

**Rule G-27: Supervision**

(a) - (g) No Change.

**Supplementary Material**

.01 - .03 No Change.

**.04 Residential Supervisory Locations****(a) Conditions for Designation as a Residential Supervisory Location.**

Notwithstanding any other provisions of section (g) of Rule G-27 and subject to paragraphs (b) through (d) of this Supplementary Material, a location that is the associated person's private residence where supervisory activities are conducted, as prescribed in paragraphs (g)(i)(D) through (G) or paragraph (g)(ii)(B) of Rule G-27, shall be considered for those activities a Residential Supervisory Location ("RSL") that is a non-branch location, provided that:

- (1) only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;
- (2) the location is not held out to the public as an office;
- (3) the associated person does not meet with customers or prospective customers at the location;
- (4) any sales activity that takes place at the location complies with the conditions set forth under subparagraphs (g)(ii)(A)(2) or (3) of Rule G-27;
- (5) neither customer funds nor securities are handled at that location;
- (6) the associated person is assigned to a designated branch office, in accordance with Rule G-27(g)(ii), on municipal branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
- (7) the associated person's correspondence and communications with the public are subject to the dealer's supervision in accordance with Rule G-27;
- (8) the associated person's electronic communications (e.g., e-mail) are made through the dealer's electronic system;
- (9) (A) the dealer must have a recordkeeping system to make, maintain, and preserve such records required to be made, maintained, and preserved under applicable securities laws and regulations, including applicable Board rules, and the dealer's own written supervisory procedures under Rule G-27;

(B) such records are not physically or electronically maintained and preserved at the office or location; and

(C) the dealer has prompt access to such records; and

(10) the dealer must determine that its surveillance and technology tools are appropriate to supervise the types of risks presented by each RSL. These tools may include but are not limited to:

(A) firm-wide tools such as electronic recordkeeping systems; electronic surveillance of e-mail and correspondence; electronic or other equally effective trade blotter review; regular activity-based sampling reviews; and tools for visual inspections;

(B) tools specific to carrying out supervision of such RSL based on the activities of associated persons assigned to the location, products offered, or restrictions on the activity of the RSL; and

(C) system tools such as secure network connections and effective cybersecurity protocols.

**(b) Dealer Ineligibility Criteria.** A dealer shall not be eligible to designate an office or location as an RSL, in accordance with this Supplementary Material, if the dealer (1) is not a member of a registered securities association or (2) fails to satisfy the prescribed requirements of such registered securities association relating to its member firms' eligibility for such RSL designation.

**(c) Location Ineligibility Criteria.** An office or location shall not be eligible for designation as an RSL in accordance with this Supplementary Material if one or more associated persons at such office or location:

(1) is a designated principal who has less than one year of direct supervisory experience with the dealer, or an affiliate or subsidiary of the dealer that is registered as a dealer or investment adviser;

(2) is functioning as a principal for a limited period in accordance with subparagraphs (b)(ii)(D), (b)(iv)(B)(4) or (c)(ii)(D) of Rule G-3;

(3) is subject to a mandatory heightened supervisory plan under the rules of a registered securities association, the Securities and Exchange Commission, or state regulatory agency;

(4) is statutorily disqualified as defined in Section 3(a)(39) of the Act, unless such disqualified person has been approved to associate with a dealer, without being subject to a mandatory heightened supervisory plan, by a registered securities association;

(5) has an event in the prior three years that required a “yes” response to any item contained in Questions 14A(1)(a) and 2(a), 14B(1)(a) and 2(a), 14C, 14D and 14E on Form U4 (Uniform Application for Securities Industry Registration or Transfer), or similar form by a registered securities association; or

(6) has been notified in writing that such associated person is now subject to any Investigation or Proceeding, as such terms are defined in the Explanation of Terms for the Form U4, by the Securities and Exchange Commission, a self-regulatory organization, or state securities commission (or agency or office performing like functions) (each, a “Regulator”) expressly alleging they have failed to reasonably supervise another person subject to their supervision, with a view to preventing the violation of any provision of the Securities Act, the Exchange Act, the Investment Advisers Act, the Investment Company Act, the Commodity Exchange Act, any state law pertaining to the regulation of securities or any rule or regulation under any of such Acts or laws, or any of the rules of the Board or other self-regulatory organization, including FINRA. Notwithstanding, such office or location may be designated or redesignated as an RSL subject to the requirements of this Supplementary Material upon the earlier of: (i) the dealer’s receipt of written notification from the applicable Regulator that such Investigation has concluded without further action; or (ii) one year from the date of the last communication from such Regulator relating to such Investigation.

**(d) Obligation to Provide RSL List to Registered Securities Association.** Each dealer that elects to designate any office or location of the dealer as an RSL pursuant to this Supplementary Material shall provide to the registered securities association of which it is a member a current list of all locations designated as RSLs by the 15th day of the month following each calendar quarter in the manner and format (e.g., through an electronic process or such other process) as required by such registered securities association.

**(e) Risk Assessment.** Subject to the requirements of this Supplementary Material, prior to designating an office or location as an RSL, the dealer must develop a reasonable risk-based approach to designating such office or location as an RSL, and conduct and document a risk assessment for the associated person(s) assigned to that office or location. The assessment must document the factors considered, including among others, whether each associated person at such office or location is now subject to:

- (1) customer complaints, taking into account the volume and nature of the complaints;
- (2) heightened supervision other than where such office or location is ineligible for RSL designation under paragraph (c)(3) of this Supplementary Material;
- (3) any failure to comply with the dealer’s written supervisory procedures;
- (4) any recordkeeping violations; and

(5) any regulatory communications from a Regulator indicating that the associated person at such office or location may have failed reasonably to supervise another person subject to their supervision, including but not limited to, subpoenas, preliminary or routine regulatory inquiries or requests for information, deficiency letters, “blue sheet” requests or other trading questionnaires, or examinations.

The dealer must take into account any higher risk activities that take place or a higher risk associated person that is assigned to that office or location. Consistent with its obligation under Rule G-27(b), the dealer’s supervisory system must take into consideration any indicators of irregularities or misconduct (i.e., “red flags”) when designating an office or location as an RSL.

Red flags should also be reviewed in determining whether it is reasonable to maintain the RSL designation of such office or location in accordance with the requirements of this Supplementary Material and the dealer should consider evidencing steps taken to address those red flags where appropriate.

\* \* \* \* \*