FINANCIAL INFORMATION FORUM
5 Hanover Square
New York, New York 10004
212-422-8568

Via Electronic Delivery

March 21, 2014

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

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

Dear Ms. Asquith,

The Financial Information Forum (FIF)[1] would like to take this opportunity to comment on Regulatory Notice 13-42 – Comprehensive Automated Risk Data System ("CARDS Proposal"). FIF recommends that FINRA leverage the industry's investment in the Consolidated Audit Trail (CAT) in order to achieve the objectives identified in the CARDS Proposal. FIF sees the following advantages to this approach:

- Reduces cost and complexity associated with the CARDS proposal by leveraging a consistent data model, infrastructure and operational/compliance workflows
- Affords access to CARDS Proposal data to both FINRA and the SEC
- Addresses reporting responsibility issues in that all broker dealers report into CAT

While leveraging CAT will reduce the cost of CARDS as opposed to developing a stand-alone system, FIF members believe that automated submission of sales practice data will be significantly more costly than responding to ad hoc queries as is done today. The extent of those costs is largely dependent on the required data elements and expected file size. FIF respectfully requests a draft version of the CARDS specification/required data elements in order to comment more fully on operational challenges and costs associated with the CARDS Proposal.

The remaining sections of this document discuss the aforementioned issues and additional considerations in greater detail.

[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

Leverage CAT to Achieve CARDS Proposal Objectives

FIF recognizes that there are key differences between CAT and CARDS including some data elements in CARDS that are not contemplated by the minimum requirements of Rule 613. However, these are not insurmountable challenges especially given that Rule 613 gives the SROs discretion to add data elements.[2] Also, the inclusion of account numbers and post-trade data in CAT is a significant data element overlap that could be leveraged if the needs of CARDS were integrated into CAT.

It is important to recognize that CAT is more than just a set of data elements – it is a data model, a transmission mechanism, and a set of operational and compliance processes all of which are being established as part of CAT. A consistent data model for order, transaction, account, and position data would allow for better surveillance and easier implementation. It is better to expand CAT as opposed to building an entirely different data model with the associated risk of data inconsistencies between CAT and CARDS. Further, any automated system requires ongoing processes for data reconciliation and exception management. If CARDS were built off of CAT, firms could have a consistent workflow to manage these processes for both CARDS and CAT data. Additionally, CAT will offer report cards/benchmarking which is functionality that could be leveraged for CARDS Proposal objectives.

One issue raised with leveraging CAT to achieve CARDS Proposal objectives is time to market. Based on the information available in the CARD Proposal, FIF does not believe the time to market for implementing a stand-alone CARDS system will be significantly different from that of CAT. Past experience with projects ranging from OATS to Electronic Blue Sheets indicates that establishing new automated systems takes years not months or weeks. While we recognize that FINRA has established multiple Proof of Concepts (POCs), it is important to recognize some key differences between the POCs and a full implementation of CARDS – the POCs allowed clearing firms to provide data in their native formats; also, clearing firms were not required to obtain additional data from their introducing brokers. As discussed in a later section, developing to a standard specification and populating data in a standardized way as well as addressing data gaps are areas of major cost and effort.

Achieving CARDS Proposal Objectives Will Increase Costs

The premise that CARDS will reduce the burden on firms is flawed. Moving from an ad hoc examination process to a standardized, automated daily process will require additional technical, operational and compliance resources exceeding current costs. Rather than eliminating costs, FIF anticipates a substitution effect with a significant multiple as we move from one-off costs incurred at the time of inquiry to extensive, ongoing costs required to support an automated reporting regime with a multi-year implementation. Firms anticipate requiring additional resources to develop and maintain CARDS given that current resources are fully utilized supporting other regulatory reporting systems including OATS,

[2] 242.613(c) (7) - The national market system plan submitted pursuant to this section shall require each national securities exchange, national securities association, and any member of such exchange or association to record and electronically report to the central repository details for each order and each reportable event, including, **but not limited to**, the following information… (highlighted for emphasis)

EBS, LOPR, etc. While INSITE may be sunset as part of this project, it is important to note that INSITE is a mature system that provides aggregate data and requires very little staff or systems resources.

There are several areas of costs associated with implementing the CARDS proposal including:

- **Specification Review/Development/Testing**: Mapping from native formats to a standardized format may involve additional translation/logic. Integration across systems will be required and require extensive testing to avoid disrupting existing systems.
- **Data population and normalization efforts:** Not all of the data elements described in the CARDS Proposal are available in a single system or even a single firm. In some cases the data resides within the introducing broker. If the introducing broker dealer is leveraging their non-broker dealer parent's systems, pulling information from those systems to the clearing firm will be difficult and expensive. FIF anticipates a massive integration of data from systems some of which have never been involved in regulatory reporting.

  Once data sources are identified, a harmonization/normalization effort will be required to conform to CARDS specifications. This data is not standardized across systems even within a firm today.
- **Contractual Review and Repapering:** Depending on the structure of CARDS, contractual obligations between clearing firms and their clients as well as service bureaus and their clients may need to be altered.

Beyond the implementation of CARDS, it is likely that the ongoing collection of this data in lieu of ad hoc inquiries will increase the number of inquiries and investigations of potential "red flags" resulting from FINRA's analysis of CARDS data. Responding to a greater volume of inquiries will require additional resources on an ongoing basis and is another source of cost to be considered.

Additionally, FIF would anticipate that costs incurred by FINRA associated with the development and maintenance of CARDS would ultimately be passed back to FINRA members. FIF respectfully requests that FINRA update the CARDS proposal to include a discussion of the costs that FINRA is likely to incur in building and maintaining the proposed CARDS system. Given the significant amount of data storage associated with the CARDS proposal, costs could be substantial. Additionally, FINRA has already dedicated resources to bidding on CAT and expanding the use of the Multi-Product Platform all of which will compete for FINRA resources. Additional FINRA resources with specialized skills may be required to develop and perform the analytics described in the CARDS Proposal.

CARDS Proposal May Negatively Impact Competition

As discussed earlier, access to some of the data required by CARDS (e.g., suitability data) may reside with introducing brokers not clearing brokers. It is important to recognize that the level of integration required for clearing firms to provide all of the data described in the Reg Notice is significant. Also, the additional liability and compliance obligations this may place on clearing firms could be material. Continued increases in regulatory costs as well as potential increases in liability for clearing firms may cause certain firms that perform correspondent clearing services for introducing broker dealers to exit the business as the costs and potential liabilities will outweigh what is already a low margin business. One possible way to mitigate this risk is to clearly articulate that clearing brokers may provide CARDS-related services as a value-added service rather than as a regulatory obligation.

Cost will still be an issue for service bureaus given the scope of the proposal and the resources required to support multiple client data models. Additionally, FINRA should also consider the impact of the CARDS proposal on smaller firms who may not currently store this information electronically.

Additionally, many retail investors use their brokerage accounts to fund personal checks and credit cards. Requiring firms to provide all activity related to withdrawals, deposits and transfers on an ongoing basis, as well as all other activity including balances and positions in their brokerage account, may influence retail investors concerned about privacy to transfer accounts and/or certain financial transactions to banks and other non-FINRA member firms where information on their financial transactions is not collected centrally on a daily or weekly basis.

Additional Information Required to Evaluate CARDS

We understand that FINRA chose not to include a draft specification as part of the Regulatory Notice in order to focus on the key themes and objectives of the CARDS Proposal. FIF agrees that the fundamental premise of the CARDS Proposal should be evaluated and considered in light of CAT. However, in order to provide more substantive feedback on CARDS, FIF recommends that FINRA release their proposed required data elements and allow another opportunity for industry comment. Implementation effort will vary depending on the scope of data elements in the specification. FIF member experience with Large Trader and EBS enhancements highlights the need to understand exactly what is being asked. FIF requests that FINRA share the specification as well as expected file size and allow an additional comment period.

Additionally, we recommend that FINRA publish a thorough gap analysis of CARDS against existing and proposed reporting systems (e.g., CAT) as part of an updated CARDS proposal subject to industry comment.

Additional Comments Based on Review of CARDS Proposal

While FIF believes additional information is required in order to thoroughly evaluate the CARDS proposal, FIF would like to make the following additional comments at this time:

- Supplying registered person's CRD# would be difficult especially given that there is no automated look-up system associated with the CRD Registration system. Automated look-up to CRD information is an issue FIF has raised in the past with respect to Electronic Blue Sheet Submissions and would have to be addressed before making this data element a requirement.
- The impact of the CARDS proposal on DVP, omnibus, facilitation and other types of institutional or exempt accounts at retail branch offices would have to be addressed. Limited suitability information is available for these accounts or does not apply. Given the institutional suitability

exemption and the fact that assets in DVP accounts are not custodied at the firm, an exemption from the CARDS proposal for these types of account may be appropriate.

- Frequency of updates should take into account volume considerations as well as the needs for adjustments pre- and post-settlement. In addition to resolving pre- and post-trade settlement reconciliation issues (e.g., changes in commissions, type, etc.), FINRA would need to be able to ingest and reconcile changes that occur in other non-trade account transactions (e.g., “as of” entries), depending on the level of detail requested.
- Implementation phasing should consider field level phasing and scope of accounts covered. As mentioned earlier, some data elements will be more difficult to populate than others. Consideration should be given with respect to implementation time and phase based on the difficulty of populating any given data element.
- Any requirement to provide new data fields should be on a go-forward basis and apply to new accounts. If additional data is required on existing accounts, a phase-in period should be established to bring existing accounts into compliance.
- It is important to recognize that population of new data elements will have an impact on clients. Sufficient time should be allowed for client communication of any new CARDS rules.
- FIF members are concerned about potential disciplinary action and fines associated with CARDS. The staffing required to respond to inquiries on CARDS data quality should also be factored into the cost of CARDS.

Conclusion

FIF would like to thank FINRA for opening the industry dialogue on CARDS. By leveraging CAT and carefully considering the issues raised in this comment letter, we believe there is an opportunity to better understand and achieve the CARDS Proposal objectives. Please contact me at 312-953-9228 or kimmel@fif.com if you have any questions. We look forward to continuing the discussion of CARDS after the release of additional information by FINRA.

Regards,

Manisha Kimmel
Executive Director
Financial Information Forum

cc: Richard G. Ketchum, Chairman and Chief Executive Officer
Steve Joachim, Executive Vice President, Transparency Services

James R. Burns, Deputy Director, Division of Trading and Markets, Securities and Exchange Commission
David S. Shillman, Associate Director, Division of Trading and Markets, Securities and Exchange Commission