# **Broker-Dealer Alert**

## A bi-weekly publication from the Accordo Team

April 5, 2018

# 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 25<sup>th</sup>, 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

Engage	Assess	Deliver	Report
<ul> <li>Review technology or vendor solution options for calculating and tracking margin requirements</li> <li>Develop an implementation strategy with key deliverables and outline the program risks and developmental and/or integration dependencies</li> <li>Review existing operational framework for compliance with FINRA 4210</li> <li>Identify which accounts are exempt from margin reporting</li> </ul>	<ul> <li>Perform a gap analysis of current margining processes relative to the new maintenance margin and MTM margin calculations</li> <li>Review existing platform's ability to implement changes to accommodate FINRA 4210 margining activities</li> <li>Assess and mitigate liquidity impact of margin calls on the firm's business</li> <li>Review data infrastructure to identify, classify and margin covered agency transactions</li> </ul>	<ul> <li>Develop and implement a process for FINRA's Request for Extension and escalation management</li> <li>Advise on contractual arrangements in order to comply with the new requirements</li> <li>Validate model for calculating margin</li> <li>Implement governance structures to support the rule requirement functions</li> <li>Audit &amp; test for ongoing compliance with the Rule</li> </ul>	<ul> <li>Track and report undermargined accounts that includes net capital calculations and identify transactions for T+5 extension requests or liquidation</li> <li>Assist with incorporating capital charges for covered agency transactions into tentative net capital threshold monitoring process for individual clients and overall charges</li> <li>Certify compliance with margin requirements to meet June 25th, 2018 deadline</li> </ul>
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