



## Consumer Federation of America

March 11, 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:

I am writing on behalf of the Consumer Federation of America (CFA)<sup>1</sup> to express our strong support for FINRA's proposal to develop a Comprehensive Automated Risk Data System. The automated collection and analysis of account-level data has the potential to significantly enhance the efficiency and effectiveness of FINRA's inspection and enforcement programs to the ultimate benefit of investors. This is admittedly an ambitious proposal. We applaud the care that FINRA has taken to conduct feasibility tests and to seek input from all interested parties at an early stage in the program's development. This careful approach should help to ensure that the CARDS system is developed and implemented in a way that maximizes the benefits and minimizes the risks and costs of the program.

As FINRA notes in the Regulatory Release, "Innovations in information technology now allow the collection, processing and analysis of large quantities of information." Regulators who wish to keep pace with the growing automation of financial markets and the rapid pace of change in the industry must take advantage of those capabilities. To date, however, FINRA has made only limited use of these capabilities. Instead, its examination and enforcement programs rely heavily on firm-by-firm data requests, data requests that will vary from firm to firm and may evolve as the examination or investigation moves forward. Without access to automated data collection, such an approach is necessary. But it is relatively inefficient for examiners and firms alike.

Automating the process of data collection has the potential to deliver a number of significant benefits. It would enable FINRA to more comprehensively assess business conduct patterns and trends across the industry, identifying emerging trends and changing practices

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<sup>1</sup> CFA is a non-profit association of nearly 300 national, state, and local pro-consumer organizations. It was formed in 1967 to represent the consumer interest through research, advocacy and education.

earlier. To the degree that analysis allows FINRA to identify troubling developments and problematic practices and shut them down before significant harm occurs, the benefits to investors would be self-evident. But investors would also benefit indirectly if FINRA's ability to assess risks both across the industry and within individual firms is enhanced and if its examination program becomes better focused and more efficient as a result.

Although implementation of the program will obviously impose costs on firms, particularly as it is being phased in, CARDS should also benefit firms by reducing the burdens and disruptions associated with the individual data requests on which examinations now rely. Firms could see additional benefits if, as the regulatory notice suggests, FINRA is able to feed the information back to individual firms in a way that could support their in-house compliance programs. The latter could be particularly beneficial for smaller firms that cannot afford the same investment in in-house compliance programs as larger firms or for firms with a widely dispersed, loosely supervised network of salespeople.

The biggest risk for investors of such a system – the risk that it would create a new and ultimately vulnerable database of sensitive personal financial data – appears to have been alleviated by FINRA's decision not to collect the information in a form that would identify the individual account owner. While it might be possible to develop a system that would adequately protect that information, recent events have illustrated the extreme vulnerability of such systems. At the same time, the value of the CARDS program is enhanced if FINRA is able to track activity across multiple accounts of a single investor. We encourage FINRA to explore ways to achieve this goal that do not require collecting – or imposing new obligations on others, such as clearing firms, to collect – the personally identifiable information (e.g., account name, address and tax identification number) that would put the security of investor data at risk.

As the regulatory notice reflects, FINRA faces a number of technical issues as it determines the best and most cost-effective way to move forward with implementation of the CARDS system. Those issues fall outside our expertise. However, the process that FINRA has put in place for getting input on how to proceed will serve it well. Ultimately, we believe the end result will be a more efficient and effective industry oversight program that will benefit both investors and those firms that take their compliance obligations seriously.

Respectfully submitted,



Barbara Roper  
Director of Investor Protection