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March 20, 2014

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

Re: Request for Comment – CARDS proposal – Reg Notice 13-42

Dear Ms. Asquith:

Thank you for the opportunity to comment on the recent conceptual proposal to develop CARDS. We are strongly opposed to the implementation of this proposal in any form. The potential problems are endless and cannot be corrected. I will address our largest concerns:

1. SECURITY – Recent cyber-attacks against Target, Niemen Marcus, the NSA and the Federal Reserve confirms that protection of technical information cannot be guaranteed, regardless of the assurances that it will.
2. PRIVACY – Regulation S-P acknowledges the importance of our clients' rights to privacy, so much so that we must send our clients a privacy policy statement every year (even if we don't share information). FINRA's attempt to mandate the transition of client data on a daily basis breaks the confidence of the importance of their privacy. The number of investors that have negatively responded is a testament to this point. Although the proposal has been modified to exclude certain personal information such as a client's name and social security number, FINRA will realize quickly (if they don't already know) that this information is critical in linking accounts, or households that it will be added down the line after the system is in place.
3. COSTS – There are really two parts to this discussion – costs to FINRA and the costs to firms.
 - a. Costs to FINRA – Although I can't fathom how much it will cost FINRA to build, implement, and maintain such a robust system, it is likely to be in the \$10s of millions of dollars. I believe the costs should be disclosed for what has been spent so far as well as what FINRA expects to spend to fully implement this system.



- b. **Costs to Firms** – The costs to firms would be even more significant. As one of the smallest broker/dealers in the country, the costs and time required to comply with CARDS would be prohibitive. I believe this would be true for a number of other small firms as well, since almost half the broker/dealers have 10 representatives or less. Unlike larger firms, our firm does not employ full-time staff for compliance or technology. In addition to the hard dollar technology costs, the demands of CARDS would certainly require additional staff. The impact of additional non-producing staff to the overhead of a small firm is significant. We’ve attempted to absorb other recent increases in overhead due to new rules such as AML and SSOI, however the proposed rule would dwarf any requirement of FINRA to date.
4. **HARM TO INVESTORS** – Contrary to the intention of this proposal, we believe CARDS harms investors. What FINRA fails to understand is that in addition to the items mentioned above, the costs to investors will be significant and cannot be absorbed. Therefore, one of three possible scenarios are likely:
- a. One option is for the costs to be passed on to investors. Increased fees result in harming investors directly, especially smaller investors.
 - b. Another option is to simply stop servicing smaller investors. Since the amount of compliance required is directly correlated to the number of clients, smaller clients will find that firms are less willing to open or maintain accounts for them. The less something is available, the more it will cost.
 - c. The last option is for the small broker/dealer to close its doors. FINRA should be very familiar with this as the number of broker/dealers open today is dramatically lower than it was 10 or 15 years ago. This drop is directly correlated to the increase in compliance.
5. **DATA STANDARDIZATION** – The only way for FINRA to implement a system like CARDS effectively would be to standardize the data firms collect. This is exactly how the SSOI was implemented. We spent a significant amount of time completely overhauling our accounting system to comply with SSOI. Unfortunately, we now have to spend even more time converting items manually to compare year-over-year. Fortunately, SSOI only impacted accounting, while CARDS will impact a number of different applications, making it extremely difficult and costly to implement.
6. **INCREASE BURDEN ON FIRMS** – The proposal states that CARDS is “intended to reduce burdens on firms by eliminating intermittent information requests...” and “potentially reducing the length of examiners’ on-site visits to firms.” This same concept was used with the introduction of SSOI and the new audit procedures, both of which have caused



more time, not less. I think most would agree that the vast majority of transactions are legitimate, and well suited for clients. If this is the case, it would be like looking for a needle in a field of hay. Most of the findings are likely to be small records issues, not inappropriate investments. Additionally, how would CARDS handle firms that submit business on an application-way basis? How will FINRA determine whether a client initiated the trade directly?

7. ENTIRE PICTURE – So many factors go into the advice we provide clients. It is not possible for FINRA to understand all the aspects through a computer. Clients may have cash, CDs, fixed annuities, guaranteed income benefits, annuity death benefits, outside assets including 401ks, rental properties, and other family assets including a spouse. Additionally, we have the experience of working with the clients over different periods of time. How a client reacted during the 2008 market plays a role in many of our decisions.
8. PHASE I – In the proposal, FINRA states that this is the “initial phase.” What are your plans for other phases? You should be completely open with the public about what your plans are for this system.

I have been the CCO of a very small broker/dealer for the last 17 years. The percentage of my time spent on compliance has grown dramatically over these years. Our internal Written Supervisory Procedures have more than quadrupled. At the same time, I’ve seen the implementation of BCP, AML, SCP, CIP, SSOI, RCA, Regulation S-P, and SAA Certification just to name a few. Unfortunately, I find it difficult to identify how many of these help protect investors. CARDS, however, is the most overreaching proposal I’ve ever seen. Enough is enough. There are no limits to the number of rules, procedures and regulations that can be implemented on the concept of protecting investors and maintaining market integrity. However, the only qualities that can truly protect investors are the honesty and integrity of the representatives and their firms.

Yours truly,

Jason M. Welch
Vice President