



Marcia E. Asquith
Office of the Corporate Secretary
FINRA
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Washington, DC 20006-1506

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It is both interesting and entertaining to review the proposed endeavor by FINRA to automate the process of exception reporting and analysis. Over fifteen years ago a company I founded, Protegent, began distributing software to broker-dealers and clearing firms to do just that. Protegent was acquired by Sungard in 2005 and continues down the path to automating financial services risk management.

The proposal in question raises a critical policy decision. Is the ultimate objective of FINRA to reduce the level of malfeasance in public investor accounts or to simply monitor that malfeasance more contemporaneously? If the objective is to raise the quality of practice, the automated solution should be driven down into the supervisory levels of the brokerage firm. There is significant benefit to broker-dealers and clearing firms to automate exception reporting including, but not limited to, reducing litigation expenses, automating field audit preparation, and creating a vertical compliance culture that is supported by technology and responsive to regulatory initiatives.

There is nothing wrong with the concepts in the FINRA proposal other than the fact that we are attending to issues that should be addressed in the field with technology that is currently available and drives the value proposition for every broker-dealer and clearing firm that takes the step.

David Tilkin