



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

750 First Street N.E., Suite 1140
Washington, D.C. 20002
202/737-0900
Fax: 202/783-3571
www.nasaa.org

March 21, 2014

Via electronic submission to pubcom@finra.org

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

Re: Comprehensive Automated Risk Data System
Regulatory Notice 13-42

Dear Ms. Asquith:

On behalf of the North American Securities Administrators Association (NASAA)¹, I am submitting this comment letter regarding the Financial Industry Regulatory Authority's (FINRA) Regulatory Notice 13-42 regarding the proposed development of a new Comprehensive Automated Risk Data System (CARDS) that would allow FINRA to automate the collection of account information, account activity, and security identification information that a firm maintains as part of its books and records on a standardized, automated, and regular basis. NASAA appreciates the opportunity to express its preliminary views on this concept.

NASAA understands FINRA's desire for easy, ready access to the information maintained by member firms as part of their books and records,² but has questions about how the CARDS system would be designed and maintained in terms of scope, cost, outside regulator access, and data security. Like FINRA, state and federal regulators would benefit from a standard technology interface that would grant them immediate access to the type of information that FINRA intends the CARDS system to capture. But consolidating and concentrating this type of information into one system maintained by a single non-governmental regulator poses larger regulatory policy questions.

¹ NASAA is the association of all state, provincial, and territorial securities regulators in North America. Its membership consists of the securities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico. Their core mission is protecting investors from fraud and abuse in the offer and sale of securities. Organized in 1919, NASAA is the oldest international organization devoted to investor protection.

² FINRA Rules 4511 and 8210 require firms to maintain books and records containing, among other things, customer account information, account activity, and security identification information and to provide them to FINRA for inspection and copying. Most state and federal securities regulators have similar requirements.

President: Andrea Seidt (Ohio)
President-Elect: William Beatty (Washington)
Past-President: A. Heath Abshire (Arkansas)
Executive Director: Russel Luculano

Secretary: Judith M. Shaw (Maine)
Treasurer: Melanie Senter Lubin (Maryland)
Ombudsman: Keith Woodwell (Utah)

Directors: Joseph P. Borg (Alabama)
Douglas R. Brown (Manitoba)
Mike Rothman (Minnesota)
Daphne D. Smith (Tennessee)

While FINRA is still in the early stages of exploring the CARDS concept, NASAA would like to hear more about FINRA's experience testing the Risk Analytic Development Tool (RDAT), the CARDS proofs of concept, and the August 2013 pilot examinations. NASAA is particularly interested in the feasibility challenges that FINRA and member firms faced due to a lack of standardization and automation in the data collection effort. Though the concept proposal contemplates a phased-in approach that would give all members time to create systems that would submit information in the standardized format that FINRA prefers, the cost of creating such a system could have an adverse, disproportionate impact on smaller member firms. A scaled versus a phased-in approach may be more appropriate to provide exemptive relief if costs are indeed prohibitive. As the CARDS system is intended to serve as an automated system of collecting information that FINRA already collects, an exemptive approach for smaller firms would not deny FINRA access to information it needs for its examination program.

NASAA would also like to learn more about FINRA's plan for outside regulator access to the CARDS system, most notably access and use by the SEC and state securities regulators. A system of this magnitude would be of great interest and utility to other financial services regulators. Moreover, incorporating the unique perspectives, experiences, and tools of other regulators would maximize the overall investor protection impact for the entire regulatory community.

To the extent a system such as CARDS is implemented by FINRA and/or other financial services regulators, it would be useful for FINRA and other federal and state regulators to adopt standardized definitions for suitability terms regarding investment objectives, investment experience, investment time horizon, and risk tolerance. Without standardized definitions, comparisons of suitability data among firms may be difficult, thus limiting the usefulness of CARDS in identifying red flags and trends.

Finally, NASAA appreciates and shares FINRA's acknowledgement of data security and privacy concerns, particularly the need to protect investors' personally identifiable information. While the concept proposal indicates FINRA would incorporate "current and effective information security methods" to protect the information collected through CARDS, NASAA would like greater specificity as to the standards FINRA plans to institute to guard against unauthorized access or use of this information. It would be helpful to know, for example, whether FINRA has or intends to work with the National Institute of Standards and Technology to meet the objectives outlined in Executive Order 13636, "Improving Critical Infrastructure Cybersecurity" (February 12, 2013). In light of the broad and sensitive nature of the data sought to be collected through the CARDS system, it would be prudent for FINRA to craft rules that specify firms' supervisory obligations with regard to any third parties retained to fulfill a firm's reporting requirements via CARDS.

In conclusion, NASAA believes that an automated collection of information that FINRA member firms maintain as part of their books and records by the financial services regulatory community could materially improve the efficiency of examinations, reduce the frequency of regulatory requests, and enhance investor protection. NASAA applauds FINRA's effort to use technological advancements to improve regulatory efficiency and investor protection and looks forward to working with FINRA on the CARDS concept to maximize its utility and minimize costs of implementation for firms headquartered or operating in NASAA member jurisdictions.

Should you have any questions regarding the comments in this letter, please do not hesitate to contact Joseph Brady, NASAA General Counsel, at jb@nasaa.org or 202-737-0900.

Sincerely,

A handwritten signature in black ink that reads "Andrea Seidt". The signature is written in a cursive, flowing style.

Andrea Seidt
NASAA President
Ohio Securities Commissioner