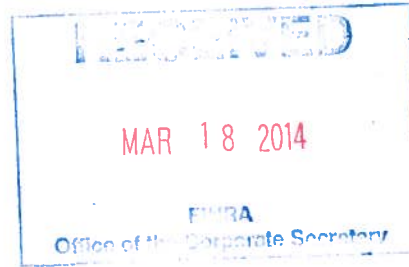




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March 10, 2014

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

Re: Comprehensive Automated Risk Data System (CARDS) as conceptually announced in Regulatory Notice 13-42

Dear, Ms. Asquith,

I am writing to share thoughts about the CARDS concept proposal. First of all, I would like to affirm that I believe the concept has merit. I have seen the recent announcements that FINRA will drop the plan to collect customer identity and account data. That is a wise decision but that alone is not sufficient adjustment to make this concept ready for launch. The path to implementation will be lengthy and difficult. I would like to discuss six specific areas of concern in hopes of moving the concept forward.

First, I suggest FINRA establish a cross-sectional working group involving representatives of member firms to establish goals and objectives. I have been engaged in Operations or Compliance for more than 15 years and yet I could not find clearly stated goals and objectives. I believe membership would be very resistant to such a system if the goals do not align with their business and sustainability goals. A cross-functional group of member representatives would annunciate common goals that the membership will embrace and strive to achieve.

Second, I ask that the same cross-functional committee consider the current rules as they relate to the goals and objectives the committee identifies. We run the risk of creating interpretations to rules based on system requirements and that would not be the proper method of refining the rules. For example, the rules require member firms to collect suitability information on each customer but the rules do not currently require that such data be stored in a digital, open to automated query format ("electronic format"). Some firms still collect and store the suitability data on paper forms and many firms have large blocks of legacy clients from the days when paper storage was the only acceptable method. Obliging that the data be included in the proposed reporting tool would cause member firms to do more than the current rule requires. The proper process would be to first propose changing the rule to require the electronic format and then provide a transition period. FINRA has a well established and documented protocol for implementing new rules and updating existing rules. Let's not deviate from that process under the influence of a rush to implement a surveillance system.

Third, the member firms use a wide variety of incremental data ranges for suitability data. For example, one member firm may categorize income ranges as 0 to 25,000; 25001 to 50,000; 50,001 to 100,000; 100,001 to 200,000; etc. Another member firm may use ranges of 0 to 50,000; 50,001 to 100,000;

100,001 to 250,000; etc. A third firm might use ranges of 0 to 40,000; 40,001 to 75,000; 75,001 to 125,000; 125,001 to 200,000; etc. All three firms could be very successful, highly compliant and yet have varying degrees of automation. Each firm may program a rules engine based on its own income ranges. For FINRA to establish a rules engine would be very difficult unless the underlying ranges were standardized. The current rules do not oblige standardized ranges for income and other suitability factors. In fact, I recall that several comments made during the comment period of NASD Rule 2821 suggested a revision to the rules to include standardized ranges along with a transition period and the organization opted against such recommendations.

The fourth area of concern involves the differences between general securities trading in a clearing account versus application way business with a mutual fund family of variable insurance issuer. The pilot FINRA conducted for this concept proposal dealt with a large clearing firm that already facilitates OATS, TRACE and RTRS reporting. Regulatory Notice 13-42 asserted that the clearing firm had favorable opinions about such a system. The Notice failed to consider that the clearing firm has an incentive to see such a system adapted because it would force introducing broker dealers to more closely integrate their client profile data with the clearing firm. It will raise cost to the introducing broker dealers and limit competition by causing further consolidation among clearing firms. Introducing firms that work with multiple clearing partners would likely reduce those relationships, giving the customer less choice and less price competition. It would ultimately drive introducing firms to restrict access to higher net worth clients and it would drive more small firms out of the industry. At a time we should be improving Main Street's access to Wall Street we would be moving in the opposite direction.

The fifth area of concern is the reality that mutual fund families and variable insurance issuers have a wide variety of systems for administering their business. Some of those issuers offer to share data through better known programs like DST Fan Mail or DAZL. Several firms will not work with DTCC due to the cost and system complexities. Discussions among issuers on establishing common reporting standards have not yet yielded any tangible agreement. DTCC would probably like FINRA to adapt such a reporting system because it would force broker dealers, mutual fund families and variable insurance issuers to use DTCC systems but it would drive more businesses out of the business and raise costs on others and that will trickle down to the consumer as less choice at higher costs. Here also there is a wide gap between current rules and the system requirements. For example an insurance company is not currently required to display surrender charges or surrender value on a customer statement. If the SEC won't require such important information be included on a customer statement then FINRA should not expect broker dealers to have such data readily available to include in the CARDS uploads.

The sixth concern involves the failing expectation that an applied empirical decision tree would be better than the subjective and thoughtful deliberation of a properly qualified human being. Best practice guidelines for heightened review of certain transactions suggest that the reviewing principals should not disclose the trigger thresholds to the producing representatives. The theory is that if the producing representatives found out that a firm enacts a heightened principal review on transactions over \$200,000 the producing representatives would attempt to get around the review by breaking the transaction into smaller segments, delay some parts for a small period of time, underestimate a surrender value, or just simply recommend a slightly lower amount. Likewise an algorithm for evaluating



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one transaction would not consider a client's trading history, or the experience of the producing representative. Such an algorithm might have deemed a replacement of AIG or GM stock as not being worthwhile to the customer. Reviewing principals would gradually figure out the algorithm FIRNA would program into analysis of CARDS data and make their suitability determinations based upon their desire to avoid an exception trigger in the CARDS review. Granted some principals have not adequately discharged their duty on all transactions but that does not justify negating what has been an overwhelmingly good protocol dating back as far as the Securities Exchange Act of 1934.

I thank you for taking the time to read and consider these six areas of concern and encourage you to take the first step by engaging a cross-functional team of representatives of wide variety of member firms to establish a clear set of goals and objectives. I would be willing to serve on such a committee and would welcome further discussion via telephone, 513-412-1525 or email, pnerone@gaig.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Nerone", with a stylized flourish at the end.

Peter Nerone
President & Chief Compliance Officer