



November 28, 2014

Via: [pubcom@finra.org](mailto:pubcom@finra.org)

Ms. Marcia E. Asquith  
Office of Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**Re: Regulatory Notice 14-37 (September 14, 2014), FINRA Rule Proposal to Implement the Comprehensive Automated Risk Data System (“CARDS”) – Thomson Reuters Comments on FINRA Proposal**

Dear Ms. Asquith:

Thomson Reuters appreciates the opportunity to comment on the rule proposal by the Financial Industry Regulatory Authority (“FINRA”) to implement CARDS. Through BETA Systems, Thomson Reuters<sup>1</sup> offers a complete suite of products that enable retail and institutional brokers to manage the daily tasks of their front, middle and back office operations. With more than 30 years of industry knowledge and hands-on experience, we partner with some nineteen clearing firms and over 300 introducing broker-dealers to address their unique business and regulatory requirements.

Thomson Reuters supports FINRA’s goal to use technology to make it a more efficient and effective regulator, to better protect investors and to ease regulatory and compliance burdens on its members. It commends FINRA’s efforts to obtain input from stakeholders in developing its CARDS proposal. Nevertheless, Thomson Reuters is concerned that, without further revision, the rule proposal will impede FINRA’s goals because it fails to adequately account for the range, variation, volume and complexity of the data that it requires to be standardized, collected and reported.

Further, applying FINRA’s own framework for understanding how its rulemaking impacts markets and market participants published in September 2013 (“FINRA’s Rulemaking Framework”), the economic impact assessment of the rule proposal falls short. Although FINRA refines the discussion of key economic impacts included in the concept proposal, it concedes that its assessment is “interim,” that it is based on information gathered from a limited number of firms and that its assessment is ongoing. Indeed, FINRA specifically asks for additional

---

<sup>1</sup> Thomson Reuters is the world’s leading source of intelligent information for businesses and professionals. Combining industry expertise with innovative technology, it delivers critical information to leading decision makers in the financial and risk, legal, tax and accounting, intellectual property and science and media markets powered by the world’s most trusted news organization. Headquartered in New York it employs approximately 57,800 people around the world and operates in over 100 countries. For more information about Thomson Reuters, please go to [www.thomsonreuters.com](http://www.thomsonreuters.com). For more information about BETA Systems, please go to [www.thomsonreuters.com/beta-systems](http://www.thomsonreuters.com/beta-systems).



information about the sources, anticipated costs and benefits and factors and business attributes contributing to costs associated with CARDS in the “Request for Comments” section of the proposal. And importantly, FINRA’s assessment fails to address why a stand-alone data system meets its regulatory need better than leveraging the industry’s investment in the Consolidated Audit Trail (“CAT”).

Thomson Reuters’ concerns, previously discussed in a comment letter filed on the concept proposal,<sup>2</sup> are discussed below in the context of the rule proposal, together with comments responsive to specific questions posed in the “Request for Comments” section.

### **Standardization, Collection and Automation of Reporting of Data**

Given the scale and complexity of “modern day” business operations, the broker-dealer industry and its regulators understandably have turned to technology systems and computational analytics (“compliance technology”) to identify, assess and mitigate compliance risk. Yet, the translation of regulation into code has its own set of challenges because of the interpretation, standardization and automation it requires. Surveillance and analytics based on regulations and data that are misinterpreted or the subject of translation error yields bad information and flawed indicators causing bad decisions and poor judgments. Addressing these issues is difficult, time consuming and expensive because of the complicated nexus between compliance, legal, and technical subject matter experts and resulting code development. These difficulties are magnified for external stakeholders, such as firms that outsource technology compliance, auditors and regulators.

FINRA must allow additional time for member firms and their service providers to fully evaluate the rule proposal’s technical specifications, map and analyze the required data elements and quantify the effort to implement the rule in terms of both cost and work hours. Our experience with modifying compliance technology to satisfy other rule changes that were narrower in scope (e.g., OATS for NMS, TRACE Expansion, Large Trader Reporting and ORF Migration) has shown that not allowing sufficient time to analyze rule requirements and work effort can cause significant implementation delays (as much as 24 months) and cost overruns. Further, only after this analysis is completed can achievable compliance dates be determined.

In addition to urging FINRA to allow stakeholders more time to analyze the rule proposal’s requirements, Thomson Reuters urges FINRA to abandon the requirement discussed in Section I of the proposal that firms collect historical purchase and sales information earlier than the compliance date. Early implementation requirements are contrary to the core principles of FINRA’s Rulemaking Framework. An “early implementation” mandate creates a slippery slope causing compliance dates to accelerate and forcing firms and their service providers to make decisions and invest resources potentially without the benefit of a final rule.

---

<sup>2</sup> Comment Letter from Kyle C. Wootten, Deputy Director – Compliance and Regulatory, Thomson Reuters, to Marcia E. Asquith, Office of the Corporate Secretary, FINRA (March 18, 2014) [available at <http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/noticerequests/p467001.pdf>]



Given that FINRA and member firms and their service providers will be investing heavily to develop and support regulatory requirements of the Consolidated Audit Trail (“CAT”), FINRA should take this opportunity to make regulatory harmony a stated goal and adopt a consistent and integrated approach to the use of compliance technology that articulates clearly its technical requirements for the benefit of both compliance and technology professionals at member firms, leverages current work efforts by all stakeholders, and avoids redundancy and duplication across rulemaking initiatives. Rulemaking that fails to consider compliance technology under development and in use to support other rulemaking initiatives and existing regulatory regimes and industry standards and practices undermines shared policy goals and the optimal use of valuable resources for all stakeholders. These effects are magnified by the collective impact to the technology and business professionals that are tasked with developing CAT and other recent or anticipated regulatory changes (e.g., ORF migration, FINRA Equity Trading Initiatives, Fixed Income Pricing Disclosures, MSRB Central Transparency Platform and FINRA 4210 revisions).

Finally, close collaboration between FINRA and its member firms and their service providers must continue beyond the adoption date of a well-conceived rule to ensure that its requirements are understood, flexibility is afforded to members to implement the rule cost-effectively and tailored to their respective business models and issues of shared concern and impact that arise in implementation and administration of the rule are resolved efficiently and expeditiously. To that end, Thomson Reuters suggests that FINRA consider the following:

- Publish guidelines for how FINRA will use data developed to help mitigate “false positives;”
- Publish FAQs to address questions of interpretation and application of the CARDS Rule and technical requirements;
- Publish detailed technical specifications prior to establishing a compliance date for CARDS reporting.

### **Economic Impact Assessment.**

FINRA, its members, investors and the securities markets all stand to benefit by FINRA adhering strictly to the three core principles of its Rulemaking Framework in developing a rule to implement CARDS. However, after carefully considering the concept and rule proposals and the various comment letters submitted on both, Thomson Reuters believes more work is required to satisfy these principles. Specifically, more transparency is needed with respect to how the rule proposal addresses the stated regulatory need better than reasonable alternatives such as leveraging other compliance technology in use or development (such as CAT) and what assumptions and evidence FINRA relied on in reaching that judgment.

The rule proposal should discuss the strengths and limitations of the information FINRA relied on in its analysis and it should explain how uncertainties may impact its analysis. The claim that the benefits of a project of this size, cost and complexity is supported by data obtained from a small number of member firms is not sufficient. FINRA must take additional steps to understand the development, implementation and maintenance costs of CARDS on all member



firms and modify the rule proposal to accommodate the practical limits on the resources of all firms – large and small.

In the wake of the financial crisis, FINRA’s members continue to struggle with a wave of regulation the likes of which has not been seen before. By example, four years after the passage of Dodd-Frank, implementation is slightly more than halfway completed with only 220 (55.3%) of the 398 total rulemaking requirements having been met, while 95 (23.9%) of the requirements have not yet even been proposed.<sup>3</sup> A troubling consequence of this new age of regulation is the sharp decline in the number of brokerage firms and with it a sharp decline in the number of jobs in the securities industry. According to FINRA’s own statistics, as of September 2014, member firms numbered 4,126, down from 4,720 in 2009 and down from 5,222 just a decade ago. Thomson Reuters believes that the proposal is burdensome, the compliance dates too aggressive and as such could have the consequence of reducing the number of firms even further. That leaves investors with fewer choices and potentially more firms that are too big to fail.

### **Items under “Request for Comments.”**

Thomson Reuters offers the following comments on specific questions raised under the “Request for Comments” section of the rule proposal.

#### **Question 7.**

The rule proposal would require the submission to FINRA of customer and non-customer account numbers. Should FINRA allow Firms to submit unique identifiers rather than account numbers? What would be the costs and benefits of allowing firms to submit unique identifiers rather than account numbers?

Response: Given the concerns regarding the aggregation of sensitive customer, account and activity data with CARDS, Thomson Reuters believes any additional steps that avoid reporting specific account or customer information mitigate risk of a data security event associated with CARDS and should be taken. If FINRA decides to require this type of information then the account identifiers already required by FINRA for CAT should be used for CARDS to avoid additional expense, duplicity and confusion.

#### **Question 9.**

The rule proposal would require the transmission of information regarding money movements. What would be the costs and benefits of requiring firms to regularly transmit information relating to money movements?

Response: Thomson Reuters believes the rule should be laser focused on collecting data that will assist FINRA in its stated goals of running analytics that identify sales practice misconduct and potential business conduct problems with member firms, branches and registered

---

<sup>3</sup> According to the October 1, 2014 Dodd-Frank Progress Report published by the law firm of Davis Polk.



representatives. For that reason, it does not support expanding the scope of the rule to require the collection of information regarding money movements that already are monitored under a variety of other rules and regulatory regimes.

**Question 10.**

FINRA intends to retire INSITE and AEP as firms start submitting the information as part of CARDS. What would be the costs to firms associated with retiring their existing AEP and INSITE systems? What would be the magnitude of annual cost savings and the factors that contribute to these cost savings? Are there other collections of data that FINRA should consider retiring upon successful implementation of CARDS? What are those systems, and what would be the anticipated cost savings associated with retiring those systems?

Response: Thomson Reuters does not agree with the premise that firms would experience cost savings by retiring INSITE and AEP. Rather, the more likely scenario is that costs incurred in supporting these will be reallocated to support CARDS and likely increase as AEP would move from an annual to monthly requirement. What is more concerning is that many firms only recently developed their AEP process, investing upwards of \$2.0 million dollars in development. Thomson Reuters requests that FINRA exclude firms currently reporting for AEP so as to allow these firms to benefit from their existing AEP process. These firms could be phased into the CARDS AEP layout over the next three to five years and FINRA could continue to rely on the annual submissions they receive already. Additionally, we support using CARDS to report AEP data for firms that are not currently reporting for AEP. We know from helping our firms with the AEP reporting process that there is a significant mapping exercise and the required data may be in multiple platforms, requiring consolidation. We respectfully request that FINRA complete additional analysis for including AEP data to determine an appropriate execution strategy, since we believe AEP was not fully vetted during the pilot program.

Thomson Reuters supports the ongoing review and analysis of all reporting regimes maintained by FINRA, other SROs and the SEC to avoid duplicative and superfluous reporting and to verify that information collected is actually and effectively being used for intended purposes and policy goals. To that end, we support the elimination of redundant reporting systems as part of the implementation of CARDS and invite FINRA to consider the following:

- Working with member firms and their service providers to perform a complete cross-analysis of CAT and CARDS technical requirements and making modifications to eliminate redundancy and promote standardization and uniformity;
- Retiring margin reporting pursuant to FINRA Rule 4521;
- Coordination with other Intermarket Surveillance Group (“ISG”) participants to retire Electronic Blue Sheets;
- Retiring short interest reporting.



### **Question 14**

Do carrying or clearing firms believe that nine months following SEC approval of CARDS requirements would be a reasonable time period within which to start submitting CARDS information to FINRA under phase 1? Do fully-disclosed introducing firms believe that within 15 months of SEC approval of CARDS requirements would be a reasonable time period within which to start submitting CARDS information to FINRA under phase 2?

**Response:** Thomson Reuters believes that FINRA underestimates the complexity of CARDS and the amount of time necessary to map data, including the AEP data, and develop the technical solution. Mapping data from multiple firms to the FINRA values will require extensive conditional programming across multiple product lines to ensure that system values are properly translated into the FINRA values and formats, again taking into account various business models. Thomson Reuters believes that FINRA must provide greater detail about both the data sets and submission mechanics before we could provide an estimate with a high degree of confidence, which could be greater than twenty-four months. As a point of comparison, it has taken the industry and CAT Consortium more than two years to resolve many of the challenges with CAT development, with CAT being no more complex than CARDS. Thomson Reuters believes that FINRA is failing to give adequate thought to the many implementation challenges of CARDS, in a rush to implement the CARDS proposal.

Further, in addition to providing a longer implementation period, the final rule should be accompanied by a detailed implementation plan and technical specifications developed in collaboration with the members and their service providers that provides for staged development and testing and recognizes the parallel investment of time and resources by all stakeholders (including FINRA) in the implementation of other regulatory mandates that have been adopted and are anticipated.

We appreciate FINRA willingness to take certain data elements in a non-standard format. However, we believe this could only be a temporary solution and will eventually require changes in order to standardize the data. Although, this certainly helps FINRA expedite the process to receive the data, we believe it will ultimately be more costly and continue to put a drain on firm's resources for much longer than anticipated time period.

### **Conclusion**

Thomson Reuters strongly believes that CARDS should leverage the compliance technology being developed to support CAT. This would allow the industry and FINRA to focus on the development of one cost-effective, but comprehensive, regulatory reporting system, rather than two disparate ones. FINRA must engage in more thorough economic analysis to specifically identify costs and benefits associated with the proposal. Finally, FINRA must provide significantly more time to develop and implement CARDS than what is proposed in Regulatory Notice 14-37. Nine months and fifteen months are grossly inadequate given the complexity of CARDS.



THOMSON REUTERS

Thomson Reuters appreciates this opportunity to comment on the rule proposal and welcomes the opportunity to further participate in discussions with FINRA and other stakeholders about how to best achieve the proposal's policy goals.

Respectfully Yours,

Kyle C. Wootten  
Deputy Director – Compliance and Regulatory  
Thomson Reuters