

Proposed Rules for the Comprehensive Automated Risk Data System (CARDS)

4500. BOOKS, RECORDS AND REPORTS

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4540. Comprehensive Automated Risk Data System (CARDS)

4541. Definitions

The terms used in the Rule 4540 Series shall have the same meaning as those defined in the FINRA By-Laws and rules unless otherwise specified. For purposes of the Rule 4540 Series, the following terms have the following meaning:

- (1) "Carrying or clearing member" means a member that carries customer or non-customer accounts or clears transactions.
- (2) "Customer" means a person other than a broker or dealer.
- (3) "Internal securities transfer" means a transfer of assets between securities accounts held at a member.
- (4) "NSCC" means the National Securities Clearing Corporation.
- (5) "Non-ACATS transfer" means a transfer of partial assets from a financial organization, or a transfer of assets from a member that is not a NSCC member (such as a bank, credit union, or mutual fund company).
- (6) "Securities account" means an account as defined in SEA Rule 15c3-3(a)(14).

4542. CARDS Reporting Requirements

(a) Carrying or Clearing Members

- (1) Each carrying or clearing member shall submit in such automated format as FINRA may require, prescribed data relating to all the member's securities

accounts, to the extent the data is part of the member's books and records.

The prescribed data shall relate to the following categories of information:

(A) Securities Transactions:

- (i) Purchases and Sales: A chronological listing of the member's cleared securities transactions reported on a trade date basis.

This data shall include security identifying information, securities account number, member and branch identifying information and transaction details (*i.e.*, trade and settlement date, buy or sell indicators (including a designation for short sales), quantity, execution price, execution time, commissions, fees, markup/down, capacity, and solicited or unsolicited indicators).

- (ii) Dividend Reinvestment: Information on the value of cash dividends used to purchase additional shares of the underlying security. This data shall include the quantity and date the stock dividend was posted.

(B) Account Transactions:

- (i) ACATS Transfer Summary: Information on security account transfers between members that are also NSCC members and that are carried out through the ACATS system. This data shall describe the transferred account including the member receiving the transfer, the member delivering the transfer, and information on the account owner (excluding account identifying information, such as account name, account address, social security or tax identification number). This data shall apply to settled transfers only.

- (ii) ACATS Transfer Detail: Information, by security, on transferred securities positions for transferred securities accounts through the ACATS system. This data shall describe each security transferred, including security identifiers, position quantity, and position value.
- (iii) Non-ACATS and Internal Securities Transfer Summary:

Information on security transfers between securities accounts at members outside of the ACATS system, as well as internal transfers (e.g., journal entries) between securities accounts at the same member. This data shall describe the transfer, including the member receiving the transfer, the member delivering the transfer, the transferring account, and information on the account owner (excluding account identifying information, such as account name, account address, social security or tax identification number).
- (iv) Non-ACATS and Internal Securities Transfer Detail: Information, by security, on each security transferred between securities accounts at members outside of the ACATS system, as well as internal transfers (e.g., journal entries) between securities accounts at the same member. This data shall describe the asset(s) transferred, including security identifiers, position quantities, and position value.
- (v) Account Additions and Withdrawals: Information on the addition or withdrawal of funds to or from a securities account. This data shall describe the type of addition or withdrawal, the amount, and

the type of persons (whether a natural person, corporation, partnership, trust or otherwise) involved in the transfer.

- (vi) Margin Calls: Information on the making and satisfaction of margin calls. This data shall describe the margin call, including the call date, the call type and amount, and satisfied date.

(C) Holdings:

- (i) Stock Record: A record, for each security, of all long or short positions carried by the member for all securities accounts. The record shall include the information specified in SEA Rule 17a-3(a)(5), showing the location of all securities long and the offsetting position for all securities short as of a specified date. This data shall describe the security identifier, long and short security position quantities and market values, and last activity dates.
- (ii) Stock Record Summary by Security: An aggregate position for each security on the member's stock record. This data shall describe the security identifier and long and short security position quantity and market value.
- (iii) Allocation Pair-Off Detail: A record of how each security on the member's stock record is allocated using the firm's Allocation Pair-Off Hierarchy (as described in paragraph (a)(1)(E)(iii) of this Rule). This data shall describe the allocation category codes, including the security identifier, sequence number, long and short allocation codes, and long and short security position quantities and market values.

- (iv) Allocation Pair-Off Summary: An aggregate of the Allocation Pair-Off Details. This data reflects the aggregate quantities and values for each allocation pair-off sequence (*i.e.*, the aggregate results of the pairing of long versus short allocation codes for each specific allocation sequence). This data shall describe the allocation pair-off, including the sequence number, long and short allocation codes, and long and short security position quantities and market values.
- (v) Allocation Category Summary: An aggregate of long and short stock record positions for each SEA Rule 15c3-3 allocation category (*e.g.*, customer long, securities borrowed and fails to deliver). This data shall describe the allocation category and long and short security position quantities and market values.
- (vi) Securities Account Balance: An aggregate value of the holdings, including the balances and equity in the securities accounts at the member. This data shall describe the account level values for the sum of cash and cash equivalents, total securities, equity as well as margin requirements, such as buying power and maintenance margin.

(D) Account Profiles:

Except as provided in paragraph (a)(1)(D)(v) of this Rule, each carrying or clearing member shall submit data relating to the following categories of information:

- (i) Securities Account: Information regarding all securities accounts on the books and records of the member. This data shall describe the securities account, including account classification

and registration, whether the account can transact on margin, and markers to indicate whether the account is an employee account or a commission-based account.

- (ii) Securities Account Participant: Information about the type of persons (*i.e.*, whether a natural person, corporation, partnership, trust or otherwise) associated with a securities account. The data shall describe the securities account participant, including account participation type (*i.e.*, whether the participant is an owner or authorized person on the account), country of residence and country of citizenship. This data shall not include account identifying information, such as account name, account address, social security or tax identification number.
- (iii) Securities Account Servicing Representative: Information about account servicing representatives. This data shall describe identifying information related to the representative or representatives servicing the account.
- (iv) Securities Account Suitability: Information regarding each securities account at the member related to know-your-customer and suitability obligations. This data shall describe the customer's investment profile, such as investment objective, risk tolerance, net worth, and investment time horizon, as well as customer information related to account opening and updates (excluding account identifying information, such as account name, account address, social security or tax identification number).

(v) A carrying or clearing member shall not submit data under paragraphs (a)(1)(D)(iii) or (iv) of this Rule relating to the following account profile data elements for the accounts it carries or clears on a fully-disclosed or omnibus basis for others:

- a. Investment time horizon
- b. Investment objective
- c. Risk tolerance
- d. Net worth
- e. Servicing representative(s) compensation allocation
- f. Servicing representative(s) identifier
- g. Serviced-by representative group flag
- h. Branch CRD number
- i. Registered representative CRD number
- j. Self-directed account flag
- k. Birth year
- l. Account participant related to employee flag
- m. Control person for public company flag
- n. Account participant politically exposed person flag
- o. Account participant related to employee of another broker-dealer flag

(E) Reference Data

- (i) Security Reference: Information on the securities listed in all applicable CARDS data segments (e.g., purchases and sales, stock record, ACATS and Non-ACATS). This data shall include, as applicable, the CUSIP, security symbol, ISIN, SEDOL, OCC option symbol, and product type.

- (ii) Allocation Category: A list of the member's allocation categories used in the preparation of the SEA Rule 15c3-3 reserve formula allocation, along with the member's corresponding descriptions.
 - (iii) Allocation Pair-Off Hierarchy: The priority order used by the member to pair-off security positions within the stock record in accordance with the provisions of SEA Rule 15c3-3a (Exhibit A).
- (2) Each carrying or clearing member may enter into an agreement with a third party pursuant to which the third party agrees to fulfill the member's obligations under this Rule. Any agreement shall be evidenced in writing, which shall specify the respective functions and responsibilities of each party to the agreement required by this Rule. All written documents evidencing the agreement shall be maintained by each party to the agreement. Notwithstanding the existence of such an agreement, each carrying or clearing member shall remain responsible for complying with the requirements of this Rule applicable to carrying or clearing members.

(b) Fully-Disclosed Introducing Members

- (1) Each fully-disclosed introducing member shall submit in such automated format as FINRA may require, prescribed data relating to the following account profile data elements, for all the member's introduced securities accounts:
 - A. Investment time horizon
 - B. Investment objective
 - C. Risk tolerance
 - D. Net worth
 - E. Servicing representative(s) compensation allocation
 - F. Servicing representative(s) identifier

- G. Serviced-by representative group flag
- H. Branch CRD number
- I. Registered representative CRD number
- J. Self-directed account flag
- K. Birth year
- L. Account participant related to employee flag
- M. Control person for public company flag
- N. Account participant politically exposed person flag
- O. Account participant related to employee of another broker-dealer flag

(2) An introducing member may submit the prescribed data directly to FINRA or enter into an agreement with a third party pursuant to which the third party agrees to fulfill the introducing member's obligations under this Rule. Any agreement shall be evidenced in writing, which shall specify the respective functions and responsibilities of each party to the agreement required by this Rule. All written documents evidencing the agreement shall be maintained by each party to the agreement. Notwithstanding the existence of such an agreement, each introducing member shall remain responsible for complying with the requirements of this Rule applicable to introducing members.

(3) An introducing member shall be responsible for ensuring that FINRA receives the prescribed data from only one source, whether directly from the introducing member or through a third party pursuant to an agreement, and shall notify FINRA of the source, in writing, as part of its CARDS registration.

(c) Exclusions

Paragraph (a)(1)(A)(i) of Rule 4542 shall not apply to products that are not held, custodied at, or executed through, a carrying or clearing member, or to cash and cash equivalent sweep transactions.

• • • Supplementary Material: -----

.01 Historical Information. Each carrying or clearing member shall submit historical securities transaction information relating to purchases and sales for the time period between [insert date of SEC approval of the proposed rule] and [insert date of implementation of the proposed rule].

.02 Members Operating Pursuant to the Exemptive Provisions of SEA Rule 15c3-

3(k)(2)(i). For purposes of this Rule, all requirements that apply to a carrying or clearing member shall also apply to any member that, operating pursuant to the exemptive provisions of SEA Rule 15c3-3(k)(2)(i), either clears customer transactions pursuant to such exemptive provision or holds customer funds in a bank account established thereunder.

.03 Exclusions. Paragraph (a)(1)(A)(i) of Rule 4542 relating to the transmittal of purchases and sales information shall not apply to products that are not held, or custodied at, or executed through, a clearing member. For example, paragraph (a)(1)(A)(i) of Rule 4542 shall not apply to variable annuities, private placements, direct participation programs (DPPs), private investments in public equity (PIPEs), non-traded real estate investment trusts (non-traded REITS), unregistered securities, precious metals, and direct mutual funds, other than NSCC Network Level 3 mutual funds.

4543. Registration

Each member subject to the Rule 4540 Series shall register for CARDS in accordance with the requirements prescribed by FINRA.

4544. Data Transmission Requirements

(a) General Requirement

All applicable data required to be transmitted under this Rule shall be transmitted by each member or pursuant to an agreement described in paragraphs (a) or (b) of Rule 4542 above.

(b) Method and Timing of Transmitting Data

- (1) Each member shall transmit to FINRA the applicable prescribed data by no later than 8:00 p.m. Eastern time on the 10th business day of the following calendar month.
- (2) Each member shall include in the monthly data transmission all events that occurred during the preceding calendar month related to securities and account transactions required under paragraphs (a)(1)(A) and (B) of Rule 4542; provided, however, a member may transmit the securities and account transactions data more frequently than on a monthly basis.
- (3) Each member shall include in the monthly data transmission all securities holding and account profile information required under paragraphs (a)(1)(C) and (D) of Rule 4542 as of the last business day of the preceding calendar month.
- (4) Each member shall include in its monthly data transmissions all reference data required under paragraph (a)(1)(E) of Rule 4542 that accounts for all of the securities referenced in the transmission for the preceding calendar month; provided, however, a member may transmit the reference data more frequently than on a monthly basis.

4545. Transmission Validations, Rejections, Repairs, and Modifications

- (1) To the extent a file validation by FINRA results in a rejection, the member must repair and re-transmit the file within seven business days after receipt of the validation results from FINRA.

- (2) To the extent a record validation by FINRA results in an error, the member must repair the error within seven business days after receipt of the validation results from FINRA.
- (3) To the extent a record validation results in a warning, the member shall not be required to make any repairs to the transmission.
- (4) A member may determine through data reconciliation procedures that information previously transmitted to, and accepted by, FINRA is inaccurate. A member must transmit a correction to such data as soon as possible after the error has been identified, in accordance with the requirements prescribed by FINRA.
- (5) To the extent data was transmitted to FINRA with information about a transaction or activity that did not occur, the member shall delete that information from the data transmitted to FINRA as soon as possible after the error has been identified, in accordance with the requirements prescribed by FINRA.

4546. Maintaining and Preserving Records and Data File Transmissions

- (1) In addition to transmitting the data described in the Rule 4540 Series, each member shall maintain and preserve records of such data for the period of time and accessibility specified in SEA Rule 17a-4.
- (2) The records required to be maintained and preserved under the Rule 4540 Series may be immediately produced or reproduced on “micrographic media” as defined in SEA Rule 17a-4(f)(1)(i) or by means of “electronic storage media” as defined in SEA Rule 17a-4(f)(1)(ii) that meet the conditions set forth in SEA Rule 17a-4(f) and may be maintained and preserved for the required time in that form.

- (3) Each member shall maintain and preserve a copy of the data transmitted by the member to FINRA under the Rule 4540 Series for a period of not less than three months.
- (4) To the extent that a third party has agreed to transmit the prescribed data to FINRA on behalf of a carrying or clearing member under paragraph (a) of Rule 4542 or an introducing member under paragraph (b) of Rule 4542, the member shall require, as part of the agreement, that the third party maintain and preserve a copy of the data transmitted by the third party to FINRA, in accordance with the time period required for the member to maintain and preserve such data pursuant to this Rule.