



March 20, 2014

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

Re: Comment on Regulatory Notice 13-42 *Comprehensive Automated Risk Data System*

Dear Ms. Asquith:

FINRA has requested comment on a concept proposal to develop a new Comprehensive Automated Risk Data System ("CARDS"), a rule-based program that would allow FINRA to collect on a standardized, automated and regular basis, account information, as well as account activity and security identification information that a firm maintains as part of its books and records.¹ FINRA's stated goal for CARDS' first phase is to increase FINRA's ability to use automated analytics on current and historic firm data to identify problematic sales practice activity. FINRA has provided no information on subsequent phases of CARDS, such as how many phases are planned, the regulatory objective of each phase, or the cost to firms of the entire CARDS system. As discussed herein, M Securities² believes that the proposal for phase one of CARDS presents significant challenges to firms due to its ambitious scope and massive scale.

I. Cost v. Benefit

The Notice was vague regarding the details related to the electronic collection of information and contained no discussion of alternatives considered by FINRA to achieve its goal. Before moving forward with phase one of CARDS, FINRA should conduct a thorough cost-benefit analysis covering the projected costs of the entire CARDS to member firms (both clearing firms and introducing firms), the security and data privacy risks involved with CARDS, as well as the costs of alternative approaches to identify problematic sales practice activity.

While FINRA anticipates that CARDS will reduce the number of information requests firms receive from FINRA, we believe that the opposite result is more realistic. Given the amount of data that FINRA will be able to access and analyze, it is highly likely to result in numerous additional information requests because computerized algorithms can collect and analyze only numbers and data, not the real world

¹ Regulatory Notice 13-42 *Comprehensive Automated Risk Data System*, December 2013 (the "Notice").

² M Holdings Securities, Inc. ("M Securities," "We"), a registered broker-dealer and investment adviser, is a wholly-owned subsidiary of M Financial Holdings Incorporated.

context of such information. This will likely involve many “false positives” that firms will have to spend time and resources responding to, particularly when firms are not given the opportunity to examine the data prior to it being provided to FINRA.

FINRA should reconsider the timing of the CARDS proposal, as its current large-scale data and technology initiatives (e.g., Consolidated Audit Trail (“CAT”)) are already taxing resources of FINRA and firms. Firms should not be required to create duplicative systems and processes for FINRA to collect the same data. At a minimum, if CARDS goes forward as proposed, FINRA should identify and eliminate from CARDS areas that overlap with CAT.

II. Data Privacy & Security

M Securities is pleased that FINRA has concluded that the CARDS proposal will not require the submission of information that would identify to FINRA the individual account owner, particularly, account name, account address or tax identification number (“personal information”). However, the exclusion of personal information does not alleviate data security and privacy concerns because CARDS will contain account numbers, which can be matched to personal information at the firm level. FINRA will effectively have an investor’s entire financial snapshot consolidated in one central system, making it an extremely attractive target for hackers and fraudsters.

Nonetheless, due to the high security and data privacy risks, FINRA should make clear and ensure through written agreements with the firms and appropriate disclosures that, in the event of a data security breach or any such compromise of data, FINRA will indemnify the firms (both clearing and introducing) for any liability incurred as a result.

III. Data Standardization

The lack of standardization across firms will present significant challenges to FINRA and the firms and will take costly resources to address. Further, while current books and records requirements do not require firms to maintain information in any particular format, CARDS appears to substantially alter this situation by requiring data in a standardized, electronic format in order to be transmitted to FINRA.

IV. Alternative Method

M Securities believes CARDS, as currently proposed, will increase, not reduce, the current costs and burdens to firms of overlapping regulatory systems, defeating one of the main objectives of CARDS. As outlined by FINRA, CARDS has been designed as an exception reporting tool to perform what we believe is a core front-line supervisory function of firms – reviewing and analyzing account-related activities to identify potential red flags of sales practice misconduct and other regulatory issues. M Securities proposes as an alternative that FINRA should make the CARDS software available on a decentralized basis to all firms to operate under their own implementation and control. Under this approach, each firm could use CARDS and provide periodic reports to FINRA regarding what problems the firm uncovered and what actions were taken by the firm to resolve such problems.

Under a decentralized approach, firms could utilize CARDS (in conjunction with their clearing firms) with the perspective of their own unique needs and business models and then allocate firm resources to the areas of the firm (e.g., registered representatives, branches) that CARDS identifies as in need of additional training and supervision. Firms are in a better position than FINRA to recognize and eliminate false positives, sort trivial infractions from substantive ones and provide the quickest and most efficient

response to actual problems. Further, providing CARDS to firms could be particularly beneficial for smaller firms that cannot afford to design and build such a system to aid their supervisory and compliance efforts. Finally, this alternative use of CARDS would eliminate the well-founded concerns of firms with respect to the security and data privacy risks of CARDS as proposed by FINRA.

While we assume FINRA may reserve the right to impose the requirement of a direct CARDS data feed for firms that are consistently problematic, we believe FINRA should abandon its premise that the homogeneous imposition of what amounts to a massive exception reporting system is automatically in the best interests of the firms and the best use of FINRA personnel.

V. Questions for Comment

M Securities appreciates the opportunity to provide comments in response to FINRA's regulatory notice and would welcome an opportunity to provide additional comments in the future as FINRA considers this important matter.

Sincerely,



Carrie L. Fleisher
Vice President
Chief Risk & Compliance Officer