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VIA ELECTRONIC MAIL

March 21, 2014

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

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

Dear Ms. Asquith:

Cetera Financial Group, Inc. appreciates the chance to comment on FINRA's Concept Proposal to Develop the Comprehensive Automated Risk Data System (the "Concept Proposal" or "CARDS")[1]. Cetera Financial Group, Inc. ("Cetera") is the holding company of four independent channel broker-dealers[2] with approximately 7,400 independent financial professionals and nearly 600 financial institutions. Our broker-dealers conduct a retail business, and serve customers of all income levels and sophistication.

Cetera appreciates the opportunity to comment on the Concept Proposal and supports the efficient use of data by FINRA and member firms to identify sales practice issues as early as possible and streamline examination processes. However, the significant challenges raised by the Concept Proposal merit further analysis before rulemaking is pursued.

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[1] Regulatory Notice 13-42, Comprehensive Automated Risk Data System *available at* http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p413652.pdf.
[2] Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC, and Cetera Financial Specialists LLC.

Member Firms Will Incur Significant Costs Implementing and Complying with CARDS

The costs associated with the development and transmission of standardized data required by CARDS will be onerous. To provide FINRA with some additional insight regarding the member firm perspective as it relates to anticipated expenditures, we thought it would be helpful to share our assessment of costs involved with CARDS. Our Information Technology department conducted a preliminary analysis of projected costs associated with the initial implementation and ongoing expenses associated CARDS, which is attached to this letter as Exhibit 1. The one-time project costs relating to the design, building, testing and rollout along with appropriate staffing is estimated at more than $717,000.

The ongoing infrastructure expenses, including database storage and data retention, and operational staffing to provide production support and file transmission are estimated at over $260,000. This rough estimate of nearly $1 million for implementation and a single year of operation does not include costs associated with the standardization of information as discussed below, any potential vendor fees[3] or the need to extract data from additional sources to meet CARDS data requirements. Of course, this estimate only considers our firm's specific operations and needs and may be increased as more information is obtained; however, it is clear that these costs will be significant for member firms with an even greater relative impact on smaller member firms.

CARDS Data Standardization May Have Unintended Impact on Firms' Approach to Suitability

The success of CARDS will be greatly dependent on the receipt of standardized information, including suitability data, either through a clearing broker-dealer or directly if the firm is self-clearing. While there are some data elements that could be maintained in a consistent manner across member firms, many introducing and clearing firms employ varying formats and measures for collecting and utilizing information for supervising the suitability of investments for their clients. At many firms, a considerable amount of this information is maintained on paper, requiring that it be entered into electronic form for delivery. The CARDS proposal does not adequately consider the implications of requiring the delivery of data in a standardized format. In certain cases firms have adopted different or more investment objectives or risk tolerance categories to more effectively assist in determinations as to suitability of a specific

[3] The clearing broker-dealer may charge additional fees to offset additional costs associated with CARDS reporting and data aggregation vendors may demand additional charges for providing revised data packaging to assist with CARDS compliance.

product or strategy for a client. This is especially the case with respect to complex products, such as variable annuity contracts.

If FINRA requires a standard format for such information, firms will either spend significant resources on mapping data to meet requirements set by FINRA and/or clearing firms or abandon their current suitability criteria and processes in favor of standard templates developed by FINRA for CARDS supplanting a firm's best judgment as to a suitability and supervision model that works best for the firm's business model and clients.

Complexity and Costs of Compliance with CARDS will Increase with Addition of Direct Application Data

The CARDS proposal only addresses data provided through clearing broker-dealers. However, independent broker-dealers conduct a considerable portion of their securities business through direct application or "check and app" transactions in variable annuities, mutual funds and alternative investments. The analysis and oversight FINRA expects to achieve through CARDS will be materially incomplete without this information. While the firm obtains all necessary information to meet its KYC, suitability and supervision obligations with respect to these transactions, the data is received by the firm via various feeds and in many formats.

Additional effort and IT resources would be required to standardize direct way transaction information so that it could be provided to FINRA as contemplated by the CARDS proposal. Consequently, the costs outlined above could increase exponentially if CARDS were to include direct way business.

Recent Changes to the CARDS Proposal do not Eliminate Concerns Regarding Data Security

By amending its Concept Proposal to no longer require information that would identify the individual account owner (i.e. account name, account address or tax identification number) [4], FINRA has mitigated some of the risks associated with data security breaches. However, it is unclear what customer account information would be collected under the terms of the revised Concept Proposal. Presumably, FINRA would require that either the client account number or some other account identifier be provided by member firms, so that FINRA could conduct the oversight activities contemplated by the Concept Proposal. Of course, this approach would complicate any attempted hacking by requiring that a criminal obtain access to both the data maintained by FINRA and the personally identifiable information associated with that data,

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[4] Update Regarding Regulatory Notice 13-42, Comprehensive Automated Risk Data System *available at* http://www.finra.org/Industry/Regulation/Notices/2013/P451243

maintained by member firms or a third party, before fraudulent activity could occur. However, recent hacking events involving major retailers and federal government agencies have demonstrated the strong motivation and highly developed capabilities of such criminals to gain access to data that is believed to be protected. For this reason we urge FINRA to better define what data elements will be collected, and outline how that data will be protected (such as conformance to ISO/IEC 27001 standards and/or internal control audit standards).

With this necessary change to the proposal, FINRA may find it more challenging to conduct the oversight of investor accounts as originally anticipated. Specifically, any surveillance conducted without detailed investor data may be helpful for identifying certain trends, such as churning or concentrations in certain securities. However, the lack of personally identifiable information may inhibit some of the efficiencies that FINRA originally sought to gain with CARDS. Red flags identified by CARDS analytics would likely necessitate manual reviews, reconciliations and account aggregations to identify the specific account holder, any related accounts, and other mitigating documentation in the client files. This process would be necessary to obtain a more complete perspective regarding the suitability and appropriateness of the activity that would be identified by CARDS and would thus do away with most of the efficiencies to the exam process that the CARDS proposal is attempting to gain.

<u>If Adopted, CARDS Should Be a Tool for Member Firms and Allow for Reasonable Implementation Period</u>

In the proposal, FINRA states that, "CARDS' first phase is intended to increase FINRA's ability to use automated analytics on current and historical firm data to identify problematic sales practice activity" and "better focus its resources on key risks and exposures."[5] Given the resources that firms will need to employ to implement and operationalize such a powerful analytic tool, FINRA should consider allowing member firms to utilize CARDS to conduct surveillance regarding client accounts. This approach would allow member firms to better ensure that problematic business conduct and abusive sales practices are identified and addressed in a timely manner, with consequent greater protection of clients.

In any event, implementation of CARDS would require a thoughtful consideration of the potential impact on member firms and should include a reasonable implementation period of between 24 and 36 months before it would become effective.

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[5] *See* Regulatory Notice 13-42, at page 4

Conclusion

We support FINRA's interests in improving the oversight of sales practices and business conduct that may negatively impact retail investors. However, we think that the approach outlined in the CARDS proposal is overly burdensome to member firms and should be reconsidered in light of the concerns outlined in this letter and by other commentators. If FINRA decides to move forward with CARDS, serious consideration should be given as to whether or not the tool could be utilized by firms for their own compliance efforts and include a reasonable timeframe for implementation.

Thank you for your consideration of our comments. Should you have any questions, please contact me at 310-257-7384.

Respectfully submitted,

James W. Shay
SVP, Risk Management

Exhibit 1

FINRA - CARDS

3/3/2014

TECHNOLOGY ASSUMPTIONS		Estimates
Ongoing Expenses		
Infrastructure - database storage (1 TB X 4)	$	115,200
Infrastructure - file system storage for data retention	$	5,000
Operational Staffing - Production Support & small enhancements	$	90,000
Operational Shared Services - DBA, QA, file transmission	$	50,000
Operational Licensing cost - additional tools	$	4,000
	$	264,200
One time Project Costs		
Infrastructure setup & configuration by Navisite	$	5,000
Incremental labor costs - 6 person project team for 12		
CARDS - Scoping, requirements analysis	$	43,200
Discovery & analysis of data source needed to meet requirements	$	72,000
Design Solution	$	43,200
Build Solution /Data Consolidation	$	360,000
Test / UAT	$	86,400
Parallel Testing with FINRA	$	43,200
Production Rollout	$	21,600
Operationalize	$	43,200
	$	717,800
Vendor Costs		
Vendor costs-Configuration/Customization (Pershing, Albridge, etc.)	$	-
Unknown Costs - Possible sub-projects		
Impact on existing Back office system modifications to meet CARDS requirements	$	-
Conversion of paper based data to electronic form	$	-
Data extraction - Direct Business or other data not readily available to Cetera	$	-
Standardization of qualitative information	$	-
	$	-
Total Cost		
	$	-
Internal Resource Cost	**$**	**-**
PMO resources - Internal	$	-
Technology Resources	$	-
Total	**$**	**982,000**

Exhibit 1

Assumptions:

Estimated Project Size - 12 months

$2,400 per TB x 4 environments x 12 months

Needed if there's a requirement to retain files we send to FINRA

1 IT production support person; Data management, data transmission, data review & reconciliation

IT shared services production support (DBA, Lockbox, QA)

Additional licenses needed for development, reporting, monitoring

Staffing assumptions based on the information gleaned from the FINRA CARDS overview. The projected level of effort below assumes best guess estimates. Estimate confindence level is 70%.

Assuming all incremental resources @ $90/hr.	Weeks	Resou	Total
1 IT PM, 1 QA, 1 BSA	4	3	$ 43,200
1 IT PM, 1 QA, 1 BSA, 2 Developers	4	5	$ 72,000
1 IT PM, 1 BSA, 2 Developers, 1 DBA, 1 Architect	2	6	$ 43,200
1 BSA, 2 Developers, 1 DBA, 1 Architect	20	5	$ 360,000
1 IT PM, 1 BSA, 1 QA	8	3	$ 86,400
1 IT PM, 1 BSA, 1 QA	4	3	$ 43,200
1 IT PM, 1 BSA, 1 Developer	2	3	$ 21,600
1 IT PM, 1 BSA, 1 Developer	4	3	$ 43,200
	48		$ 712,800

Unknown. Do we need to ask our vendors to do customization work or pay for any data we don't currently get to support CARDS?

Note: We will need more information & analysis to determine these estimates below.

TBD. Lots of unknowns.

TBD. Not sure if this is even doable without spawning another project.

TBD. Additional processes and IT development may be needed to consume & integrate data from Direct Business into existing systems

TBD. There are data quality & data completeness issues that will make if difficult to standardize this data.

This PMO resource may be incremental.

TBD. Helpdesk?