



March 27, 2014

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

Dear Marcia:

Pershing LLC ("Pershing") appreciates the opportunity to comment on the proposed amendments to FINRA Rule 4210 published in Notice 14-02.

What types of market participants will be impacted by these proposals?

Generally traditional TBA transactions are for and with brokers, banks and other institutional type customers, however other covered securities e.g. mortgage backed pool transactions are sold to retail customers and may be done on an extended settlement basis to coincide with the pool factor changes. These proposals may impact these customers. New Issue CMO transactions which usually settle once a month should be exempt from this rule since they cannot be settled until the underlying issues are purchased and packaged to complete the issue.

Will liquidity negatively impact this market?

Yes, we believe that small and mid size participants will be impacted especially on the other covered securities transactions besides the traditional TBA market.

Operational costs

There will be significant development costs for new reports and tools to help our Introducing Brokers (IBs) comply with these changes as well ongoing costs for us and our IBs to monitor the reports, communicate to counterparties and deliver and receive funds. We will also have costs to enhance our reserve formula system to recognize funds received that can be used to cover unsettled losses and not be locked up. We also have to develop a new account type to recognize debits in an account that will reflect payments to a counterparty that is covered by a receivable from that counterparty and not an unsecured debt. Our plan is to have each IB open a new account in their range of accounts for each streetside broker they trade with and use that account to pay and receive collateral to cover the mark to market exposure. This is a major change to our process. We are still evaluating the costs and will follow up with that information as soon as possible.



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We do not object to requiring maintenance margin for non exempt accounts (or for exempt accounts other than brokers) for traditional TBA transactions and for other covered securities that settle after the standard settlement for the product as the TMPG as stated with the exception for New Issue CMO trades as mentioned above.

Transactions with Mortgage Bankers that may exceed the amount necessary to hedge the mortgage pipeline will be very difficult to police for our IBs on an ongoing basis and impossible for a carrying firm to recognize. We recommend this provision be clarified that a broker or an IB can make this assessment on an annual basis when they review the credit quality of the mortgage banker and set the limit.

We recommend that only cash and exempt securities be accepted as collateral for margin calls on these transactions.

The close out provision on specified pool or CMO transaction on one side of the trade would be disruptive to the other side of the trade that was not in breach since these are unique issues and cannot be easily replaced with another issue.

Also if an extension of time will be permitted, will FINRA issue guidance on what will be deemed to be a valid reason for an extension with codes similar to the current extension process? We will need clarification on the tracking of the call over the 5 day period (e.g. what is expected if a counterparty is on call one day and has other transactions the next day or the market changes in its favor the next day). Will there be guidelines on how to handle these events over the 5 day period?

We recommend capital charges apply after the 5th day instead of day 1. This is consistent with other provisions of the rule.

Risk limit determination and monitoring should be the responsibility of the broker that introduces the account to a carrying firm, the IB.

A 6 month effective date could be reasonable, however we reserve the right to request an extension as we determine system enhancements to solve these issues.

What is expected if covered transaction goes beyond the settlement date and is now a fail to deliver or a fail to receive? Will the mark to market process cease and funds be returned?

We greatly appreciate the opportunity that we have been afforded to submit this letter. As always, Pershing looks forward to working with FINRA to achieve productive, positive results. We await your response and the chance to gain clarification on topics discussed above. Thank you again for your consideration.

Sincerely,

Thomas F. Guinan
Managing Director
Credit Risk Management