

FINANCIAL INFORMATION FORUM

5 Hanover Square
New York, New York 10004

212-422-8568

Via Electronic Delivery

December 1, 2014

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

Re: Regulatory Notice 14-37 – 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 14-37 – Comprehensive Automated Risk Data System (“CARDS Proposal”). The FIF CARDS Working Group (“FIF”) has spent extensive time reviewing not only the CARDS Proposal but also the draft specifications and scenario document released in conjunction with the CARDS Proposal. Additionally, FIF has met with FINRA staff on multiple occasions to better understand the requirements associated with the CARDS Proposal. We recognize that the CARDS Proposal has been modified since the concept proposal discussed in Regulatory Notice 13-42; however, FIF continues to have concerns regarding the implementation of CARDS as detailed below.

Articulate Benefit of CARDS More Clearly

In meetings with FIF, FINRA has acknowledged that CARDS will be used to identify trends associated with sales practices rather than focusing on suitability on an account by account basis. Given that personally identifying information (PII) will no longer be collected by CARDS, it will not be possible for CARDS to group accounts of an individual within a firm or across firms. With the benefit of CARDS limited to trend analysis, FIF questions the assertion that CARDS will reduce the number and scope of examinations thereby lowering the cost of compliance for firms. Based on FIF member experience with FINRA’s Order Audit Trail System (OATS), FIF members believe that both the length and frequency of examinations will increase under CARDS. As part of FINRA’s future rulemaking on CARDS, FIF requests additional details on data access, usage and analysis with respect to CARDS data. Information on data

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.

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access should include FINRA policies related to collection, access controls, retention, destruction and use of CARDS data both within FINRA and with external parties, (e.g., the SEC).

FIF also questions the benefit of gathering data on institutional activity given the focus on retail suitability concerns highlighted in the CARDS proposal. FIF believes the lack of well-defined benefits with respect to the inclusion of institutional activity merits an institutional exemption as discussed in a subsequent section of this letter.

Consider Impact on Resources and CAT Implementation on CARDS Implementation Timing

Assuming a 2015 - 2017 timeframe for the implementation of CARDS, FIF is extremely concerned with the impact that a CARDS implementation will have on other projects including the Consolidated Audit Trail (CAT) as well as other CBOE, FINRA, SEC, IRS and DTCC initiatives. In addition to CAT, expected initiatives in this timeframe include CBOE Options Tied to Stock, CBOE Regulatory Request Format, FINRA requirements proposed in Regulatory Notice 14-52 (Proposed Rule Requiring Confirmation Disclosure of Pricing Information in Fixed Income Securities Transactions), Regulatory Notice 14-51 (Equity Trading Initiatives: OATS and Trade Reporting Requirements), Regulatory Notice 14-48 (Proposal to Publish OTC Equity Volume Executed Outside of Alternative Trading Systems), Regulatory Notice 14-47 (Proposal to Tighten Business Clock Synchronization Requirements), Regulatory Notice 14-46 (Proposal to Identify OTC Equity Trades Reported More Than Two Seconds After Execution as "Out of Sequence" and Not Last Sale Eligible), Regulatory Notice 14-02 (Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market) as well as the significant reporting requirements associated with the proposed Tick Size Pilot and DTCC Shortened Settlement Cycle.

Firms have limited resources with which to implement regulatory initiatives and have already committed resources to approved initiatives including FINRA ATS MPID Amendments effective February 2, 2015, changes required by SR-FINRA-2013-050 effective Mar/Apr 2015, expansion of FINRA TRACE to asset backed securities on April 27, 2015, as well as IRS changes to cost basis requirements effective January 1, 2016 and SEC Money Market Reform effective October 2016.

Given that Rule 613 is approved and that the SROs have submitted the CAT NMS Plan on September 30, 2014, FIF believes that CAT should take precedence over the implementation of CARDS. Both initiatives are large scale data projects that will consume significant resources at firms. Rule 613 has already established the need for CAT and industry participants have been working diligently with the SROs to address implementation issues associated with this project. We do not believe resources should be diverted from CAT to CARDS.

FIF recommends that implementation of CARDS be coordinated with the implementation of CAT to allow firms to manage both projects with existing resources. We believe highly skilled, experienced resources will be required for both projects in order to reduce errors and risk. It should be noted that if CAT and CARDS do not leverage a single data model, reconciliation between the two systems will not be possible.

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Allow Sufficient Implementation Time & Phasing

FIF member firms have evaluated the CARDS proposal and draft specifications. Based on currently available information, FIF believes that CARDS will require approximately 24 to 36 months for implementation of Phase 1. This implementation timeframe is based on experience with large scale regulatory projects including OATS for NMS which, among other things, expanded OATS to NYSE-listed securities as well as Large Trader requirements for broker dealers. OATS for NMS took the industry 11 months to implement while Large Trader Phase 1 took 16 months. The CARDS implementation effort is substantially more than these projects for the following reasons:

- OATS was already in use for Nasdaq securities at the time of the OATS for NMS implementation. CARDS is an entirely new system with its own specification and set of workflow processes. Data required by CARDS may not be in electronic form today especially at introducing firms.
- Large Trader Phase 1 was limited to clearing firm reporting of Large Trader activity for proprietary trading and sponsored access arrangements only. CARDS will apply to all securities accounts on a firm's books and records at both introducing and clearing firms.²
- The volume of data required for CARDS is significant and is likely to exceed current regulatory submissions. For example, an FIF member that offers back office processing services estimates they will be required to provide approximately 9 million records daily in support of transactional activity reported to CARDS, representing 36 times more records than their current OATS record submission which averages around 250,000 records per day.

The phasing described in the CARDS proposal does not materially reduce the implementation time required in that self-clearing firms and clearing firms with trading activity of their own will be required to provide all data elements as part of Phase 1. Even with the accommodation of allowing free-text fields for certain data elements,³ the implementation effort to centralize and systematize account profile information will be a significant effort especially for introducing firms. FIF recommends exploring a phased implementation based on functionality. Specifically, FIF recommends the following:

- Require data related to margins as part of a later phase of CARDS. Margin functionality is typically associated with separate systems and resources within a firm. FIF recommends eliminating the requirement to provide margin data from the first phase of CARDS implementation.

² Based on conversations with FINRA, FIF understands that executing brokers that do not maintain any accounts or hold positions on any securities because they trade with registered broker dealers on an agency basis would not have an obligation under the rule. FIF respectfully requests confirmation of this understanding or an exemption for such executing brokers in future CARDS filings.

³ It should be noted that while free-form text fields are part of the initial implementation of CARDS, FIF questions the long term viability of free-form fields as part of the CARDS specification. Without standardization, certain types of analyses will not be possible. Enhancements to CARDS including the standardization of free-form fields should be clearly articulated in future rulemaking on CARDS.

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- Require data associated with the Automated Exam Process (AEP) as part of a later phase of CARDS. Firms have invested heavily in support of the annual process associated with AEP and costs associated with maintaining AEP are minimal. Allowing firms additional time to leverage that investment as well as implement changes required to transform that process from an annual to a monthly frequency is recommended.

It is our understanding that a three month test period is envisioned for the implementation of CARDS. FIF recommends that the test window be expanded to five or six months to allow clearing firms and service bureaus time to complete internal testing prior to rolling out software for client testing.

Exempt Institutional Accounts from CARDS

FIF strongly supports an exemption for institutional accounts consistent with the original CARDS concept proposal. In the concept proposal FINRA acknowledged that retail account information should be sufficient for FINRA to identify “sales practice misconduct (*e.g.*, churning, excessive commissions, pump and dump schemes, markups, mutual fund switching), as well as help FINRA identify potential business conduct problems.” In addition to the lack of benefit associated with the inclusion of institutional accounts, data required by CARDS may not be available or applicable to institutional accounts. For example, institutional accounts would not have an “account owner birth year” nor would an institutional account have any suitability information if the institutional account meets the criteria for the institutional-customer exemption as defined by FINRA Rule 2111. The institutional account exemption would also limit costs associated with centralizing information related to institutional accounts since this data is typically maintained on systems distinct from retail accounts.

Eliminate Historical Data Requirement

The CARDS proposal includes a requirement to provide purchase and sales transaction data from the approval date of the rule prior to the actual implementation date (“historical data”). FIF recommends eliminating the requirement for the submission of historical data prior to the implementation date. CARDS data may not be centrally or electronically accessible at the time of CARDS rule approval. Expecting firms to commit resources to CARDS implementation prior to the actual approval of the rule is not reasonable. Data requirements may change as may the timing of CARDS implementation. Firms need certainty and adequate time to collect, populate, develop and test systems in order to provide accurate data to CARDS. Additionally, the processing of the historical data files will introduce operational complexities given the expected size of these files.

Incorporate Flexibility into Submission/Error Correction Processing

In order to minimize costs associated with CARDS, FIF recommends allowing flexibility in terms of CARDS submissions and error correction processing. Specifically, FIF recommends the following:

- Allow firms to support submission requirements through multiple mechanisms such that different service providers or internal systems could be used to submit data to CARDS. CARDS should include a flexible entitlement system to facilitate this process
- Provide robust validations on daily files and allow resubmission of daily files

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- Given the lack of experience with CARDS, the seven day error correction timeframe may not be appropriate. FIF recommends consideration with respect to enforcement of the seven day error correction timeframe during the initial implementation of CARDS.
- Report cards with data similar to those provided by OATS should be part of CARDS feedback mechanism including peer group information on submissions and error correction.

Address Field Specific Issues

FIF would like to stress the importance of defining conditionality with respect to each field including explanations of when the field is required. Based on conversations with FINRA, it is our understanding that CARDS does not intend to create new data collection requirements beyond current regulatory requirements. FIF recommends that the proposed rule language specifically address the conditionality of fields such that it is clear that there is no requirement to provide data that is not available or applicable. FIF would also like to offer the following comments and questions related to specific data fields and definitions in the specification data dictionary:

- **Natural Person Definition:** References to natural persons, e.g., Account Participant Natural Person Flag should include a definition of natural person. FINRA should seek to harmonize the definition of natural person with the use of natural persons in the context of the SEC Money Market Reform Rule.
- **Step-in/Step-Out Data:** Data related to step-ins/step-outs may not be available from a single source. Flexibility should be allowed with respect to different systems offering this information. Alternately, step-in/step-out data is captured as part of FINRA trade reporting and could be sourced from internal FINRA systems.
- **Piggyback Arrangements:** Data related to piggyback arrangements may not be available from a single source. Modifications to systems may be required in order to provide this data.
- **Trade Reference Number:** The field size should be greater than 20 characters. We suggest 50 similar to "P&S Reference Number".
- **Rights of Accumulation (ROA) Value Amount:** Clarification is required as to the correct value to report if the fund updates ROA Value on the execution record, i.e., which number is reported - the member's original value or the fund's updated value?
- **Transfer Identifier:** - Transfer identifiers do not exist for non ACAT transfers. This field should not be mandatory for non-ACATS transfers. Additionally clarification is required as to whether an internal transfer of an account that does not reflect a change of ownership needs to be reported - e.g. branch to branch or positions moved between accounts of same owner?
- **Transfer Method Code:** Books and records data may not indicate what transfer method was used. Records may only indicate a general transfer. This field should be optional based on availability of data.
- **Rule 144 Flag:** Should be allowed at the position level or the security level
- **Required Minimum Distribution Flag** – Firms and/or their service bureaus may not always know if a withdrawal is part of a required minimum distribution. This field should be optional based on availability of data.

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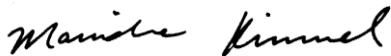
Conclusion

FIF believes careful consideration of the CARDS proposal is required in the context of current SRO and SEC regulatory objectives. As such, FIF recommends the following:

- Clearly articulate the benefits of CARDS including additional details on data access, usage and analysis.
- Coordinate timing of CARDS with CAT implementation to minimize strain on resources and implementation risk.
- Allow 24 – 36 months of implementation time for data collection, analysis, development and testing including a phased implementation with margin functionality and AEP replacement in later phases.
- Exempt institutional accounts from CARDS reporting
- Eliminate historical data requirement to provide purchase and sale data prior to the implementation date.
- Incorporate flexibility into the submission and error correction process as identified
- Address conditionality of data fields and field-specific issues identified
- Provide additional details in future rule filings regarding executing broker responsibility and future phases of CARDS.

We look forward to participating in ongoing discussions of the CARDS proposal. Please contact me at 312-953-9228 or kimmel@fif.com to discuss these comments in more detail.

Regards,



Manisha Kimmel
Managing Director
Financial Information Forum

cc: Richard G. Ketchum, Chairman and Chief Executive Officer
Victoria L. Crane, Associate General Counsel, Office of General Counsel
Michael Rufino, Executive Vice President, Head of FINRA Member Regulation—Sales Practice
Daniel M. Sibears, Executive Vice President, Regulatory Operations/Shared Services
Jonathan Sokobin, Sr. Vice President, Office of the Chief Economist

Stephen Luparello, Director, Division of Trading and Markets, Securities and Exchange Commission

David S. Shillman, Associate Director, Division of Trading and Markets, Securities and Exchange Commission