

May 23, 2023

VIA ELECTRONIC MAIL (rule-comments@sec.gov)

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Proposed Rule Changes to Adopt Supplementary Material .18 (Remote Inspections Pilot Program) under FINRA Rule 3110 (Supervision); File No. SR-FINRA-2023-007

Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. appreciate the opportunity to provide comments in response to the Financial Industry Regulatory Authority Inc.'s (FINRA) File No. SR-FINRA-2023-007: Proposed Rule Change to Adopt Supplementary Material .18 (Remote Inspections Pilot Program) under FINRA Rule 3110 (Supervision) (the Proposal) to the Securities and Exchange Commission (SEC).

We genuinely appreciate the continued efforts that FINRA has put forth in crafting the Proposal for the financial services industry. In line with our initial comment letter dated September 6, 2022, we continue to support the Proposal to revisit the requirement for onsite inspections and to formalize a pilot program to build on the remote inspection procedures. Given the current state of hybrid work environments and the expiration of Rule 3110.17 at year-end, we hope for an adoption of the Proposal.

I. Support for the Proposal

The pandemic forced the industry into a largely remote, alternative work environment. With the advances in technology over the past decades, that transition was largely seamless. Firms have long been able to conduct comprehensive supervision of associated persons electronically, allowing for real-time virtual oversight of associated persons, regardless of where they are physically located. The transition to remote environments during the pandemic has shown associates that they can perform their job functions from anywhere and they are now demanding continued flexibility in their workplaces. The Proposal recognizes these changes, both in technological advances as well as the shift in workplace dynamics and their impact on the industry's obligations with respect to office inspections.

The many technological and cultural industry changes that have supported new workplace arrangements have demonstrated firms' abilities to oversee their business from down the hall, across town, or from alternative work locations. With the sunset of the temporary relief under FINRA Rule 3110.17 at year end, firms must either force associates back into offices, thereby risking loss of key talent, or greatly increase the number of locations which will require onsite inspection. The difficult labor market will make it challenging for firms to return to full-time travel for onsite inspections and nearly impossible for firms to add enough staff to reasonably undertake a substantial jump in the volume of required inspections. The

increased burden on existing staff puts firms at further risk of losing critical talent and being unable to meet regulatory inspection requirements.

Technological advances have long allowed firms to supervise their business electronically. Much of the testing for a branch inspection is conducted prior to any onsite visit. Electronic supervisory systems—including but not limited to those for trading activity and surveillance, review and retention of electronic communications, and other securities-related activities—allow for immediate access to data for inspections. Undisclosed outside business activities are now typically discovered through general internet searches, social media, and/or electronic communications reviews. Utilizing risk assessments, would enable firms to reduce onsite inspections and devote more resources to specialized inspections targeting higher risk areas. It will also allow firms to tailor their examination programs to attract and retain a broader candidate pool who may not be interested in, or able to, travel.

The past two years have shown that firms can successfully perform offsite inspections, which has been recognized by FINRA and have remained unchallenged by other regulators. In their own remote inspections, FINRA found no significant departures from pre-pandemic inspection results. In a sense, the entire industry has been in an active remote inspection pilot throughout the temporary relief period and, setting aside program enhancements, firms have also not seen any significant departures from prior onsite branch inspections results. The Proposal builds on that success by requiring firms to perform risk assessments supporting their decision to execute offsite inspections and provide FINRA and the SEC with specific data to perform an effectiveness assessment of the proposed pilot. We believe that the Proposal provides a reasonably designed pilot, without impact to investor protection, which will provide regulators the opportunity to adequately assess the pilot in a more structured manner. The success of the pilot should further inform the need to update guidance that has not been reflective of the technological advancements of the industry, as well as changes in the workforce itself.

We encourage the SEC to consider this Proposal in conjunction with the related proposal for Residential Supervisory Locations, given their interconnectivity, and approve both simultaneously. This joint review is imperative, as one of the core aspects of the pilot program is the segregation of the collected data by office type (OSJ, a non-supervisory branch office, or a non-branch location). Firms require clear guidance on whether a personal residence where supervisory activities are performed must be classified as an OSJ or a non-branch Residential Supervisory Location. This will also alleviate any potential for skewed results from the pilot.

II. Comments

We appreciate FINRA's endeavor to modernize its rules while still maintaining the most important aspect: investor protection. To keep pace with other industries in terms of competitiveness, the securities industry must entertain workforce flexibility or risk losing key talent and the ability to attract new associates. Performing functions and services from various alternative locations is not new and many industries employed such business models pre-pandemic. Technology and supervisory systems have evolved over the past decades to more readily accommodate diverse modes of work and interaction. Because of these advances and the successes firms have achieved over the past three years in a remote environment, we are supportive of moving from location-based requirements to a risk-based approach to

branch inspections. With the ability to utilize risk assessments in the determination of onsite versus remote inspections, firms can better align resources to higher risk areas.

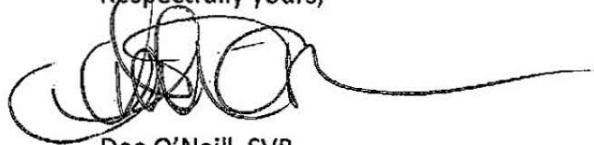
We also ask that consideration be given to other factors that may negate the need for an inspection. For instance, we believe the inspection requirements should be applicable only to those locations where associated persons are meeting with customers, where customer funds or securities are held, or any other location as determined by a firm's risk-based analysis. However, locations with permissively registered persons (such as Compliance, Legal, and HR), with non-sales clerical staff, and locations where only supervisory activities (e.g., account approval, trade review, and client communication review) are performed, do not carry the same risk of misconduct and/or customer harm as locations with client-facing associated persons. Therefore, we request that these location types be exempt from inspection requirements and recommend that this be a considered enhancement to FINRA Rule 3110.12.

Further, we ask that the SEC consider FINRA's Residential Supervisory Locations proposal in conjunction with this Proposal, as both have overlapping commonalities. We respectfully request that, if found to be reasonable, both proposals be approved either prior to or to coincide with the sunset of the temporary relief currently in effect. Additionally, we ask that firms be given additional clarity on the expectations in advance of the implementation date. If approvals are not granted in advance of the expiring current relief, we ask that the temporary relief granted under Regulatory Notice 20-08 be extended until such time as the SEC has reached a decision on the Proposal and has provided firms with sufficient notice to prepare for regulatory expectations.

III. Conclusion

We appreciate the opportunity to comment on the Proposal and again thank FINRA for its continued efforts in drafting the Remote Inspections Pilot Program. We believe our comments are in line with industry peers and we hope that the SEC will support the Proposal. We appreciate your consideration. Please feel free to contact us if you have questions or are in need of further information.

Respectfully yours,



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cc: Suzy Auletta, SVP/CCO, Raymond James Financial Services, Inc.
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