

Attachment A

Following shows the amendments pursuant to SR-FINRA-2021-010. All marked changes are as to the rule text as approved pursuant to the original rulemaking (SR-FINRA-2015-036). New language is underlined; deletions are in brackets.

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4000. FINANCIAL AND OPERATIONAL RULES

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4210. Margin Requirements

(a) through (d) No Change.

(e) Exceptions to Rule

The foregoing requirements of this Rule are subject to the following exceptions:

(1) No Change.

(2) Exempted Securities, Non-equity Securities and Baskets

(A) through (G) No Change.

(H) Covered Agency Transactions

(i) Definitions

For purposes of paragraphs (e)(2)(H) and (e)(2)(I) of this Rule:

[a. The term “bilateral transaction” means a Covered Agency Transaction that is not cleared through a registered clearing agency as defined in paragraph (f)(2)(A)(xxviii) of this Rule.]

[b] a. The term “counterparty” means any person, including any “customer” as defined in paragraph (a)(3) of

this Rule, that is a party to a Covered Agency Transaction with, or guaranteed by, a member [that enters into a Covered Agency Transaction with a member and includes a “customer” as defined in paragraph (a)(3) of this Rule].

[c] b. The term “Covered Agency Transaction” means:

1. To Be Announced (“TBA”) transactions, as defined in Rule 6710(u), inclusive of adjustable rate mortgage (“ARM”) transactions, for which the difference between the trade date and contractual settlement date is greater than one business day;

2. Specified Pool Transactions, as defined in Rule 6710(x), for which the difference between the trade date and contractual settlement date is greater than one business day; and

3. Transactions in Collateralized Mortgage Obligations (“CMOs”), as defined in Rule 6710(dd), issued in conformity with a program of an Agency, as defined in Rule 6710(k), or a Government-Sponsored Enterprise, as defined in Rule 6710(n), for which the difference between the trade date and contractual settlement date is greater than three business days.

c. A counterparty's "excess net mark to market loss" means such counterparty's net mark to market loss to the extent it exceeds \$250,000.

[d. The term "deficiency" means the amount of any required but uncollected maintenance margin and any required but uncollected mark to market loss.]

d. A counterparty's "net mark to market loss" means:

1. the sum of such counterparty's losses, if any, resulting from marking to market the counterparty's Covered Agency Transactions with the member, or guaranteed to a third party by the member, reduced to the extent of the member's legally enforceable right of offset or security by;

2. the sum of such counterparty's gains, if any, resulting from:

A. marking to market the counterparty's Covered Agency Transactions with the member, guaranteed to the counterparty by the member, cleared by the member through a registered clearing agency, or in which the member has a first-priority perfected security interest; and

B. any “in the money,” as defined in paragraph (f)(2)(E)(iii) of this Rule, amounts of the counterparty’s long standby transactions written by the member, guaranteed to the counterparty by the member, cleared by the member through a registered clearing agency, or in which the member has a first-priority perfected security interest.

[e. The term “gross open position” means, with respect to Covered Agency Transactions, the amount of the absolute dollar value of all contracts entered into by a counterparty, in all CUSIPs; provided, however, that such amount shall be computed net of any settled position of the counterparty held at the member and deliverable under one or more of the counterparty’s contracts with the member and which the counterparty intends to deliver.]

e. A counterparty is a “non-margin counterparty”

if:

1. the counterparty is not a small cash counterparty, registered clearing agency, Federal banking agency, as defined in 12 U.S.C. 1813(z), central bank, multinational central bank, foreign

sovereign, multilateral development bank, or the Bank for International Settlements; and

2. the member:

A. does not have a right under a written agreement or otherwise to collect margin for such counterparty's excess net mark to market loss and to liquidate such counterparty's Covered Agency

Transactions if any such excess net mark to market loss is not margined or eliminated within five business days from the date it arises; or

B. does not regularly collect margin for such counterparty's excess net mark to market loss.

[f. The term "maintenance margin" means margin equal to 2 percent of the contract value of the net "long" or net "short" position, by CUSIP, with the counterparty.]

f. The term "registered clearing agency" has the meaning as defined in paragraph (f)(2)(A)(xxviii) of this Rule.

[g. The term “mark to market loss” means the counterparty’s loss resulting from marking a Covered Agency Transaction to the market.]

[i] g. The term “round robin” trade means any transaction or transactions resulting in equal and offsetting positions by one customer with two separate dealers for the purpose of eliminating a turnaround delivery obligation by the customer.

[h. The term “mortgage banker” means an entity, however organized, that engages in the business of providing real estate financing collateralized by liens on such real estate.]

h. A counterparty is a “small cash counterparty” if:

1. the absolute dollar value of all of such counterparty’s open Covered Agency Transactions with, or guaranteed by, the member is \$10 million or less in the aggregate, when computed net of any settled position of the counterparty held at the member that is deliverable under such open Covered Agency Transactions and which the counterparty intends to deliver;

2. the original contractual settlement date for all such open Covered Agency Transactions is in

the month of the trade date for such transactions or in the month succeeding the trade date for such transactions;

3. the counterparty regularly settles its Covered Agency Transactions on a Delivery Versus Payment (“DVP”) basis or for “cash”; and

4. the counterparty does not, in connection with its Covered Agency Transactions with, or guaranteed by, the member, engage in dollar rolls, as defined in Rule 6710(z), or round robin trades, or use other financing techniques.

i. A member’s “specified net capital deductions” are the net capital deductions required by paragraph (e)(2)(H)(ii)d.1. of this Rule with respect to all unmarginated excess net mark to market losses of its counterparties, except to the extent that the member, in good faith, expects such excess net mark to market losses to be margined by the close of business on the fifth business day after they arose.

[i] j. The term “standby” means contracts that are put options that trade OTC, as defined in paragraph (f)(2)(A)(xxvii) of this Rule, with initial and final

confirmation procedures similar to those on forward transactions.

(ii) Margin Requirements for Covered Agency

Transactions

a. Scope and Exceptions: All Covered Agency Transactions with any counterparty, regardless of the type of account to which booked, shall be subject to the provisions of paragraph (e)(2)(H) of this Rule, except:

1. [with respect to Covered Agency Transactions with any counterparty that] a member is not required to collect margin, or to take capital charges in lieu of collecting such margin, for a counterparty's excess net mark to market loss if such counterparty is a small cash counterparty, registered clearing agency, Federal banking agency, as defined in 12 U.S.C. 1813(z), central bank, multinational central bank, foreign sovereign, multilateral development bank, or the Bank for International Settlements; and [, a member may elect not to apply the margin requirements specified in paragraph (e)(2)(H) of this Rule provided the member makes a written risk limit determination for

each such counterparty that the member shall enforce pursuant to paragraph (e)(2)(H)(ii)b.; and]

2. a member is not required to include [apply the margin requirements specified in paragraph (e)(2)(H) of this Rule with respect to] a counterparty's Covered Agency Transactions [with a counterparty] in multifamily housing securities or project loan program securities in the computation of such counterparty's net mark to market loss, provided[:]

[A.] such securities are issued in conformity with a program of an Agency, as defined in Rule 6710(k), or a Government-Sponsored Enterprise, as defined in Rule 6710(n), and are documented as Freddie Mac K Certificates, Fannie Mae Delegated Underwriting and Servicing bonds, or Ginnie Mae Construction Loan or Project Loan Certificates, as commonly known to the trade, or are such other multifamily housing securities or project loan program securities with substantially similar characteristics, issued in conformity with a

program of an Agency or a Government-Sponsored Enterprise, as FINRA may designate by Regulatory Notice or similar communication[; and].

[B. the member makes a written risk limit determination for each such counterparty that the member shall enforce pursuant to paragraph (e)(2)(H)(ii)b.]

b. Written Risk Limits: A member that engages in Covered Agency Transactions with any counterparty shall make a determination in writing of a risk limit for each such counterparty, including any counterparty specified in paragraph (e)(2)(H)(ii)a.1. of this Rule, that the member shall enforce. The risk limit for a counterparty shall cover all of the counterparty's Covered Agency Transactions with the member or guaranteed to a third party by the member, including Covered Agency Transactions specified in paragraph (e)(2)(H)(ii)a.2. of this Rule. The risk limit determination shall be made by a designated credit risk officer or credit risk committee in accordance with the member's written risk policies and procedures.

c. Mark to Market Margin: Members shall collect margin for each counterparty's excess net mark to market

loss, unless otherwise provided under paragraph (e)(2)(H)(ii)d. of this Rule. Members are not required to collect margin, or take capital charges, for counterparties' mark to market losses on Covered Agency Transactions other than excess net mark to market losses.

[c. The margin requirements specified in paragraph (e)(2)(H) of this Rule shall not apply to:]

[1. Covered Agency Transactions that are cleared through a registered clearing agency, as defined in paragraph (f)(2)(A)(xxviii) of this Rule, and are subject to the margin requirements of that clearing agency; and]

[2. any counterparty that has gross open positions in Covered Agency Transactions with the member amounting to \$10 million or less in aggregate, if the original contractual settlement for all such transactions is in the month of the trade date for such transactions or in the month succeeding the trade date for such transactions and the counterparty regularly settles its Covered Agency Transactions on a Delivery Versus Payment ("DVP") basis or for "cash"; provided, however, that such exception from the margin requirements

shall not apply to a counterparty that, in its transactions with the member, engages in dollar rolls, as defined in Rule 6710(z), or “round robin” trades, or that uses other financing techniques for its Covered Agency Transactions.]

d. Capital Charge in lieu of Margin: A member need not collect margin for a counterparty’s excess net mark to market loss under paragraph (e)(2)(H)(ii)c. of this Rule, provided that:

1. the member shall deduct the amount of the counterparty’s unmargined excess net mark to market loss from the member’s net capital computed as provided in SEA Rule 15c3-1, if the counterparty is a non-margin counterparty or if the excess net mark to market loss has not been margined or eliminated by the close of business on the next business day after the business day on which such excess net mark to market loss arises;

2. if the member has any non-margin counterparties, the member shall establish and enforce risk management procedures reasonably designed to ensure that the member would not exceed either of the limits specified in paragraph

(e)(2)(I)(i) of this Rule and that the member's net capital deductions under paragraph (e)(2)(H)(ii)d.1. of this Rule for all accounts combined will not exceed \$25 million;

3. if the member's specified net capital deductions exceed \$25 million for five consecutive business days, the member shall give prompt written notice to FINRA. If the member's specified net capital deductions exceed the lesser of \$30 million or 25% of the member's tentative net capital, as such term is defined in SEA Rule 15c3-1, for five consecutive business days, the member shall not enter into any new Covered Agency Transactions with any non-margin counterparty other than risk-reducing transactions, and shall also, to the extent of its rights, promptly collect margin for each counterparty's excess net mark to market loss and promptly liquidate the Covered Agency Transactions of any counterparty whose excess net mark to market loss is not margined or eliminated within five business days from the date it arises, unless FINRA has specifically granted the member additional time; and

4. the member shall submit to FINRA such information regarding its unmargined net mark to market losses, non-margin counterparties and related capital charges, in such form and manner, as FINRA shall prescribe by Regulatory Notice or similar communication.

[d. Transactions with Exempt Accounts: On any net “long” or net “short” position, by CUSIP, resulting from bilateral transactions with a counterparty that is an “exempt account” no maintenance margin shall be required. However, such transactions shall be marked to the market daily and the member shall collect any net mark to market loss, unless otherwise provided under paragraph (e)(2)(H)(ii)f. of this Rule. If the mark to market loss is not satisfied by the close of business on the next business day after the business day on which the mark to market loss arises, the member shall be required to deduct the amount of the mark to market loss from net capital as provided in SEA Rule 15c3-1 until such time the mark to market loss is satisfied. If such mark to market loss is not satisfied within five business days from the date the loss was created, the member shall promptly liquidate positions to satisfy the mark to market loss, unless FINRA has specifically granted

the member additional time. Members may treat mortgage bankers that use Covered Agency Transactions to hedge their pipeline of mortgage commitments as exempt accounts for purposes of paragraph (e)(2)(H) of this Rule.]

[e. Transactions with Non-Exempt Accounts: On any net “long” or net “short” position, by CUSIP, resulting from bilateral transactions with a counterparty that is not an “exempt account,” maintenance margin, plus any net mark to market loss on such transactions, shall be required margin, and the member shall collect the deficiency, as defined in paragraph (e)(2)(H)(i)d. of this Rule, unless otherwise provided under paragraph (e)(2)(H)(ii)f. of this Rule. If the deficiency is not satisfied by the close of business on the next business day after the business day on which the deficiency arises, the member shall be required to deduct the amount of the deficiency from net capital as provided in SEA Rule 15c3-1 until such time the deficiency is satisfied. If such deficiency is not satisfied within five business days from the date the deficiency was created, the member shall promptly liquidate positions to satisfy the deficiency, unless FINRA has specifically granted the member additional time. No maintenance margin is required if the original contractual settlement for the

Covered Agency Transaction is in the month of the trade date for such transaction or in the month succeeding the trade date for such transaction and the customer regularly settles its Covered Agency Transactions on a DVP basis or for “cash”; provided, however, that such exception from the required maintenance margin shall not apply to a non-exempt account that, in its transactions with the member, engages in dollar rolls, as defined in Rule 6710(z), or “round robin” trades, or that uses other financing techniques for its Covered Agency Transactions.]

[f. Any aforementioned deficiency, as set forth in paragraph (e)(2)(H)(ii)e. of this Rule, or mark to market losses, as set forth in paragraph (e)(2)(H)(ii)d. of this Rule, with a single counterparty shall not give rise to any margin requirement, and as such need not be collected or charged to net capital, if the aggregate of such amounts with such counterparty does not exceed \$250,000 (“the de minimis transfer amount”). The full amount of the sum of the required maintenance margin and any mark to market loss must be collected when such sum exceeds the de minimis transfer amount.]

[g. Unrealized profits in one Covered Agency Transaction position may offset losses from other Covered

Agency Transaction positions in the same counterparty's account and the amount of net unrealized profits may be used to reduce margin requirements. With respect to standbys, only profits (in-the-money amounts), if any, on "long" standbys shall be recognized.]

(I) Limits on Net Capital Deductions

[(i)] In the event that:

(i) the net capital deductions taken by a member as a result of [deficiencies or] marked to the market losses incurred under paragraphs (e)(2)(F), [and] (e)(2)(G) [of this Rule] (exclusive of the percentage requirements established thereunder), or (e)(2)(H)(ii)d.1. of this Rule, plus any unmargined net mark to market losses below \$250,000 or of small cash counterparties [as set forth under paragraph (e)(2)(H)(ii)d. of this Rule and any deficiency as set forth under paragraph (e)(2)(H)(ii)e. of this Rule, and inclusive of all amounts excepted from margin requirements as set forth under paragraph (e)(2)(H)(ii)c.2. of this Rule or any de minimis transfer amount as set forth under paragraph (e)(2)(H)(ii)f. of this Rule,] exceed:

a. for any one account or group of commonly controlled accounts, 5 percent of the member's tentative net capital (as such term is defined in SEA Rule 15c3-1), or

b. for all accounts combined, 25 percent of the member's tentative net capital (as such term is defined in SEA Rule 15c3-1);[,] and[,]

(ii) [c.] such excess as calculated in paragraph (e)(2)(I)(i) [paragraphs (e)(2)(I)(i)a. or b.] of this Rule continues to exist on the fifth business day after it was incurred;[,] the member shall give prompt written notice to FINRA and shall not enter into any new transaction(s) subject to the provisions of paragraphs (e)(2)(F), (e)(2)(G) or (e)(2)(H) of this Rule that would result in an increase in the amount of such excess [under, as applicable, paragraph (e)(2)(I)(i) of this Rule].

(3) through (8) No Change.

(f) Other Provisions

(1) through (5) No Change.

(6) Time Within Which Margin or “Mark to Market” Must Be Obtained

The amount of margin or “mark to market” required by any provision of this Rule[, other than that required under paragraph (e)(2)(H) of this Rule,] shall be obtained as promptly as possible and in any event within 15 business days from the date such deficiency occurred, unless FINRA has specifically granted the member additional time.

(7) through (10) No Change.

(g) through (h) No Change.

••• **Supplementary Material:** -----

.01 No Change.

.02 Guaranteed. For purposes of paragraph (e)(2)(H) of this Rule, a member is deemed to have “guaranteed” a transaction if such member has become liable for the performance of either party’s obligations under such transaction.

[.02 Monitoring Procedures. For purposes of paragraph (e)(2)(H)(ii)d. of this Rule, members shall adopt written procedures to monitor the mortgage banker’s pipeline of mortgage loan commitments to assess whether the Covered Agency Transactions are being used for hedging purposes.]

[.03 Mark to Market Loss/Deficiency. For purposes of paragraph (e)(2)(H) of this Rule, to the extent a mark to market loss or deficiency is cured by subsequent market movements prior to the time the margin call must be met, the margin call need not be met and the position need not be liquidated; provided, however, if the mark to market loss or deficiency is not satisfied by the close of business on the next business day after the business day on which the mark to market loss or deficiency arises, the member shall be required to deduct the amount of the mark to market loss or deficiency from net capital as provided in SEA Rule 15c3-1 until such time the mark to market loss or deficiency is satisfied.]

[.04 Determination of Exempt Account. For purposes of paragraph (e)(2)(H) of this Rule, the determination of whether an account qualifies as an exempt account shall be made based upon the beneficial ownership of the account. Sub-accounts managed by an investment adviser, where the beneficial owner is other than the investment adviser, shall be margined individually.]

.03 [.05] Risk Limit Determination.

[(a)] For purposes of any risk limit determination pursuant to paragraphs (e)(2)(F), (e)(2)(G) or (e)(2)(H) of this Rule:

(a) [(1)] If a member engages in transactions with advisory clients of a registered investment adviser, the member may elect to make the risk limit determination at the investment adviser level;

(b) [(2)] Members of limited size and resources that do not have a credit risk officer or credit risk committee may designate an appropriately registered principal to make the risk limit determinations;

(c) [(3)] The member may base the risk limit determination on consideration of all products involved in the member's business with the counterparty, provided the member makes a daily record of the counterparty's risk limit usage; and

(d) [(4)] A member shall consider whether the margin required pursuant to this Rule is adequate with respect to a particular counterparty account or all its counterparty accounts and, where appropriate, increase such requirements.

.04 Reserved.

.05 Reserved.

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