funding, appears to be a reasonable breakpoint to identify larger firms with large gross funding exposures.

The other proposed threshold for SLS Reporting (and the proposed change to 4521 reporting) - greater than $25 million of customer credits in the reserve formula - has nothing at all to do with a firms funding or liquidity profile, nor does it identify firms that have abnormally high and potentially risky leverage in relation to their equity. For example, a firm with a very low leverage ratio, or almost no borrowing, could have total customer credits of more than $25 million if they have a very large RVP customer fail to receive versus a fail to deliver to a different DVP customer in the same security. Fails like this are frequent for institutional DVP/RVP firms, but have no impact on the firms funding or liquidity profile, nor do they greatly impact the 15c3-3 reserve requirement. To keep the focus of this rule on liquidity, we suggest dropping the $25 million customer credit threshold.

A more meaningful second threshold test, if necessary, could require either 1) firms with a liquidity ratio over some level to report or 2) firms that use Non-US Treasury or Non GSE collateral for secured borrowing that exceeds some amount, possibly $150 million, to report. Either of these tests would help identify firms that may need their liquidity profiles studied more thoroughly than would the currently proposed $25 million customer credit threshold. A threshold implemented based on the amount of borrowing against non-government collateral would dovetail nicely with the type of information that you are proposing to be reported in the Amendment to FINRA Rule 4521 - the loss of Non-UST or Non-GSE collateralized funding over certain thresholds.

For firms that meet SLS reporting thresholds, the additional data which is proposed to be reported seems to be reasonable except for disclosure of the names of the top 5 counterparties. I think it is appropriate for firms to list their top 5 counterparties by size, but with the names of the counterparties withheld. If FINRA needs to follow up with firms on a one-off basis by calling or emailing with specific questions about their counterparties, that is perfectly fine. FINRA staff does that now from time to time without issue. However, it is not appropriate for firms to be required to regularly report to FINRA who their counterparties are and to what degree they have borrowings from (or loans out to) such counterparties. This type of information would effectively let FINRA use this data to reverse engineer the funding profiles and linkages of the significant market participants. This type of detailed information, in the wrong hands, would be damaging to member firms. This is a privacy concern. Also, the currently unknown unintended consequences which will surely arise from disclosing the counterparty names could be very problematic. Would a firm intentionally pull back the amount of funding that they would otherwise provide to some counterparties to keep them off the top 5 list? Quite possibly. Such behavior would disadvantage access to funding for small to medium sized firms without benefiting the market or making it generally safer.

Comments on the Amendment to FINRA Rule 4521 – additional notification requirements

The primary reason for notification (loss of a sizable source of secured funding) is well intentioned. The proposed methodology for identifying this loss of a funding source while very specific, is overly complex and should be simplified.

The notification requirement focuses only on the loss of Non-GSE collateralized funding access, but subjects all SLS reporting firms to monitoring and measurement requirements to comply with potential reporting, even firms that have very small amounts of Non-GSE Assets or Non-GSE Collateralized funding.

The proposal specifies that a "loss of access to secured funding" is reportable, but does not specify if the "access" is "active" or not. If nothing is drawn and the counterparty notifies it will no longer fund going forward and it passes the rolling 35 day and 20% size test, does that still count as a reportable event?

Does a "freeze" on the amount drawn count as a loss of funding? If a counterparty doesn't let a firm add to positions as it does normally, but may let them resume additions after a quarter end or other event passes, is this reportable?

Many repo/reverse repo counterparties traffic in UST, GSE and Non-GSE Collateral. The proposed reporting is only for Non-UST/GSE Collateral. What if counterparties don't specify limits by collateral type? How does a firm know how much access they have lost to Non-GSE Funding?

Building a report or system to monitor a 35-day rolling maximum amount borrowed based on a certain collateral type by counterparty is onerous and burdensome. Also, as proposed, the trigger does not consider that SLS qualifying firms may borrow against extremely small amounts of Non-UST/GSE collateral. Since FINRA is only targeting Non UST/GSE collateral, a much simpler trigger could be defined. One such approach would be to report any Non-GSE or Non-UST funding access that is lost that

is more than the lesser of $XX million or YY% of Net Capital. Use a sliding scale to define sensible variables based on a range of a Firm's Net Capital at the most recently reported month end.

Regarding the 20% increase in haircut rates that are reportable on the top 5 funding counterparties: A 20% increase in a haircut rate can be very small. A move from 2.5% to 3% or from 5% to 6% is a 20% increase. Is this the type of move that FINRA is concerned with? Should small haircut changes like these be reportable? Wouldn't a fixed haircut percentage change in Non-UST/GSE collateral types be a better reportable event? For example, if the haircut rate on Non-GSE collateral goes up by more than 2.5% (from 3% to 6%) a reportable trigger may be reached.

Once again, thank you for providing the opportunity to comment. We believe that a properly functioning secured funding market for dealers is vital for the industry and support initiatives to strengthen the market for all participants. We disagree with the application of overly complex measurement tools which require significant programming time and expense when simple alternatives are available. We also have legitimate concerns about the unintended consequences that will follow the implementation of this proposal as it has currently been presented.

Best Regards,

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