

Comply with new FINRA 4210 rules for TBA transactions

In July 2014, the Financial Industry Regulatory Authority proposed amendments to FINRA Rule 4210 (Margin Requirements) to establish requirements for forward-settling agency mortgage-backed securities – also referred to as the TBA market. After several amendments, the SEC approved the proposed rule change on June 21, 2016.¹ Firms need to comply with the new regulations from March 25, 2020.

Market background

The TBA market is one of the largest fixed income markets, with approximately \$5 trillion of securities outstanding and between \$750 billion and \$1.5 trillion in gross unsettled and un-margined dealer-to-customer transactions. The amendments to FINRA 4210 will impact Covered Agency Transactions, which are defined as:

- TBA transactions inclusive of Adjustable Rate Mortgages (ARM) where the contractual settlement date is greater than one business day.
- Specified pool transactions where the contractual settlement date is greater than one business day.
- Collateralized Mortgage Obligations (CMO) where the contractual settlement date is greater than three business days.

Regulatory change	Regulatory change
Open position exception	\$10 million or less per agreement
Maintenance margin	2% of market value of underlying securities in Master Securities Forward Transaction Agreements (MSFTA)
Mark-to-market margin or "loss"	Counterparty's loss resulting from marking a Covered Agency Transaction to market
Minimum transfer amount	\$250,000 per legal agreement (MSFTA)
Posting party designation	Unilateral in favor of sell side
Position liquidation	5 days if mark-to-market loss or deficiency is not satisfied
Exemptions	<p>Full exemption – Federal banking agencies, central banks, multinational central banks, multilateral development banks, foreign sovereigns, and the Bank for International Settlements.</p> <p>Maintenance margin exemption – FINRA members and non-member registered broker/dealers, mortgage bankers that hedge their loans, banks, savings associations, insurance companies, investment firms, and state and local governments.</p>

¹ finra.org/sites/default/files/rule_filing_file/SR-FINRA-2015-036-amendment-3.pdf

Bloomberg's solution

Adding margin requirements for TBA transactions to the existing mix of collateral management rules for cleared and bilateral derivatives will place further strain on firms already struggling to consolidate their operations and automate processes. Bloomberg's MARS Collateral Management solution directly addresses these issues.

Fully integrated into the Bloomberg Terminal® and its wider suite of risk management solutions, MARS Collateral Management is a multi-product, multi-asset collateral management and straight-through processing hub, incorporating powerful tools for portfolio reconciliations, risk analytics and electronic messaging.

Component	Functionality
Legal entity & documentation manager	Enter and monitor terms and conditions for MSFTA
Exposure management	Independent valuation of mark-to-market and maintenance margin; netting set creation; Bloomberg reference data to value underlying CUSIPs and collateral
Margin & dispute management	Margin call management; eligibility and sufficiency checker; dispute management
Portfolio reconciliation	Proactive portfolio reconciliations
Electronic messaging	Automated communication of margin calls

The screenshot shows the 'Legal Entity Details' form with the following data:

Legal Entity Details			
1) Details 12) Contacts 13) Counterparty Map			
Short Name*	DEMO 1 CPTY	Entity Type*	Counterparty
Entity Id*	LEI	213800509DEMOC4ABC80	
Legal Name*	DEMO COUNTERPARTY PLC		
Industry	Banks	Country of Incorp.	GB
Counterparty Risk	Normal		
Credit Rating	Moody's	S&P	Fitch
Long Term	Ba1	BBB-	BBB+
Short Term	NP	A-3	F2

*Required Field

Buttons: 1) Save Cancel

Legal entity management
 Manage legal entities on LEDO <GO> using up-to-date entity information such as LEI, legal name, industry and credit rating.

1) Export to Excel 2) Contact Legal Documentation Manager (DEMO)

1) Legal Entities 2) Collateral Agreements Collateral Agreement Details

Sections

- 11) Legal Document
- 12) Margin Terms
- 13) Eligible Collateral
- 14) Trade Coverage
- 15) Contacts
- 16) Comments
- 17) Enterprise

Legal Document

Principal* Demo Principal Counterparty* DEMO 6 CPTY

Collateral Agreement Name* DEMO 6 CPTY (TBA)

Umbrella Agreement None Manual Override

Business Line TBA Signature Date 05/22/2016

Master Agreement Type MSFTA Version Collateral Agr. Type MSFTA

Governing Law NY Law Transfer Approach Pledge

Posting Party Both Valuation Agent Counterparty

Valuation Date* Daily

Valuation Time* 22:00 Time Zone* America/New_York

Notification Time* 10:00 Time Zone* America/New_York

Third Party Agreement

Principal Custodian

Counterparty Custodian

Collateral Agreement Status Active

*Required Field

2) Next 1) Save Cancel

Legal documentation management

LEDO stores all terms relevant to margin management: valuation and timings; thresholds and independent amounts/initial margins; eligibility criteria and interest terms; product coverage.

2) Actions 3) Settings 4) Contact Multi Asset Risk System: Collateral (DEMO)

1) Margin 2) Dispute 3) Interest 4) Reconciliation

2) Summary 3) History

Hide Filters

Reset Filters

Event Filters

- New Events
- Pending Events

Event Actions Bulk Mode

Agreement	Event Type	Mgn. Type	Status	Ccy	Call Amt.	Exposure	Collateral
41) DEMO 1 CPTY	Cpty. Call	VM	Pledged	GBP	-3,050,000	-6,581,028	-3,532,8
42) DEMO 2 CPTY	Prin. Call	VM	Pledged	USD	310,000	1,830,635	1,528,34
43) DEMO 3 CPTY UMW	Cpty. Call	VM	Open	EUR	-1,572,710	0	1,572,71
44) DEMO 4 CPTY	Prin. Call	VM	Pledged	EUR	340,000	2,513,078	2,178,33
45) DEMO 5 CPTY - CLRD	Cpty. Call	VM	Agreed	USD	-711,801	-719,117	-7,316
46) DEMO 5 CPTY - CLRD	Cpty. Call	Prin. IM	Open	USD	-196,832		-750,00
47) DEMO 6 CPTY (TBA)	Prin. Call	VM	Open	USD	130,000	245,842	125,000

Hide positions

Exposure Collateral

Asset Type	Currency	Notional	Market Value	Mkt Val Base Ccy	Cost Value	Cost Value
Totals (6)				6,755,841.50		6,510,000
Mortgage (6)				6,755,841.50		6,510,000
-G2SF 4 11/16 Mtge	TBA	3,500,000	3,748,446.90	3,748,446.90	3,535,000.00	3,535,000
-G2SF 3.5 11/16 Mtge	TBA	2,500,000	2,652,291.64	2,652,291.64	2,575,000.00	2,575,000
-G2SF 3 11/16 Mtge	TBA	-5,000,000	-5,216,783.24	-5,216,783.24	-5,100,000.00	-5,100,000
-FNCL 4.5 11/16 Mtge	TBA	5,000,000	5,473,052.91	5,473,052.91	5,350,000.00	5,350,000
-FNCL 3.5 11/16 Mtge	TBA	5,000,000	5,259,236.45	5,259,236.45	5,350,000.00	5,350,000
-FNCL 3 11/16 Mtge	TBA	-5,000,000	-5,160,403.16	-5,160,403.16	-5,200,000.00	-5,200,000

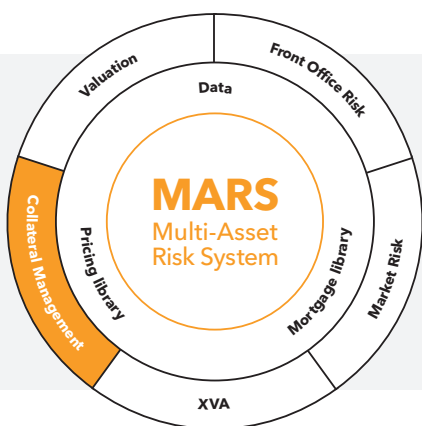
20) Exceptions

Margin call management

Use BCOL <GO> to manage day-to-day margin call process, including sending margin calls, booking collateral, managing disputes and interest payments.

Learn more

To learn more about FINRA 4210 and Bloomberg's MARS Collateral Management solution, email riskinfo@bloomberg.net



MARS Multi-Asset Risk System

- Consolidated and consistent valuation
- Product lifecycle analysis
- Market risk, counterparty risk and collateral management

Powered by Bloomberg's world-class pricing library, market data and mortgage cash flow engine. It lets front-office, risk and collateral professionals to analyze their trading and investment portfolios, mitigate risk and prepare for the unexpected.

Take the next step.

For additional information, press the <HELP> key twice on the Bloomberg Terminal®.

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