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United States Senate

WASHINGTON, DC 20510

COMMITTEES:
FINANCE
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February 24, 2015

Richard Ketchum
Chairman & CEO
FINRA
1735 K Street, N.W.
Washington, DC 20006

Dear Mr. Ketchum:

In September of 2014, the Financial Industry Regulatory Authority (FINRA) proposed a rule to create a new database requiring clearing firms and brokerage firms to submit customer-account information to FINRA on a monthly basis. Information collected and stored in the Comprehensive Automated Risk Data System (CARDS) would include transactions, holdings, account profile data, investor's time horizons, objectives, risk tolerance, and net worth. This big data proposal raises a number of concerns about investor privacy, data security, duplication of regulatory data collection, and the role of FINRA.

I have strong concerns with the collection of ever-increasing amounts of personal financial information by the government and quasi-governmental agencies. While some suggest that making the data anonymous can adequately address privacy concerns, a recent study by researchers at the Massachusetts Institute of Technology found that just the dates and locations of four purchases are enough to identify 90 percent of people in a data set of credit cards.

The comment letter from the American Civil Liberties Union regarding CARDS also raised three significant privacy concerns with the proposal. One, big data presents privacy risks that are different in scope and kind than the piecemeal collection in which FINRA currently engages. Two, simply removing personally identifiable information, while helpful, is not sufficient to resolve privacy concerns in a database of this scope and size. Three, the CARDS database could become a tool of government surveillance.

According to one investor survey done by the Harris poll, more than 70 percent of respondents aligned themselves with the statement that "the risks of FINRA's proposal outweigh the benefits, even if the data is kept anonymous, because it will create a new singular location that hackers and cyber terrorists can target, putting investors' account activity balances and money movements at risk." Nearly nine in ten investors cited that they trust financial professionals and their firms (rather than the government) the most to keep their personal financial information, statement balances, and transactions from being compromised.

Please provide answers to the following questions:

1. What is the problem with the current system in which broker dealers are monitored rather than customer accounts?
2. What is FINRA's statutory authority and limitations to create a new customer account database, determine the data fields, and mandate customer account information?
3. How many accounts will be monitored and how many pieces of data will be collected?
4. How will the new information be stored and protected?
5. When was the last independent review on FINRA's privacy and data security measures and has FINRA suffered any breaches of data?
6. Has FINRA detected any attempts to breach its systems and, if so, what is the frequency/number of attempts to gain unauthorized access to FINRA systems?
7. With whom will and can FINRA share this collected information?
8. What does FINRA do to ensure that those agencies or individuals use that information appropriately and store and protect it?
9. Will FINRA conduct a final cost-benefit analysis and allow for public comments?

Sincerely,

Mike Crapo

Mike Crapo
U.S. Senator