Attention:  Marcia E. Asquith

Morgan Wilshire & Michael Finnan's comments on the implementation of CARDS.   Regulatory Notice  13 - 42

After reading what FINRA is proposing with CARDS, I will say, the financial industries ability to properly supervise firms and associated persons is paramount in creating markets that investors are confident utilizing.  The use of proper technology to identify churning, excessive commissions and mark-ups, pump & dump schemes, mutual fund switching, regarding firms and associated persons, is a logical and probably overdue progression for the industry.

Speaking from the perspective of a firm that works very hard at being ethical in all our dealings, Morgan Wilshire and its management welcomes such progress.  And we further believe that any firm operating in the same manner, would also have no problem with the regulators ferreting out the above mentioned behavior.  In fact, for a change, it would give those whom  operate their business ethically an advantage.  I'm sure many a quality firm lost clients, registered reps and associated persons to firms that allowed, and/or even encouraged such behavior only to see disastrous results after the fact, so I'm sure my point is well understood.  Squashing out these CARDS targeted firms and associated persons early will do a couple of important things, first and for most, lessen client losses.  Secondly, allow more of client assets to stay in much safer hands, with those who are passing these new tests the regulators are giving.  We are not saying this will solve all problems, but rather, in a perfect world catch problems sooner.  And as everyone who has ever made a trade mistake knows, catching problems early makes a HUGE difference.

Like all things "the devil is in the details" so as a concept CARDS sounds great, and believe like all industries technology will (regardless of some not welcoming it) simply help do things better.  However, any such technology should absolutely be tested, and retested, to avoid punishing the innocent.  For example, if the CARDS technology is searching for "churning" it should know if the client is a 90 year old retired lady, or a very active 45 year old billionaire.

Technology, as we see in all industries, in addition to being more accurate must save time and money.  Regarding the saving of time and money once CARDS is fully operational, FINRA must (in the very least) reduce staff, reduce membership costs, and educate the smaller staff better as to what its members actually do.  As much as some people will not like it, all technology reduces the human element (just ask any toll collector about EZ Pass).  So hand and hand with this new technology, FINRA's staff must shrink, passing the saving to the members.  Then with a smaller staff, (obviously keeping the best and brightest) educate them better.  I have yet to meet (in 20+ years) any member not frustrated by the lack of understanding NASD/FINRA staff members exhibit during the exam process.  And another benefit of a smaller, more educated staff is "the human element" should be much more efficient and less frustrating in every way.

As per FINRA'S request, Morgan Wilshire's clearing agents have always had ALL of our client data so they would best know the time and cost to provide such data the CARDS system needs to function properly.  FINRA should look closely at the SERIOUS responses from the larger clearing firms (I'd also suggest in-depth meetings at the clearing level), we are sure they would welcome anything that weeds out bad business more quickly, for they seem to always get dragged into the major problems that their introducing brokers cause.

To firms like ours that are not enormously profitable from investment banking business and such, where income is derived solely from investment advice alone, any increase in fees would be almost impossible to swallow and that seems to be the consensus of the responses I read thus far.  FINRA should not prejudice firms that have smaller fee structures, for they typically are the firms that do the most efficient business for their clients.  So success for CARDS would seem to hinge on the initial cost to roll out.  Maybe FINRA can do something like reimburse members once savings are realized, then fees should begin to permanently decline, as I mentioned in the very least, from a reduction in FINRA staff and their expenditures due to the CARDS technology.

We truly hope these comments from Morgan Wilshire are helpful to FINRA by giving perspective from a firm that is serious about making the securities industry a better place.  Our firm, as always, will make itself available for questions and/or further clarification.  Morgan Wilshire thanks FINRA for the opportunity to comment.

Michael Finnan
Pres. & C.C.O.