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VOICE OF INDEPENDENT
FINANCIAL SERVICES
FIRMS AND INDEPENDENT
FINANCIAL ADVISORS

VIA ELECTRONIC MAIL

November 23, 2022

Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: SEC Release No. 34-96191; File No. SR-FINRA-2022-019: Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change to Adopt Supplementary Material .19 (Residential Supervisory Location) under FINRA Rule 3110 (Supervision).

Dear Secretary:

On July 15, 2022, the Financial Industry Regulatory Authority, Inc. (FINRA) filed with the Securities and Exchange Commission (SEC or Commission) a proposed rule to establish the Residential Supervisory Location classification for private residences where lower risk activities are conducted.¹ On August 2, 2022, the SEC published this proposed rule change in the Federal Register for public comment (Notice).² The Financial Services Institute³ (FSI) took the opportunity to comment on this important issue.⁴ On September 14, 2022, FINRA consented to an extension of the time period in for the Commission to consider the proposed rule change to October 31, 2022.⁵ Subsequently, on October 31, 2022, FINRA responded to the comment letters received by the SEC in response to the Notice, including FSI's.⁶ The Commission then published this order to

¹ Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Adopt Supplementary Material .19 (Residential Supervisory Location) Under FINRA Rule 3110 (Supervision), available at <https://www.finra.org/sites/default/files/2022-07/sr-finra-2022-019.pdf>.

² Securities Exchange Act Release No. 95379 (July 27, 2022), 87 FR 47248 (August 2, 2022) (Notice of Filing of File No. SR-FINRA-2022-019), available at <https://www.finra.org/sites/default/files/2022-08/sr-finra-2022-019-federal-register-notice.pdf>.

³ The Financial Services Institute (FSI) is an advocacy association comprised of members from the independent financial services industry, and is the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. Since 2004, through advocacy, education and public awareness, FSI has been working to create a healthier regulatory environment for these members so they can provide affordable, objective financial advice to hard-working Main Street Americans.

⁴ See letter from David T. Bellaire, Executive Vice President & General Counsel, Financial Services Institute ("FSI") (August 23, 2022), available at <https://www.sec.gov/comments/sr-finra-2022-019/srfinra2022019-20137270-307824.pdf>.

⁵ See letter from Sarah Kwak, Associate General Counsel, FINRA, to Daniel Fisher, Branch Chief, Division of Trading and Markets, Commission, dated September 14, 2022.

⁶ See letter from Kosha Dalal, Vice President, FINRA, to Vanessa Countryman, Secretary, Commission, dated October 31, 2022 ("FINRA Response"), available at <https://www.finra.org/sites/default/files/2022-10/FINRA-2022-019-Response-to-Comments-10-31-2022.pdf>.

solicit comments on the proposed rule change and to institute proceedings to determine whether to approve or disapprove the proposed rule change.

In our prior comments, we supported the adoption of Residential Supervisory Locations (RSL) and offered targeted comments aimed at ensuring that the proposed rule aligns with FINRA's intended purpose; to modernize this rule to fit the way industry professionals now work while ensuring investor protection is preserved. In particular, our comments focused on two areas of the proposed rule: 1) encouraging review of the term "immediate family" (.19(a)(1)); and 2) the ineligible location criteria precluding designation as a Residential Supervisory Location where a designated supervisor has less than one year of direct supervisory experience with the member. (.19(b)(4)). In their responsive comments, FINRA noted it would consider providing "additional clarity" on the definition of "immediate family member"⁷ but declined to either remove or alter the[se] proposed criteria" requiring more than one year of supervisory experience with the firm to be designated a RSL.⁸ We appreciate FINRA's thoughtful responses in consideration of our comments.

Discussion

FSI appreciates the opportunity to provide additional brief comments in response to FINRA's proposed rule. Given FSI members' business model, our members have generally operated in a decentralized structure and were particularly well-positioned in advance of the pandemic to pivot and adapt supervisory functions and inspections to rely on technology and remote communications to enhance the effectiveness of their supervisory responsibilities. Many IBD firms, even prior to the pandemic, employed technology as part of supervision programs. For example, a considerable amount of pre-work was conducted prior to arriving at a physical location to perform an office inspection. The pandemic prompted IBD firms to optimize and expand on these already well-tested and proven technologies to enhance their supervision capabilities. As such, firm Supervisors were already effectively performing many essential tasks remotely.

FSI supports the adoption of the Residential Supervisory Location classification. We believe the proposed rule contains meaningful guardrails on how it will be applied and is targeted to address low-risk activities by Supervisors who are using secure networks and frequently all electronic processes to complete their work while operating in what is now a common place hybrid environment. We appreciate FINRA's review of its rules with an eye toward modernizing the rules to align with the way industry professionals, including Supervisors, now work. With advances in technology, centralized record keeping electronic systems, and significant changes in lifestyles and work habits, industry professionals have been effectively performing their work remotely during the pandemic and, in many cases, expect to continue working from home on at least a partial basis. We agree with FINRA's assessment that a decentralized, flexible, hybrid work model will likely endure, even as pandemic concerns moderate and therefore urge the SEC to approve the proposed rule.

⁷ *Id.* at 7.

⁸ *Id.* at 12.

Conclusion

FSI is committed to constructive engagement in the regulatory process and welcomes the opportunity to work with the SEC and FINRA on this and other regulatory efforts. Thank you for considering FSI's comments. Should you have any questions, please contact me at [REDACTED].

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. T. Bellaire". The signature is fluid and cursive, with a large initial "D" and "T" followed by "Bellaire".

David T. Bellaire, Esq.
Executive Vice President & General Counsel