

DIAMANT

INVESTMENT CORPORATION

Comprehensive Portfolio Management

January 17, 2014

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street
Washington D.C. 20006-1506

RE: Comment on CARDS concept proposal – Regulatory Notice 13-42

Dear Ms. Asquith,

Diamant Investment Corporation (Diamant) is a self clearing broker dealer that opposes the development of a Comprehensive Automated Risk Data System (CARDS). There are several important reasons why this idea should not move forward.

Understanding An Established Self Clearing Firm

Diamant has been conducting self clearing operations for forty years, and I have been continuously engaged full time in both the management and operation of this firm for over thirty five years. Diamant enjoys a loyal and stable customer base, traditionally has a low transaction volume of quality securities in retail accounts, and does not handle high risk products. Diamant maintains a culture of compliance, and does not encounter situations where the use of a CARDS type system would identify suspicious or high risk activity, or provide any benefit to its customers. The boutique nature of the firm permits the Principal and staff to know Diamant customers. Diamant is able to adequately monitor activity without the use of big data analytics. Although large firms may find automated analytics valuable in compliance efforts, smaller firms simply do not need or use such tools for compliance.

First Objection

The justification for moving forward with CARDS is mainly based on testing at two very large clearing firms that likely use big data analytics. To conclude from a sample size of just two firms that every firm in the securities industry has CARDS information in a readily accessible automated format is simply incorrect. There is no standard process to collect retail trade information across all retail

securities firms. By design the Diamant back office computer system does not provide access to all the type of information that would be required to comply with CARDS. These software programs only maintain specific transactional information necessary to produce trade confirmations, statements, track custody and safekeeping of securities, and handle cash movements. These programs do not maintain other customer information such as investment objectives, financial information, net worth, or other sensitive personal information. Since Diamant does not collect the types of information that a CARDS system would need in an automated format, a requirement to use CARDS would not only immediately place Diamant out of compliance, but would keep the firm out of compliance.

Second Objection

Second, there would be enormous costs to rebuild our existing back office accounting program to include all CARDS information. In order to move our proprietary back office system into a Windows platform in order to enable daily or weekly interfaces of CARDS type data to FINRA, Diamant would have to rebuild all the programming code. We anticipate this would entail at the minimum, a two year project that would cost in excess of \$2 million. For a self clearing broker/dealer that already has a proven and fully functional back office system, incurring substantial costs to comply with one new rule does not make any economic sense.

The alternative of providing sensitive customer information to a third party for CARDS submission destroys our business model of maintaining confidentiality of customer information. If using third parties is deemed a good solution for the securities industry, FINRA would then have to revoke all customer privacy rules currently in effect prior to implementing a CARDS system. At that point privacy concerns will fall by the wayside.

Yet another alternative would be for Diamant to hire a full time staff member dedicated to collate information, manually create files acceptable to CARDS, and then make the necessary daily or weekly filings. As Diamant would have to reorient its mission from being a broker/dealer handling customer transactions, towards being a provider of data to FINRA, there would be added employee costs, additional back office software consulting costs, and additional management oversight costs. Over a five year period, Diamant estimates the cost to be in excess of \$2 million just to comply with CARDS.

Third Objection

Third, there should be some consideration as to cost versus benefit. Exactly who is supposed to pay for this new regulatory idea? There must be some misconception that small self clearing firms have an extra \$2 million of excess cash on hand that is not needed to run a business, which can be promptly deployed to produce CARDS information at no cost to the broker/dealer. This notion is ludicrous. If FINRA seems to believe CARDS is necessary, then FINRA should foot the bill for each broker/dealer to implement this substantial undertaking. Otherwise, the only party left to pay for CARDS is the customer. The CARDS cost can be added to each customer transaction as a regulatory fee. In a low volume operation as ours, it would seem reasonable for us to add another \$100 to \$200 a

trade for a CARDS regulatory fee, or \$2,000 a year per client account in custody fees just to cover CARDS. Most customers, however, would find this unreasonable. And I would have to agree with them.

Fourth Objection

Fourth, the releasing of sensitive customer information does not help customers in any way. For Diamant customers, the implementation of CARDS would not better protect the customer or provide better market integrity. Our existing compliance systems and customer centric approach towards conducting business already provides adequate protections to our customers. To add another large compliance reporting system to an already highly efficient, very structured, and regulated business operation adds no benefit to our customers. Should FINRA be unable to pay for the implementation and ongoing costs to comply with CARDS, Diamant will have to pass along the cost of CARDS to our clients. Then the reality is CARDS will only harm our clients through new fees.

Fifth Objection

Fifth, holding CARDS data of account information along with every customer securities transaction essentially changes the role of FINRA to become a very powerful government type of entity. The amount of data collected will not only identify possible regulatory issues, but easily has the capacity to be used for law enforcement inquiries, and political purposes. Recent news stories suggest even information collected by the IRS has been used for political purposes by White House administrations. Despite the best of intentions, CARDS is creating a “big brother” type of enterprise that goes against the founding principles of the United States. This issue is a major reason not to proceed.

Sixth Objection

Sixth, providing extensive customer sensitive information to CARDS represents a structural change of handling customer information by the securities industry. Firms would be required to frequently send very sensitive customer information to a FINRA database, and we do not believe that the use of an identifier, like a brokerage firm account number, actually secures customer information from persons intent on accessing such client data. Given the recent security breaches of confidential customer data at major retail chains like Target, sending sensitive customer data to CARDS is both chilling and a very dangerous idea. Since CARDS creates a massive central database of very valuable client information from clients around the world, it is natural to conclude that data breaches through sophisticated computer hacking will occur. As the CIO's of companies that have experienced data breaches will attest, it is naïve to presume otherwise.

Not only is the danger solely from external data breaches. The National Security Agency is a case study of theft of vast amounts of information by Edward Snowden, a rouge employee who was cleared to access and handle sensitive data. Given the valuable nature of the data held in CARDS,

unfortunately we must also conclude that substantial amounts of client information will be stolen by skilled employees for financial gain.

Essentially, the implementation and use of a CARDS database exposes all security industry customers to massive identify theft.

An Alternative Solution

A better solution would be to combine the existing near real time data analysis capability of NSCC to identify potential market integrity issues, with FINRA data from existing SSOI reporting that identifies areas of higher risk firm activity. After identifying matters that require further review, FINRA could request precise information from specific broker dealers in a standardized format. In this manner, (a) compliant firms avoid the unnecessary costs of implementing and operating CARDS reporting, (b) one massive central database containing critically sensitive customer information is never created, and (c) FINRA compliance efforts can focus on problem areas of activity through targeted data mining of specific higher risk entities.

Conclusion

I appreciate there is great pressure emulating from the Dodd Frank regulations for FINRA to demonstrate its ability to further regulate the securities industry. However, there are times in our history where responsible industry professionals and executives of both FINRA and the broker/dealer community, have to pause and reflect on the real consequences of building a broad customer data collection system like CARDS.

To the extent that FINRA chooses to implement CARDS in its present form, I will have to take a stand not to allow Diamant to comply with CARDS. As part of investing client portfolios, Diamant has been entrusted to retain customer sensitive information, and maintain privacy of such information. We simply refuse to violate this hard earned trust. Moreover, I would expect a similar response from all other small self clearing firms through the United States.

It is fair to discuss and review this concept, but I strongly urge FIRNA to abandon this project in its present form and move in a different direction.

Yours truly,



Herbert Diamant
President