

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-96241; File No. SR-FINRA-2022-030)

November 4, 2022

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Extend Temporary Supplementary Material .17 (Temporary Relief to Allow Remote Inspections for Calendar Years 2020 and 2021, and Through December 31 of Calendar Year 2022) Under FINRA Rule 3110 (Supervision)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 31, 2022, the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. FINRA has designated the proposed rule change as constituting a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to extend temporary Supplementary Material .17 (Temporary Relief to Allow Remote Inspections for Calendar Years 2020 and 2021, and Through December 31 of Calendar Year 2022) under FINRA Rule 3110 (Supervision) to include calendar year 2023 inspection obligations through the earlier of the effective date of the pilot program proposed in

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 17 CFR 240.19b-4(f)(6).

File No. SR-FINRA-2022-021, if approved, or December 31, 2023 within the scope of the supplementary material.<sup>4</sup> The proposed extension of Rule 3110.17 would alleviate the ongoing operational challenges resulting from the COVID-19 pandemic that many member firms may continue to face in planning for and timely conducting the on-site inspection component of Rule 3110(c) (Internal Inspections) at locations requiring inspection in calendar year 2023.<sup>5</sup>

Below is the text of the proposed rule change. Proposed new language is in italics; proposed deletions are in brackets.

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3000. SUPERVISION AND RESPONSIBILITIES RELATING TO ASSOCIATED PERSONS

3100. SUPERVISORY RESPONSIBILITIES

3110. Supervision

(a) through (f) No Change.

••• Supplementary Material: -----

.01 through .16 No Change.

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<sup>4</sup> See infra note 15, and accompanying text for further discussion of the pilot program proposed in File No. SR-FINRA-2022-021. The proposed rule change will automatically sunset on the earlier of the effective date of SR-FINRA-2022-021, if approved, or December 31, 2023. FINRA will submit a separate rule filing if it seeks to extend the duration of the temporary proposed rule beyond December 31, 2023.

<sup>5</sup> SEC staff and FINRA have stated in guidance that inspections must include a physical, on-site review component. See SEC National Examination Risk Alert, Volume I, Issue 2 (November 30, 2011) and Regulatory Notice 11-54 (November 2011) (joint SEC and FINRA guidance stating, a “broker-dealer must conduct on-site inspections of each of its office locations; [OSJs] and non-OSJ branches that supervise non-branch locations at least annually, all non-supervising branch offices at least every three years; and non-branch offices periodically.”) (footnote defining an OSJ omitted). See also SEC Division of Market Regulation, Staff Legal Bulletin No. 17: Remote Office Supervision (March 19, 2004) (stating, in part, that broker-dealers that conduct business through geographically dispersed offices have not adequately discharged their supervisory obligations where there are no on-site routine or “for cause” inspections of those offices).

.17 Temporary Relief to Allow Remote Inspections for Calendar Years 2020, [and] 2021, 2022, and [Through December 31 of Calendar Year 2022]2023.

(a) Use of Remote Inspections. Each member obligated to conduct an inspection of an office of supervisory jurisdiction, branch office or non-branch location in the calendar years [2020, 2021 and 2022]specified in this supplementary material pursuant to, as applicable, paragraphs (c)(1)(A), (B) and (C) under Rule 3110 may, subject to the requirements of this Rule 3110.17, satisfy such obligation by conducting the applicable inspection remotely, without an on-site visit to the office or location. In accordance with Rule 3110.16, inspections for calendar year 2020 must be completed on or before March 31, 2021, [and] [i]Inspections for calendar year 2021 must be completed on or before December 31, 2021 and inspections for calendar year 2022 must be completed on or before December 31, 2022. With respect to a member's obligation to conduct an inspection of an office or location in calendar year [2022]2023, a member has the option to conduct those inspections remotely through the earlier of the effective date of the pilot program proposed in File No. SR-FINRA-2022-021, if approved, or December 31, [2022]2023. Notwithstanding Rule 3110.17, a member shall remain subject to the other requirements of Rule 3110(c).

(b) Written Supervisory Procedures for Remote Inspections. Consistent with a member's obligation under Rule 3110(b)(1), a member that elects to conduct its inspections remotely for any of the calendar years specified in this supplementary material must amend or supplement its written supervisory procedures to provide for remote inspections that are reasonably designed to assist in detecting and preventing violations of and achieving compliance with applicable securities laws and regulations, and with applicable FINRA rules. Reasonably designed procedures for conducting remote inspections of offices or locations should include,

among other things: (1) a description of the methodology, including technologies permitted by the member, that may be used to conduct remote inspections; and (2) the use of other risk-based systems employed generally by the member firm to identify and prioritize for review those areas that pose the greatest risk of potential violations of applicable securities laws and regulations, and of applicable FINRA rules.

(c) Effective Supervisory System. The requirement to conduct inspections of offices and locations is one part of the member's overall obligation to have an effective supervisory system and therefore, the member must continue with its ongoing review of the activities and functions occurring at all offices and locations, whether or not the member conducts inspections remotely. A member's use of a remote inspection of an office or location will be held to the same standards for review as set forth under Rule 3110.12. Where a member's remote inspection of an office or location identifies any indicators of irregularities or misconduct (i.e., "red flags"), the member may need to impose additional supervisory procedures for that office or location or may need to provide for more frequent monitoring of that office or location, including potentially a subsequent physical, on-site visit on an announced or unannounced basis when the member's operational difficulties associated with COVID-19 abate, nationally or locally as relevant, and the challenges a member is facing in light of the public health and safety concerns make such on-site visits feasible using reasonable best efforts. The temporary relief provided by this Rule 3110.17 does not extend to a member's inspection requirements beyond the earlier of the effective date of the pilot program proposed in File No. SR-FINRA-2022-021, if approved, or December 31, [2022]2023, and such inspections must be conducted in compliance with Rule 3110(c).

(d) Documentation Requirement. A member must maintain and preserve a centralized record for [each of calendar years 2020 and 2021]the calendar years specified in this supplementary material[, and for calendar year 2022 through December 31, 2022] that separately identifies: (1) all offices or locations that had inspections that were conducted remotely; and (2) any offices or locations for which the member determined to impose additional supervisory procedures or more frequent monitoring, as provided in Rule 3110.17(c). A member's documentation of the results of a remote inspection for an office or location must identify any additional supervisory procedures or more frequent monitoring for that office or location that were imposed as a result of the remote inspection.

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

In response to the COVID-19 global health crisis and the corresponding need to restrict in-person activities, FINRA provided temporary relief to member firms from certain regulatory requirements, including those set forth under Rule 3110. To help alleviate the attendant logistical challenges member firms were encountering to satisfy the on-site inspection

component of their Rule 3110(c) requirements, FINRA adopted Rule 3110.16 (Temporary Extension of Time to Complete Office Inspections) to extend the time by which member firms were required to complete their calendar year 2020 inspection obligations under Rule 3110(c) to March 31, 2021 with the expectation that the extension did not relieve firms from the on-site portion of the inspections of their offices and locations.<sup>6</sup> However, health and safety concerns remained unabated and with many restrictive measures still in place as calendar year 2020 was ending, FINRA adopted Rule 3110.17 to provide member firms the option, subject to specified requirements under the supplementary material, to complete remotely their calendar year inspection obligations without an on-site visit to the office or location.<sup>7</sup> This relief has been extended and currently, Rule 3110.17 is set to automatically sunset on December 31, 2022.<sup>8</sup>

Even though it has been more than two years since the World Health Organization declared COVID-19 a pandemic,<sup>9</sup> member firms' in-person staff requirements, which were first developed in response to COVID-19-related health concerns, have remained in flux. This

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<sup>6</sup> See Securities Exchange Act Release No. 89188 (June 30, 2020), 85 FR 40713 (July 7, 2020) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2020-019).

<sup>7</sup> See Securities Exchange Act Release No. 90454 (November 18, 2020), 85 FR 75097 (November 24, 2020) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2020-040).

<sup>8</sup> See Securities Exchange Act Release No. 93002 (September 15, 2021), 86 FR 52508 (September 21, 2021) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2021-023); and Securities Exchange Act Release No. 94018 (January 20, 2022), 87 FR 4072 (January 26, 2022) (Notice of Filing and Immediate Effectiveness of File No. SR-FINRA-2022-001).

<sup>9</sup> See Centers for Disease Control and Prevention ("CDC"), International Classification of Diseases, Tenth Revision, Clinical Modification, <https://www.cdc.gov/nchs/data/icd/Announcement-New-ICD-code-for-coronavirus-3-18-2020.pdf>. See also WHO Director-General, Opening Remarks at the Media Briefing on COVID-19 (March 11, 2020), <https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>.

reflects, in part, ongoing staff health concerns; according to the CDC, the number of new deaths from COVID-19 in the United States in September 2022 ranged from approximately 2,900 to 3,200 deaths per week,<sup>10</sup> and approximately 20 percent of counties in the United States have a medium or high COVID-19 Community Level based on the CDC's most recent calculations.<sup>11</sup> While CDC guidance on managing the risks related to COVID-19 has become more streamlined,<sup>12</sup> dissimilar vaccination rates through the U.S.<sup>13</sup> and the uncertainty about whether there will be a significant increase in the number of COVID-19 cases in light of the presence of COVID-19 variants, including Omicron and its lineages,<sup>14</sup> continues to raise staff health concerns, particularly with regard to inspections of their home activities.

As year 2022 is in its fourth quarter, firms need to establish their inspection schedules for calendar year 2023 and ensure there is adequate, experienced staff available to travel and conduct on-site inspections safely within the context of fluid work locations. This situation presents complexity for many firms in terms of planning and deploying resources. Even with

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<sup>10</sup> See CDC, COVID Data Tracker - Trends in Number of COVID-19 Cases and Deaths in the US Reported to CDC, by State/Territory, [https://covid.cdc.gov/covid-data-tracker/#trends\\_weeklydeaths\\_select\\_00](https://covid.cdc.gov/covid-data-tracker/#trends_weeklydeaths_select_00) (last visited October 27, 2022).

<sup>11</sup> See CDC, COVID Data Tracker - COVID-19 Integrated County View, [https://covid.cdc.gov/covid-data-tracker/#county-view?list\\_select\\_state=all\\_states&data-type=CommunityLevels](https://covid.cdc.gov/covid-data-tracker/#county-view?list_select_state=all_states&data-type=CommunityLevels) (last visited October 27, 2022).

<sup>12</sup> See generally CDC Press Release, CDC streamlines COVID-19 guidance to help the public better protect themselves and understand their risk, <https://www.cdc.gov/media/releases/2022/p0811-covid-guidance.html> (August 11, 2022).

<sup>13</sup> A state-by-state comparison of vaccination rates is available at [https://covid.cdc.gov/covid-data-tracker/#vaccinations\\_vacc-people-additionaldose-totalpop](https://covid.cdc.gov/covid-data-tracker/#vaccinations_vacc-people-additionaldose-totalpop).

<sup>14</sup> Variants of concern include BA.5, BA.4.6, and BQ.1.1, among others. See CDC, COVID Data Tracker – Variant Proportions, <https://covid.cdc.gov/covid-data-tracker/#variant-proportions> (last visited October 27, 2022).

increased availability of vaccines, FINRA understands that many firm personnel are still working at least part time from alternative work locations (e.g., private residences), while taking incremental steps to resume in-person activities in some fashion amid the current environment. With these considerations alone, FINRA believes there is a continued need for temporary relief beyond December 31, 2022.

FINRA has also filed with the Commission File No. SR-FINRA-2022-021, a proposed rule change to adopt a voluntary, remote inspections pilot program that is currently pending Commission review. The review period may extend well into 2023.<sup>15</sup> Given the potential length of that review period, and the pilot program’s significant planning requirements and varying limitations applicable to specific firms and office locations, FINRA believes that firms that intend to participate in the pilot program, if approved, will need a significant number of months to prepare appropriately for the pilot program. Moreover, further FINRA guidance may be needed to guide implementation in various circumstances.<sup>16</sup> Firms that are not eligible, or do not intend, to participate in the pilot program, if approved, will also need the time to make any operational adjustments to schedule and conduct the on-site component of their upcoming

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<sup>15</sup> On July 28, 2022, FINRA filed a proposed rule change to adopt proposed Supplementary Material .18 under Rule 3110 that would set forth the terms of a voluntary, three-year remote inspections pilot program to allow member firms to elect to fulfill their obligation under Rule 3110(c) by conducting inspections of some or all branch offices and locations remotely without an on-site visit to such office or location. See Securities Exchange Act Release No. 95452 (August 9, 2022), 87 FR 50144 (August 15, 2022) (Notice of Filing of File No. SR-FINRA-2022-021) (“Pilot Proposal”). The Pilot Proposal is currently pending Commission review and under Section 19(b)(2) of the Exchange Act, the last day for the Commission to issue an order of approval or disapproval of File No. SR-FINRA-2022-021 is April 12, 2023. See 15 U.S.C. 78s(b)(2).

<sup>16</sup> As part of the implementation of the remote inspections pilot program, FINRA intends to publish a Regulatory Notice or other guidance about the operational aspects of the pilot program.

inspections once Rule 3110.17 expires on the effective date of the pilot program, which could come before December 31, 2023. For these reasons, and to avoid overlapping provisions, under the proposed rule change herein, temporary Rule 3110.17 would expire on the earlier of the effective date of the pilot program proposed in File No. SR-FINRA-2022-021 or December 31, 2023.<sup>17</sup> If the Pilot Proposal is not approved, member firms should use the time provided in proposed Rule 3110.17 to prepare to fulfill their Rule 3110(c) obligations through on-site inspections of their offices and locations.<sup>18</sup>

In sum, proposed Rule 3110.17 would avoid a potential lapse in the temporary relief while challenges from COVID-19 persist, provide firms regulatory continuity in meeting their inspection obligations during the remaining Commission review period of the Pilot Proposal, and allow firms time to adapt to the pilot program, if approved, and prepare for conducting on-site inspections, as applicable.

FINRA is not proposing to amend the other conditions of the temporary rule. The current conditions of the supplementary material for firms that elect to conduct remote inspections would remain unchanged: such firms must amend or supplement their written supervisory procedures for remote inspections, use remote inspections as part of an effective supervisory system, and maintain the required documentation. FINRA continues to believe this temporary remote inspection option is a reasonable alternative to provide to firms to fulfill their Rule 3110(c) obligations under current conditions while the Commission considers the Pilot Proposal. This extension is designed to maintain the investor protection objectives of the inspection

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<sup>17</sup> Proposed Rule 3110.18 would expressly provide that if Rule 3110.17 has not already expired by its own terms, it would automatically sunset on the effective date of the pilot program. See Pilot Proposal.

<sup>18</sup> See note 5, *supra*.

requirements under these circumstances. Firms should consider whether, under their particular operating conditions, reliance on remote inspections would be reasonable under the circumstances. For example, firms with offices that are open to the public or that are otherwise doing business as usual should consider whether some in-person inspections would be feasible and add value to the firms' supervisory program.

FINRA has filed the proposed rule change for immediate effectiveness. FINRA is proposing to make the proposed rule change operative on January 1, 2023.

## 2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,<sup>19</sup> which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. In recognition of the ongoing impact of COVID-19 on performing the on-site inspection component of Rule 3110(c), the proposed rule change is intended to continue providing firms a temporary regulatory option to conduct inspections of offices and locations remotely during calendar year 2023. This temporary proposed supplementary material does not relieve firms from meeting the core regulatory obligation to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules that directly serve investor protection. With the ongoing staffing challenges resulting from the lingering COVID-19 pandemic, FINRA believes that the proposed rule change provides sensibly tailored relief, while continuing to serve and promote the protection of investors and the public interest. In addition, the extended time

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<sup>19</sup> 15 U.S.C. 78o-3(b)(6).

would give firms clarity around their Rule 3110(c) inspection obligations pending the Commission's review of the Pilot Proposal.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The potential economic impacts of Rule 3110.17 as described in File No. SR-FINRA-2020-040 continue to have applicability to the proposed rule change herein. The proposed rule change would extend the temporary relief that provides firms with the option to fulfill their inspection obligations remotely. The proposed extension would include calendar year 2023 inspection obligations through the earlier of the effective date of the pilot program proposed in File No. SR-FINRA-2022-021, if approved, or December 31, 2023 within the scope of the supplementary material without making substantive changes to the other aspects of the provision. In addition, the proposed temporary extension would avoid a potential lapse in temporary relief while the Pilot Proposal is pending Commission action. Further, the proposed extension would provide regulatory certainty while firms continue to manage health and safety concerns, work absences, and the transition to new workforce arrangements. FINRA believes that this limited extension in temporary relief, together with the requirements for using the temporary relief in Rule 3110.17, would not diminish investor protection.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition;

and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6) thereunder.<sup>21</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-FINRA-2022-030 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

All submissions should refer to File Number SR-FINRA-2022-030. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions.

You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2022-030 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

J. Matthew DeLesDernier,  
Deputy Secretary.

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<sup>22</sup> 17 CFR 200.30-3(a)(12).