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FINRA
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RE: Regulatory Notice 13-42

I have been reading responses you have received on this proposal. It seems that both from the public sector and members there is a negative response and a concern for individual and client privacy. I am concerned about these issues and a number of others.

You make notice of capturing a large quantity of information and then through “technological advancements” come up with what my firm is doing. We use a product from Broadridge called Prosurv. It does exactly what you are suggesting. It reviews trades, analyzes the trade against account information and flags potential problems. The program can only through its logarithms highlight potential problems. Each flag must be review by a compliance specialist that understands products being sold, the qualifications of representative doing the selling and the client. Many times this requires contacting the representative for clarification but most of the time after reviewing trade summary, client suitably information and account holdings most trades can be approved and cleared. It would be my expectations that the “CARDS” system will be similar. I have worked with a number of computer system specialists that promise the world but you end up with an Obama Care Website. I believe the amount of staff FINRA would need to hire to properly make use of the deluge of data makes the proposal much too costly.

An assumption is being made that my Prosurv data is going to be easily converted and communicated to “CARDS”. I have my doubts. I believe both Broker Dealers, Clearing Firms, and FINRA are going to need to make large cash investments much like the insurance companies have done to match up with Obama Care specifications just to have the system collapse under the financial strain and inability to get system integration.

Based on the recent attacks on the IRS and Target, protecting client information is a big concern. Our clearing firm RBC Correspondent Services is a large clearing firm with substantial firewall protections. But there are smaller clearing firms that are not so well protected. If these firms are currently hacked only a small portion of investing public is affected. With the integration on the "CARDS" system hacking the small clearing firm could lead to being able to get into the "CARDS" system and get information on millions of investors. You are only as strong as your weakest link.

With Prosurv, we have easy access to business that we run through our clearing firm. The "away" business with mutual funds and annuities is different. To review activity in these areas we use, DST, Advisor Central or hard copies for those not registered with either review source. These sources only provide activity reports. They do not provide "flagging". They do not provide us with down-loadable data. That would mean that our away business would require a number of people to convert the information into a format that would be up-loadable to the "CARDS" system. This cost would be substantially greater than the small cost of added staff to provide FINRA with information under the current system.

As you have received from private individuals comments about NAS and invasion of their privacy, I believe I will have stiff resistance from the firm's clients. It would be a shame to push large investors to the DAX or other overseas markets so they can protect their investment information. This is happening already by large sophisticated investors, I would hate to see this trickle down to a large set of investors.

If this system is initiated, I do not believe FINRA can "duck" the liability of investor holding FINRA responsible if an investor were to lose money. I would anticipate that the courts will not be as willing to protect FINRA from litigation by the public as it has been in protecting FINRA from litigation by members for damages and liability. Once that cat is out of the bag, there is no putting it back. Does FINRA really want to end up in countless arbitration case brought by individual investors? I know if I was a lawyer that I would include FINRA's deep pockets in every arbitration I brought against any firm. As a lawyer representing my client, I would use 13-42 as reason why FINRA was liable. You are implementing a system you intend to publicize as a method that FINRA will use to better protect the investor. If you do not invest in knowledgeable staff to sift through the data mountain you are proposing to create, you are not executing on the promise and commitment you will have made to the investors to protect them against loss. We have 1 compliance officer for every 15 brokers. I know other firms may run 1 to 30. It takes that many to properly review trading activity. Is FINRA ready to add staff of 10,000 to 30,000 knowledge reviewers to be able to review the trades of every trade made? A Basically, you have jumped into the frying pan with the clearing firms and broker dealers.

As we members carry the burden of paying for FINRA, we should be given a decisive voice in a massive expansion of task and expense as envisioned by this proposal. For one and for the brokers of my firm we vote a resounding "NO"!

