



VIA ELECTRONIC MAIL: rule-comments@sec.gov

July 27, 2020

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. SR-FINRA-2020-019 Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Temporarily Extend the Time to Complete Office Inspections Under FINRA Rule 3110 (Supervision)

Dear Secretary Countryman,

Cambridge Investment Research, Inc. (“Cambridge”) appreciates the opportunity to comment on the proposed rule change contemplated in SR-FINRA-2020-019 (the “Proposal”) that would amend The Financial Industry Regulatory Authority’s (“FINRA”) Rule 3110 (Supervision). We understand that this proposed rule change, in light of the outbreak of the coronavirus disease (“COVID-19”), would extend the time for completion of calendar year 2020 inspections to March 31, 2021.

Cambridge appreciates and supports FINRA’s proposal to extend the deadline for the completion of calendar year 2020 inspections to March 31, 2021. With the outbreak of COVID-19, firms like Cambridge have been presented with numerous challenges that impact a firm’s ability to meet its office inspection obligations under FINRA Rule 3110. The proposed extension of time for completion of these inspections provides limited relief for firms to attempt to meet their obligations under Rule 3110.

While Cambridge is appreciative of the deadline extension, we encourage FINRA to take a more aggressive approach and allow firms to conduct branch inspections remotely under Rule 3110. In the Proposal, FINRA noted that inspections must be performed on-site and that the proposed extension of time does not relieve firms from conducting on-site branch office and non-

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branch office inspections. In light of the continued challenges firms are facing due to the outbreak of COVID-19 and considering the technological capabilities of firms, Cambridge respectfully requests that FINRA amend Rule 3110 to permit firms to fulfill their branch inspection obligations through remote or “virtual” audits during the COVID-19 pandemic.

Further, Cambridge respectfully requests that FINRA amend Rule 3110 permanently to permit firms to complete remote inspections in the future if and when health and safety considerations or other public health matters lead to government imposed travel restrictions or business closures.

Cambridge understands and acknowledges the historical importance of on-site inspections. Prior to the prevalence of modern technology including laptops, mobile devices, video conferencing capabilities, electronic storage and electronic surveillance, on-site inspections were the only way firms could see and review activities occurring in branches. The advent of new and developing technology has enhanced the effectiveness of firm’s supervision and monitoring programs for branch offices and non-branch locations.

Fast forward to 2020, most firms conduct a majority of the branch inspection reviews electronically, prior to any on-site visit. As a result, physical on-site office and records inspections are of diminishing value or utility. Cambridge believes it would be most valuable if a firm could utilize a risk-based approach annually to determine which offices should receive an on-site inspection, rather than requiring all visits be on-site.

Cambridge is in favor of performing on-site inspections if possible utilizing a risk-based approach to determine which branches should be visited in person versus remotely or virtually; however, the ongoing outbreak of COVID-19 highlights the need for relief from on-site inspections, as well as the broader need for similar relief from on-site inspections in the years ahead in other situations in which the health and welfare of individuals are of concern or when unforeseen circumstances prevent a firm from completing an on-site inspection.

Cambridge is most concerned about the health and safety of our employees and financial professionals. With the tens of thousands of branch inspections conducted annually by FINRA member firms, a requirement for firms to send their employees or contractors on the road to inspect branch locations puts each of these groups at risk of exposure to COVID-19. Forcing anyone to travel to complete a branch inspection in order to maintain their job or to accept visitors in order for financial professionals to comply with firm procedures and FINRA regulations over concerns or objections to their health and safety is not good policy or public relations for firms or regulatory bodies.

Additionally, while many states had been lifting business and travel restrictions, as of the date of this comment letter, many states have re-implemented business restrictions and increased travel restrictions. For example, New York, New Jersey and Connecticut have now implemented

travel restrictions against visitors from over thirty states¹, including Iowa and Georgia where Cambridge has office locations that carry out branch inspections. Travel restrictions and periods of quarantine enacted by various state and local governments, are prohibiting travel and preventing on-site inspections in numerous locations, which may continue into the indefinite future.

Cambridge's request for FINRA to amend Rule 3110 to allow remote branch inspections into the future is necessary if other circumstances affect a firm's ability to conduct an on-site examination of an office. Future epidemics, pandemics, natural disasters, social unrest, or governmental restrictions may prevent a firm's personnel from traveling to an office or otherwise prevent an on-site office inspection.

The unpredictable nature of any of these circumstances may not allow a firm the opportunity to prepare for or reschedule an on-site examination of an office within the calendar year in which the inspection was to be completed. In these and other, similar, situations, it should be permissible for firms to conduct a remote inspection or virtual exam of an office. The technology available to firms today, including but not limited to electronic correspondence capabilities and the ability to conduct electronic visual meetings, allows firms to fulfill their inspection obligations under FINRA Rule 3110 without the requirement to be physically present on-site. Further, it would be beneficial for firms to have the ability to use a risk-based approach to determine which offices would receive an on-site visit each year.

On-site examinations provide limited value in today's digital environment and Cambridge supports conducting on-site examinations when possible. However, as outlined above, there are certain circumstances, including the current COVID-19 outbreak, which necessitate the ability for a firm to conduct a remote inspection to fulfill the firm's supervision requirements under FINRA Rule 3110. Cambridge supports the proposed extension of time to complete inspections for calendar year 2020, but respectfully requests that it be permissible for firms to conduct remote inspections during the current pandemic. Cambridge further respectfully requests FINRA amend Rule 3110 to allow for remote inspections or virtual audits on a go-forward basis.

Cambridge would be happy to discuss further any of the comments or recommendations outlined in this letter.

Respectfully submitted,

/s/

Seth A. Miller
General Counsel
Executive Vice President, Chief Risk Officer

¹ See <https://coronavirus.health.ny.gov/covid-19-travel-advisory>; <https://portal.ct.gov/Coronavirus/Travel>; and <https://covid19.nj.gov/faqs/nj-information/travel-information/which-states-are-on-the-travel-advisory-list-are-there-travel-restrictions-to-or-from-new-jersey>.