

Broker-Dealer Alert

A bi-weekly publication from the Accordo Team

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New Margin Requirements – FINRA Rule 4210

The Securities and Exchange Commission (SEC) approved amendments to FINRA Rule 4210 regarding minimum margin requirements for FINRA member firms. The amended rule requires registered broker-dealers to:

- collect mark-to-market margin and maintenance margin on Covered Agency Transactions that include To Be Announced Transactions (TBA) on MBS, Adjustable Rate Mortgage Transactions (ARM), specified Pool Transactions and Collateralized Mortgage Obligations (CMO);
- calculate daily, but not post, mark-to-market (“variation”) margins on Covered Agency Transactions for counterparties holding a minimum of \$40 million financial assets;
- determine maintenance (“initial”) margin of 2 percent of the contract value for relevant accounts;
- transfer both maintenance and mark-to-market margin deficiencies by the end of the next business day after the deficiency is identified to satisfy a margin call, or the amount will be deducted from the broker-dealer’s regulatory net capital;
- liquidate positions if after five business days the margin deficiency is still not satisfied, unless a Regulatory Extension (REX) is granted from FINRA; and
- Review and update counterparty-level credit risk limits incorporating exposure from forward-settling TBAs, specified pools and agency CMOs that are monitored and enforced with a clearly defined credit methodology.

The deadline to comply with the new FINRA Rule 4210 Margin Requirements is June 25th, 2018.

Key Considerations for FINRA Broker Dealers:

- Consider implementing technology solutions for calculating and tracking margin requirements and exempt accounts, and addressing data collection and business goals.
- Review the existing compliance, risk & operations framework, with respect to Rule 4210, & considering the Rule outside of margin requirements.
- Establish and monitor required net capital thresholds over a 5-day rolling period.
- Identify, store and maintain specific account categories and transactions to be exempted from certain margin requirements.
- Incorporate margin calculations and contingencies into Master Securities Forward Transaction Agreements (MSFTAs), if relevant.
- Begin testing and training personnel on FINRA’s REX (Request for Extension) system to ensure readiness, in the case of a margin deficiency.

Accordo Engagement Approach for FINRA Rule 4210 Margin Compliance

