March 28, 2014

Comments on Proposed Amendments to FINRA Rule 4210 regarding TBA Margin Requirements.

Thank you for the opportunity to offer comments on proposed FINRA Rule 4210 regarding TBA Margin Requirements. While we absolutely agree with FINRA's efforts to protect investors, we believe the proposal in its current form may cause greater harm, not only to investors, but to the markets, consumers, mortgage brokers and smaller broker dealers.

In over 30 years of experience in the various fixed-income markets, we have yet to see the degradation of value between trade date and settlement date in mortgage-backed securities such as these cause great harm to the parties involved in the transactions. However, we are seriously concerned about the harm this proposal will cause to smaller broker dealers, smaller mortgage brokers and smaller investors and consumers. Large institutional broker dealers, mortgage companies and investors probably will not be greatly affected. However, the aforementioned smaller investors and entities will lose access to markets and those individuals and entities will likely fall out of the marketplace completely. Smaller mortgage brokers, who do not have access to primary dealers, depend on the smaller broker dealer to provide liquidity and market access for their pooled mortgage products. Their ability to pool mortgages and bring them to market assists in keeping mortgage rates lower, thereby helping consumers. Because of the size of these transactions, the margin proposal in its current form would force both the small broker dealers and smaller mortgage brokers and lenders out of the marketplace altogether, which would, in turn, cause an increase in mortgage rates, thereby harming consumers.

Another casualty of the proposal could be that some of the market participants will move the activity to entities that are not regulated by FINRA. Bank affiliated broker dealers who have become FINRA members will be forced to move the business to the bank dealer side in order to remain a viable market participant. Another problem created by these moves is the inability of having clearing firms assist in the settlement of these transactions and collection of margin due to the capital charges involved. This will create an enormous expense for smaller firms who wish to continue participate in the markets, in that they will have to expand their back office operations to handle the settlement of this activity. For introducing broker dealers, this could cause them to be removed from the marketplace for a time while obtaining approval to be a self-clearing firm.

In addition to the above, we would reiterate the comments of Ambassador Financial Group, to-wit:

> "Even if smaller brokerage firms do survive, the proposed risk limitations may have a great impact on their ability to service clients. As risk limits are approached, brokerage firms will be regulatorily required to cut off access to markets. As market access is reduced or eliminated the number of potential market participants is reduced. The fewer available market participants the less liquid the securities. The less liquid the securities the more volatile the markets. If the need for covering margin requirements is triggered it is most likely because

markets are struggling to start with. Without the margin requirement and risk limit restraints there is a better chance of stabilizing markets. Using history as a guide, no matter the condition of markets, trades settle anyway. Counterparties honor their commitments. Other than a single trade with Bear Stearns that we learned was never booked in the confusion of their last days, we have never been witness to a transaction in which a counterparty has backed away from an agreed upon trade.

From the perspective of the end investor it is reasonable to believe that given increased recordkeeping requirements along with the potential need for posting collateral prior to settlement fewer investors will have interest in buying mortgage backed securities. Looking at our client base, bankers may have an added incentive to shy away from investing in the MBS markets, quite possibly and understandably being disturbed at having to post collateral to buy securities they want to use as collateral. Not only will fewer MBS market participants potentially lead to a less liquid market but there may also be the unintended consequence of less money available for homebuyers looking for mortgages…

The riskless principal option itself may also be in peril. The riskless principal model is a valuable one, providing investors with a broker source that, rather than selling bonds from inventory, shops the market for the most appropriate investment option available unencumbered by positions the firm might hold. Low capital requirements are an incentive for firms to follow this model. The higher effective capital requirements of the proposed rules amendment may force riskless principals out of business, or limit what they can offer. Fewer firms following the riskless principal model means fewer options for end investors. We also believe that FINRA is a stronger and more effective organization with more rather than fewer members. A tiered system is already in place with those financial services organizations that are FINRA regulated and those that are not. Possibly a tiered system within FINRA that would exempt riskless principal model brokers from the MBS variation margin requirements and exposure limitations would be worthy of consideration if the rule changes cannot be set aside altogether.

From a firm perspective, despite maintaining capital that far exceeds our required level, there are very real impediments to our viability if these proposals become rule. In a volatile market both the 5% limit per client and the 25% overall limit could be reached easily. While it is understood that the intended purpose of limits is to avoid overwhelming exposure the idea that triggering these limits and reducing market access when clients may need that market access most acutely appears it would create more systemic risk rather than less.

The proposal to require the posting of variation margin based on mark-to-market calculations is also of great concern to us… Most likely if the de minimis level is reached with one of our brokerage counterparties the exposure would be spread out over a number of exempt clients who would not reach their de minimis threshold creating a funds imbalance until settlement day. It is understood that book profits will offset book losses in calculating exposure however much investment is done with cash and there is less potentially offsetting sell side activity. Additionally if markets are sliding rapidly bid to offer spreads often widen, magnifying the loss and reducing the profit side benefit.

To continue along the lines of bid to offer spreads and market value of securities, how will securities be valued? TBA pools are relatively easy to price in a universally accepted manner. CMOs and specified pools are considerably harder to value. This point is brought home to us every time we look to the street for bids for client securities. Certainly the closer to generic a pool gets the easier it is to value. However there are many characteristics that affect the value of a mortgage backed security. Among those characteristics are pool size, median loan size, geographic dispersion, and underlying credit. CMOs with their many different structures are even harder to value. How will these securities be valued? Yes market values are placed on bonds everyday however it is our experience that pricing services can be grossly inaccurate particularly in volatile markets. Even small price differences could mean the difference between having to post collateral or not."

Again, we appreciate the opportunity to present our comments on this proposal and thank you for your careful consideration of same.

Respectfully Submitted,

Simmons First Investment Group, Inc.

Richard Johnson, President

Harold Thomas, CCO

Carolyn R. May, Co-CCO, Advisory Director