



Electronic Transaction Clearing, Inc.
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March 21, 2014

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

Transmitted electronically to pubcom@finra.org

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

Dear Ms. Asquith,

Electronic Transaction Clearing appreciates the opportunity to comment on the broad reaching CARDS proposal presented in Regulatory Notice 13-42. Our business has been built on a foundation of safe and efficient transfer of electronic data. As such, we believe it is imperative that we express our concerns regarding the CARDS proposal.

We harbor real concerns regarding the proposal for reasons of data security and for business reasons.

We believe that the the implementation of a system that would require the transmission of non-public data from introducing firms of greatly varying levels of sophistication, upstream to a clearing firm is in and of itself problematic. Considering that new and additional data will be included in the transmissions, we believe that new threats to the underlying data would be significant. Presently, much of the data that FINRA seeks is contained in separate and unique systems, a natural mean of preventing massive intrusions by external parties. Transmitted from this environment to one where large blocks of data are available, is inherently risky. Considering that 92% of intrusions are caused by external sources,¹ it is imperative that existing safeguards are not compromised for the sake of the regulators. We are not convinced that the risk-reward equation has been fully vetted in this regard.

It is also important to note that the broker-dealers at which the data are currently retained are subject to federal and state requirements that include privacy and data protection, surveillance, internal controls and other means of oversight. Many of these measures serve to mitigate the threat of internal data breaches, to which some 14% of intrusions can be attributed.² Unless and until FINRA employees are subject to the same level of oversight, including disclosure and ongoing review of personal investments, email and social media surveillance, and other measures, it seems unjustified to subject sensitive data to a environment where security measures are more relaxed than the environments from which the data originated. Again, in this regard, it does not appear to be prudent to subject non-public customer data to elevated risk for the sake of identifying an isolated scheme.

¹ 2013 Verizon Data Breach Investigations Report, page 5, 2013.

² Notably, the 14% attributable to internal sources is up more than 10% over the prior year report. 2013 Verizon Data Breach Investigations Report, page 5, 2013.

In part, FINRA justifies the proposal on the basis of timeliness and ease of data collection, noting that your current methods of reviewing customer information during onsite examination vary greatly from firm to firm based on the nature of business at each unique firm. Our opinion in this regard is twofold. First, we believe that your effort to collect on a recurring basis will not eliminate the burdensome nature of FINRA reviews but rather will simply transform what is currently a manageable necessity into a larger more expensive and recurring exercise for firms. Secondly, we believe that the only way that firms will be able to effectively manage the increased burden will be to tailor their data collection methods to conform to the common reporting scheme. This is not only impractical, but it is also substantially unfair. FINRA should be aware that many of its member broker-dealers collect unique data from their investors according to strategic and thoughtful ways through processes designed to best assess their customer suitability and investment needs. For many firms, the investor profiling in which they engage differentiates them from other firms. Any requirement that would force a firm to dilute its special sauce for the sake of accommodating a regulatory filing would have unfortunate results for investors.

Finally, while CARDS would consolidate data reporting from the clearing firm to FINRA in a routine and systematic manner, there is no guarantee to introducing broker-dealers that clearing firms will collect the underlying data with uniformity. To the extent that each clearing firm designs its own data collection methodologies and systems, it is likely that introducing firms will find themselves bound more forcefully to their clearer. This reality could impact introducing firms ability to remain flexible in meeting their obligations for best execution, cost maintenance, product variety, account reporting and other business and regulatory requirements.

In consideration of the concerns we have expressed, along with those expressed in numerous comment letters posted on FINRA's website, we respectfully request that FINRA suspend the implementation of CARDS until the issues of data security is effectively addressed.

Best regards,

//Lisa Roth//

Lisa Roth, Consultant

//Kevin Murphy//

Kevin Murphy, Chief Executive Officer