

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-101533; File No. SR-PEARL-2024-51)

November 7, 2024

Self-Regulatory Organizations; MIAX PEARL, LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Exchange Rule 2300 (Supervision)

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 1, 2024, MIAX PEARL, LLC (“MIAX Pearl” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. 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

The Exchange proposes to amend Exchange Rule 2300 (Supervision) with certain changes by the Financial Industry Regulatory Authority, Inc. (“FINRA”) to FINRA Rule 3110 to permit eligible Members<sup>3</sup> to participate in FINRA’s remote inspections program (“FINRA Pilot Program”) and to adopt FINRA’s Residential Supervisory Location (“RSL”) classification.

The text of the proposed rule change is available on the Exchange’s website at <https://www.miaxglobal.com/markets/us-equities/pearl-equities/rule-filings>, at MIAX Pearl’s principal office, and at the Commission’s Public Reference Room.

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

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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> The term “Member” herein refers to “Equity Member.” The term “Equity Member” is a Member authorized by the Exchange to transact business on MIAX Pearl Equities. See Exchange Rule 1901.

In its filing with the Commission, the Exchange 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. The Exchange 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

The Exchange proposes to harmonize Exchange Rule 2300 (Supervision) with certain changes by FINRA to FINRA Rule 3110 to permit eligible Members to participate in the FINRA Pilot Program and to adopt FINRA's RSL classification. The proposed rule change would harmonize the Exchange's office and other location inspection rules with those of FINRA and thus promote uniform inspection standards across the securities industry. Additionally, because proposed Interpretations and Policies .18 and .19 of Rule 2300 would be substantially similar to FINRA Rule 3110.18 and FINRA Rule 3110.19, respectively, this rule change enables Rule 2300 to continue to be incorporated into the agreement between the Exchange and FINRA to allocate regulatory responsibility for common rules (the "17d-2 Agreement").<sup>4</sup>

Background and Proposed Rule Change

Exchange Rule 2300 is based on FINRA Rule 3110<sup>5</sup> and requires Members to establish and maintain a system to supervise the activities of each associated person that is reasonably

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<sup>4</sup> See Securities Exchange Act Release No. 79929 (February 2, 2017), 82 FR 9757 (February 8, 2017). The 17d-2 Agreement includes a certification by the Exchange that states that the requirements contained in certain Exchange rules are identical to, or substantially similar to, certain FINRA rules that have been identified as comparable.

<sup>5</sup> See Securities Exchange Act Release No. 91303 (March 11, 2021), 86 FR 14659 (March 17, 2021) (SR-PEARL-2021-04).

designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules, and sets forth the minimum requirements for such supervisory system.<sup>6</sup> Under Exchange Rule 2300, final responsibility for proper supervision rests with the Member.

As part of an overall supervisory system, Members must conduct inspections of each of their offices or locations on a designated frequency depending on the classification of the location or the nature of the activities that take place: an office of supervisory jurisdiction (“OSJ”) and supervisory branch offices must be inspected at least annually;<sup>7</sup> non-supervisory branch offices, at least every three years;<sup>8</sup> and non-branch locations on a periodic schedule, presumed to be at least every three years.<sup>9</sup> Moreover, Members must retain a written record of the date upon which each review and inspection occurred, reduce a location’s inspection to a written report and keep each inspection report on file either for a minimum of three years or, if the location’s inspection schedule is longer than three years, until the next inspection report has been written.<sup>10</sup> If applicable to the location being inspected, the inspection report must include the testing and verification of the Member’s policies and procedures, including supervisory policies and procedures, in specified areas.<sup>11</sup> Finally, the rule requires a member to ensure that the person conducting the inspection is not an associated person assigned to the location or is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to

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<sup>6</sup> See Exchange Rule 2300(a).

<sup>7</sup> See Exchange Rule 2300(c)(1)(A).

<sup>8</sup> See Exchange Rule 2300(c)(1)(B).

<sup>9</sup> See Exchange Rule 2300(c)(1)(C) and Interpretations and Policies .13 of Exchange Rule 2300 (General Presumption of Three-Year Limit for Periodic Inspection Schedules).

<sup>10</sup> See Exchange Rule 2300(c)(2).

<sup>11</sup> See Exchange Rule 2300(c)(2)(A).

the location.<sup>12</sup> The factors governing what constitutes a reasonable review are set out in Interpretations and Policies .12 of Exchange Rule 2300 (Standards for Reasonable Review).

In 2023, recognizing how operations and business models within the financial services industry have evolved with changes in technology that were accelerated by the COVID-19 pandemic, including in particular the implementation by a large number of firms of a hybrid work environment during the public health crisis, FINRA adopted two amendments to FINRA Rule 3110. First, FINRA established a voluntary, three-year remote inspections pilot program to allow eligible members to fulfill their FINRA Rule 3110(c)(1) inspection obligation of qualified branch offices, including OSJs and non-branch locations remotely, without an on-site visit to such offices or locations subject to certain conditions and criteria.<sup>13</sup> The FINRA Pilot Program is set forth in Supplementary Material .18 of FINRA Rule 3110. Second, FINRA adopted new Supplementary Material .19 to FINRA Rule 3110 that treats an associated person's private residence where specified supervisory activities are conducted, subject to certain safeguards and limitations, as a non-branch location (i.e., unregistered office). As a non-branch location under FINRA Rule 3110(c), the RSL would be subject to inspections on a regular periodic schedule instead of the annual inspection currently required for every OSJ and supervisory branch offices.<sup>14</sup>

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<sup>12</sup> See Exchange Rule 2300(c)(3)(B).

<sup>13</sup> See Securities Exchange Act Release No. 98982 (November 17, 2023), 88 FR 82464 (November 24, 2023) (File No. SR-FINRA-2023-007) (Order Approving a Proposed Rule Change To Adopt Supplementary Material .18 (Remote Inspections Pilot Program) Under FINRA Rule 3110 (Supervision)). Pursuant to FINRA Rule 3110.18(m), on the sunset of Rule 3110.18, if FINRA Rule 3110.18 has not already expired by its own terms, FINRA Rule 3110.18 will automatically sunset on June 30, 2024.

<sup>14</sup> See Securities Exchange Act Release No. 98980 (November 17, 2023), 88 FR 82447 (November 24, 2023) (File No. SR-FINRA-2023-006) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment Nos. 1 and 2, To Adopt Supplementary Material .19 (Residential Supervisory Location) Under FINRA Rule 3110 (Supervision)).

The Exchange proposes to incorporate each of these amendments into Exchange Rule 2300, as follows.

**Interpretations and Policies .18 of Exchange Rule 2300<sup>15</sup>**

The Exchange proposes, consistent with current FINRA Rule 3110, Supplementary Material .18, to adopt new Interpretations and Policies .18 of Exchange Rule 2300 in order to provide eligible Members that are also FINRA members<sup>16</sup> with the flexibility to opt into the FINRA Pilot Program, consisting of a voluntary, three-year remote inspections pilot program to fulfill their office inspection obligations under Exchange Rule 2300(c) by conducting inspections of eligible OSJs, branch offices, and non-branch locations remotely without an on-site visit to such locations, subject to certain conditions and criteria. The requirements in connection with the participation in the FINRA Pilot Program under proposed Interpretations and Policies .18 of Exchange Rule 2300 would mirror in all material respects the requirements with respect to a FINRA member's participation under FINRA rules in the FINRA Pilot Program. Members opting into the FINRA Pilot Program would do so pursuant to the provisions of proposed Interpretations and Policies .18 of Exchange Rule 2300 and through the mechanisms and processes established by FINRA in connection with the FINRA Pilot Program. The proposed rule change also re-orders and streamlines some of the provisions of FINRA Rule 3110.18, as described below.

**Proposed Interpretations and Policies .18(a) of Exchange Rule 2300 (Scope)**

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<sup>15</sup> The Exchange would add new Interpretations and Policies .15, .16, and .17 marked "Reserved" in order to maintain consistency with FINRA.

<sup>16</sup> Currently, all Exchange Members with one exception are also FINRA members.

Proposed Interpretations and Policies .18(a) of Exchange Rule 2300 would establish the standards by which a Member that is also a FINRA member may participate in the FINRA Pilot Program.

Proposed Interpretations and Policies .18(a) of Exchange Rule 2300 would permit Members to avail themselves of the FINRA Pilot Program for the required inspection of OSJs, branch offices and non-branch locations pursuant to, as applicable, paragraphs (c)(1)(A), (B) and (C) of Rule 2300 for a period starting on the effective date of the proposed rule filing and expiring on June 30, 2027. If FINRA extends the pilot program and the proposed Interpretations and Policies .18 is not amended to allow continued participation by Members in the FINRA Pilot Program, Members would not be able to participate in the FINRA Pilot Program after the prescribed provisions under the proposed Interpretations and Policies .18 sunset.

With the exception of conforming and technical changes,<sup>17</sup> proposed Interpretations and Policies .18(a) of Exchange Rule 2300 is substantially the same as FINRA Rule 3110.18(a).

Proposed Interpretations and Policies .18(b) of Exchange Rule 2300 (Risk Assessment)

Proposed Interpretations and Policies .18(b) of Exchange Rule 2300 governing risk assessment would outline the need for Members to undertake a risk assessment in order to participate in the FINRA Pilot Program.

Proposed Interpretations and Policies .18(b) of Exchange Rule 2300 would set forth the applicable standard for review and would provide that a Member could elect to conduct the applicable inspection remotely, without an on-site visit for an office or location, when such Member reasonably determines that the purposes of the Interpretations and Policies .18 can be

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<sup>17</sup> Where the Exchange states herein that only conforming and technical changes have been made, the Exchange is referring to instances in which it changed FINRA's "member" to the Exchange's equivalent "Member;" changed cross-references to FINRA rules to cross-references to Exchange rules unless there was no equivalent Exchange rule; and made other non-substantive technical or grammatical changes.

accomplished by conducting such required inspection remotely. The Member would be required to develop a reasonable risk-based approach to using remote inspections and conduct and document a risk assessment for an office or location prior to conducting a remote inspection. The risk assessment must document the factors considered, including, among other things, the factors set forth in current Rule Interpretations and Policies .12 of Exchange Rule 2300 such as a firm's size, organizational structure, scope of business activities, number and location of the firm's offices, the nature and complexity of the products and services offered by the firm, the volume of business done, the number of associated persons assigned to a location, the disciplinary history of registered representatives or associated persons, and any indicators of irregularities or misconduct (i.e., "red flags"), and must take into account any higher-risk activities that take place at, or higher-risk associated persons that are assigned to, that office or location. Additionally, proposed Interpretations and Policies .18(b)(1) of Exchange Rule 2300 would require a Member to conduct an on-site inspection on the required cycle for such offices or locations that are ineligible for remote office inspections because of not having met the firm or location level requirements under proposed Interpretations and Policies .18(f) or (g), respectively. Notwithstanding proposed Interpretations and Policies .18 of Exchange 2300, a Member would remain subject to the other requirements of Rule 2300(c).

Proposed Interpretations and Policies .18(b)(2) would address other risk assessment factors and would provide that when conducting the risk assessment of each office or location in accordance with proposed paragraph (b)(1) of Interpretations and Policies .18, a Member must consider, among other things, the following factors with respect to an office or location in making its risk assessment for remotely inspecting an office or location:

- the volume and nature of customer complaints;<sup>18</sup>
- the volume and nature of outside business activities, particularly investment-related;<sup>19</sup>
- the volume and complexity of products offered;<sup>20</sup>
- the nature of the customer base, including vulnerable adult investors;<sup>21</sup>
- whether associated persons are subject to heightened supervision;<sup>22</sup>
- failures by associated persons to comply with the Member's written supervisory procedures;<sup>23</sup> and
- any recordkeeping violations.<sup>24</sup>

Further, proposed Interpretations and Policies .18(b)(2) would prescribe that Members should conduct on-site inspections or make more frequent use of unannounced, on-site inspections for high-risk offices or locations or when there are red flags, and supervisory systems must take into consideration any red flags when determining whether to conduct a remote inspection of an office or location, consistent with Exchange Rule 2300(a).

With the exception of conforming and technical changes, proposed Interpretations and Policies .18(b) is substantially the same as FINRA Rule 3110.18(b).

Proposed Interpretations and Policies .18(c) of Exchange Rule 2300 (Written Supervisory Procedures for Remote Inspections)

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<sup>18</sup> See proposed Interpretations and Policies .18(b)(2)(A), mirroring FINRA Rule 3110.18(b)(2)(A).

<sup>19</sup> See proposed Interpretations and Policies .18(b)(2)(B), mirroring FINRA Rule 3110.18(b)(2)(B).

<sup>20</sup> See proposed Interpretations and Policies .18(b)(2)(C), mirroring FINRA Rule 3110.18(b)(2)(C).

<sup>21</sup> See proposed Interpretations and Policies .18(b)(2)(D), mirroring FINRA Rule 3110.18(b)(2)(D).

<sup>22</sup> See proposed Interpretations and Policies .18(b)(2)(E), mirroring FINRA Rule 3110.18(b)(2)(E).

<sup>23</sup> See proposed Interpretations and Policies .18(b)(2)(F), mirroring FINRA Rule 3110.18(b)(2)(F).

<sup>24</sup> See proposed Interpretations and Policies .18(b)(2)(G), mirroring FINRA Rule 3110.18(b)(2)(G).



Proposed Interpretations and Policies .18(c) would provide that, consistent with a Member's obligation under Exchange Rule 2300(b), a Member that elects to participate in the FINRA Pilot Program must establish, maintain, and enforce written supervisory procedures regarding remote inspections that are reasonably designed to detect and prevent violations of and achieve compliance with applicable securities laws and regulations, and with applicable FINRA and Exchange rules.

As proposed, reasonably designed procedures for conducting remote inspections of offices or locations must address, among other things:

- the methodology, including technology, that may be used to conduct remote inspections;<sup>25</sup>
- the factors considered in the risk assessment made for each applicable office or location pursuant to paragraph (b) of these Interpretations and Policies .18;<sup>26</sup>
- the procedures specified in paragraph (h)(1)(G) and (h)(4) of FINRA Rule 3310.18;<sup>27</sup> and
- the use of other risk-based systems employed generally by the Member 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 and Exchange rules.<sup>28</sup>

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<sup>25</sup> See proposed Interpretations and Policies .18(c)(1), mirroring FINRA Rule 3110.18(c)(1).

<sup>26</sup> See proposed Interpretations and Policies .18(c)(2), mirroring FINRA Rule 3110.18(c)(2).

<sup>27</sup> See proposed Interpretations and Policies .18(c)(3), mirroring FINRA Rule 3110.18(c)(3).

<sup>28</sup> See proposed Interpretations and Policies .18(c)(4), mirroring FINRA Rule 3110.18(c)(4).

With the exception of conforming and technical changes and the addition of a reference to Exchange rules in proposed Interpretations and Policies .18(c)(4), proposed Interpretations and Policies .18(c) of Exchange Rule 2300 is substantially the same as FINRA Rule 3110.18(c).

Proposed Interpretations and Policies .18(d) of Exchange Rule 2300 (Effective Supervisory System)

Proposed Interpretations and Policies .18(d) would provide that 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 maintain its ongoing review of the activities and functions occurring at all offices and locations, whether or not the Member conducts inspections remotely.

Further, 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 Interpretations and Policies .12 of Exchange Rule 2300. Where a Member's remote inspection of an office or location identifies any "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 on-site visit on an announced or unannounced basis.

With the exception of conforming and technical changes, proposed Interpretations and Policies .18(d) is substantially the same as FINRA Rule 3110.18(d).

Proposed Interpretations and Policies .18(e) of Exchange Rule 2300 (Documentation Requirement)

Proposed Interpretations and Policies .18(e) would set forth documentation requirements for a Member's participating in the FINRA Pilot Program. In particular, Interpretations and Policies .18(e) would require Members to maintain and preserve a centralized record for each of the Pilot Years specified in this FINRA Pilot Program that separately identifies all offices or

locations that were inspected remotely.<sup>29</sup> In addition, proposed Interpretations and Policies .18(e) would require documentation of the results of a remote inspection for any offices or locations for which the Member determined to impose additional supervisory procedures or more frequent monitoring, as provided in proposed Interpretations and Policies .18(d). Further, 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, including whether an on-site inspection was conducted at such office or location.<sup>30</sup>

With the exception of conforming and technical changes, proposed Interpretations and Policies .18(e) is substantially the same as FINRA Rule 3110.18(e).

Proposed Interpretations and Policies .18(f) of Exchange Rule 2300 (Firm Level Requirements)

Proposed Interpretations and Policies .18(f)(1) would set forth certain firm level ineligibility conditions for further participation in the FINRA Pilot Program. As proposed, a Member would be ineligible to conduct remote inspections of any of its offices or locations under the FINRA Pilot Program if at any time during the Pilot Period that Member:

- is or becomes designated as a Restricted Firm under FINRA Rule 4111;<sup>31</sup>
- is or become designated a taping firm under FINRA Rule 3170;<sup>32</sup>

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<sup>29</sup> See proposed Interpretations and Policies .18(e)(1), mirroring FINRA Rule 3110.18(e)(1).

<sup>30</sup> See proposed Interpretations and Policies .18(e)(2), mirroring FINRA Rule 3110.18(e)(2).

<sup>31</sup> See proposed Interpretations and Policies .18(f)(1)(A), mirroring FINRA Rule 3110.18(f)(1)(A). The Exchange has not adopted FINRA Rule 4111.

<sup>32</sup> See proposed Interpretations and Policies .18(f)(1)(B), mirroring FINRA Rule 3110.18(f)(1)(B). The Exchange has not adopted FINRA Rule 3170.

- receives a notice pursuant to FINRA Rule 9557 regarding capital compliance related matters under FINRA Rules 4110 (Capital Compliance), FINRA 4120 (Regulatory Notification and Business Curtailment) or FINRA Rule 4130 (Regulation of Activities of Section 15C Members Experiencing Financial and/or Operational Difficulties);<sup>33</sup>
- is or becomes suspended from Exchange or FINRA membership;<sup>34</sup>
- based on the date in the Central Registration Depository (CRD), had its FINRA membership become effective within the prior 12 months;<sup>35</sup> or
- is or has been found by the Securities and Exchange Commission (“the Commission”), FINRA or the Exchange to be in violation of office inspection obligations under FINRA or Exchange Rule 2300(c) within the past three years.<sup>36</sup>

Proposed Interpretations and Policies .18(f)(2) would set forth the firm-level conditions a Member must satisfy as part of the requirements in Interpretations and Policies .18(b) to develop a reasonably designed risk-based approach to using remote inspections and to conduct and document a risk assessment for each office or location. Specifically, Members must have a recordkeeping system:

- to make and keep current, and preserve records required to be made and kept current, and preserved under applicable securities laws and regulations, Exchange

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<sup>33</sup> See proposed Interpretations and Policies .18(f)(1)(C), mirroring FINRA Rule 3110.18(f)(1)(C). The Exchange has not adopted FINRA Rule 9557, 4110, 4120, or 4130.

<sup>34</sup> See proposed Interpretations and Policies .18(f)(1)(D), mirroring FINRA Rule 3110.18(f)(1)(D).

<sup>35</sup> See proposed Interpretations and Policies .18(f)(1)(E), mirroring FINRA Rule 3110.18(f)(1)(E).

<sup>36</sup> See proposed Interpretations and Policies .18(f)(1)(F), mirroring FINRA Rule 3110.18(f)(1)(F).

rules, and the Member's own written supervisory procedures under Exchange Rule 2300;<sup>37</sup>

- such records are not physically or electronically maintained and preserved at the office or location subject to the remote inspection;<sup>38</sup> and
- the Member has prompt access to such records.<sup>39</sup>

In addition, Members must determine that the surveillance and technology tools are appropriate to supervise the types of risks presented by each such remotely supervised office or location. As proposed, these tools may include but are not limited to:

- firm-wide tools such as electronic recordkeeping systems; electronic surveillance of e-mail and correspondence; electronic trade blotters; regular activity-based sampling reviews; and tools for visual inspections;<sup>40</sup>
- tools specifically applied to such office or location based on the activities of associated persons, products offered, restrictions on the activity of the office or location (including holding out to customers and handling of customer funds or securities);<sup>41</sup> and
- system security tools such as secure network connections and effective cybersecurity protocols.<sup>42</sup>

With the exception of conforming and technical changes and the addition of a reference to Exchange rules in proposed Interpretations and Policies .18(f)(2)(A)(i), proposed

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<sup>37</sup> See proposed Interpretations and Policies .18(f)(2)(A)(i), mirroring FINRA Rule 3110.18(f)(2)(A)(i).

<sup>38</sup> See proposed Interpretations and Policies .18(f)(2)(A)(ii), mirroring FINRA Rule 3110.18(f)(2)(A)(ii).

<sup>39</sup> See proposed Interpretations and Policies .18(f)(2)(A)(iii), mirroring FINRA Rule 3110.18(f)(2)(A)(iii).

<sup>40</sup> See proposed Interpretations and Policies .18(f)(2)(B)(i), mirroring FINRA Rule 3110.18(f)(2)(B)(i).

<sup>41</sup> See proposed Interpretations and Policies .18(f)(2)(B)(ii), mirroring FINRA Rule 3110.18(f)(2)(B)(ii).

<sup>42</sup> See proposed Interpretations and Policies .18(f)(2)(B)(iii), mirroring FINRA Rule 3110.18(f)(2)(B)(iii).

Interpretations and Policies .18(f)(1) and (2) are substantially the same as FINRA Rule 3110.18(f)(1) and (2).

Proposed Interpretations and Policies .18(g) of Exchange Rule 2300 (Location Level Requirements)

Proposed Interpretations and Policies .18(g) would set forth the criteria under the FINRA Pilot Program that would render a particular office or location ineligible for remote office inspection. As proposed, Interpretations and Policies .18(g)(1), offices or locations would be ineligible for a remote office inspection if at any time during the FINRA Pilot Period:

- one or more associated persons at such office or location is or becomes subject to a mandatory heightened supervisory plan under the rules of the SEC, FINRA, the Exchange or a state regulatory agency;<sup>43</sup>
- one or more associated persons at such office or location is or becomes statutorily disqualified, unless such disqualified person has been approved (or is otherwise permitted pursuant to FINRA or Exchange rules and the federal securities laws) to associate with a Member and is not subject to a mandatory heightened supervisory plan under paragraph (g)(1)(A) of Interpretations and Policies .18 or otherwise as a condition to approval or permission for such association;<sup>44</sup>
- the firm is or becomes subject to FINRA Rule 1017(a)(7) as a result of one or more associated persons at such office or location;<sup>45</sup>

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<sup>43</sup> See proposed Interpretations and Policies .18(g)(1)(A), mirroring FINRA Rule 3110.18(g)(1)(A).

<sup>44</sup> See proposed Interpretations and Policies .18(g)(1)(B), mirroring FINRA Rule 3110.18(g)(1)(B).

<sup>45</sup> See proposed Interpretations and Policies .18(g)(1)(C), mirroring FINRA Rule 3110.18(g)(1)(C).

- one or more associated persons at such office or location has an event in the prior three years that required a “yes” response to any item in Questions 14A(1)(a) and 2(a), 14B(1)(a) and 2(a), 14C, 14D and 14E on Form U4;<sup>46</sup>
- one or more associated persons at such office or location is or becomes subject to a disciplinary action taken by the Member that is or was reportable under FINRA Rule 4530(a)(2);<sup>47</sup>
- one or more associated persons at such office or location is engaged in proprietary trading, including the incidental crossing of customer orders, or the direct supervision of such activities;<sup>48</sup> or
- the office or location handles customer funds or securities.<sup>49</sup>

In addition, as part of the requirement to develop a reasonably designed risk-based approach to using remote inspections, and the requirement to conduct and document a risk assessment, proposed Interpretations and Policies .18(g)(2) would require that a specific office or location satisfy the following conditions to be eligible for remote inspections under the Pilot Program:

- electronic communications (e.g., e-mail) are made through the Member’s electronic system;<sup>50</sup>

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<sup>46</sup> See proposed Interpretations and Policies .18(g)(1)(D), mirroring FINRA Rule 3110.18(g)(1)(D).

<sup>47</sup> See proposed Interpretations and Policies .18(g)(1)(E), mirroring FINRA Rule 3110.18(g)(1)(E). The Exchange has not adopted FINRA Rule 4530.

<sup>48</sup> See proposed Interpretations and Policies .18(g)(1)(F), mirroring FINRA Rule 3110.18(g)(1)(F).

<sup>49</sup> See proposed Interpretations and Policies .18(g)(1)(G), mirroring FINRA Rule 3110.18(g)(1)(G).

<sup>50</sup> See proposed Interpretations and Policies .18(g)(2)(A), mirroring FINRA Rule 3110.18(g)(2)(A).

- the associated person's correspondence and communications with the public are subject to the firm's supervision in accordance with Exchange Rule 2300;<sup>51</sup> and
- no books or records of the Member required to be made and kept current, and preserved under applicable securities laws and regulations, FINRA and Exchange rules and the Member's own written supervisory procedures under Exchange Rule 2300 are physically or electronically maintained and preserved at such office or location.<sup>52</sup>

With the exception of conforming and technical changes and the inclusion of references to Exchange rules in proposed Interpretations and Policies .18(g)(2)(B) and (C), proposed Interpretations and Policies .18(g)(1) and (2) are substantially the same as FINRA Rule 3110.18(g)(1) and (2).

Proposed Interpretations and Policies .18(h) of Exchange Rule 2300 (Data and Information Collection Requirement)

FINRA Rule 3110.18(h) outlines requirements for FINRA members that elect to participate in the Pilot Program to collect specific data and information as part of the FINRA Pilot Program. Specifically, FINRA Rule 3110.18(h) requires firms to collect specific data points and to provide such data and information to FINRA on a quarterly basis, in the manner and format determined by FINRA, including:

- the number of offices and locations with an inspection completed during each calendar quarter;<sup>53</sup>

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<sup>51</sup> See proposed Interpretations and Policies .18(g)(2)(B), mirroring FINRA Rule 3110.18(g)(2)(B).

<sup>52</sup> See proposed Interpretations and Policies .18(g)(2)(C), mirroring FINRA Rule 3110.18(g)(2)(C).

<sup>53</sup> See FINRA Rule 3110.18(h)(1)(A).



- the number of those offices or locations in each calendar quarter that were inspected remotely;<sup>54</sup>
- the number of those offices or locations in each calendar quarter that were the subject of an on-site inspection, as well as the number of such inspections that were on-site because of a finding;<sup>55</sup>
- the number of offices and locations for which a remote office inspection was conducted in the calendar quarter that identified a finding, the number of findings, a list of the significant findings;<sup>56</sup> and
- the number of locations for which an on-site inspection was conducted in the calendar quarter that identified a finding, the number of findings, and a list of the significant findings.<sup>57</sup>

Moreover, FINRA members are required to provide FINRA with their written supervisory procedures for remote inspections that account for escalating significant findings; new hires; supervising brokers with a significant history of misconduct; and outside business activities and “doing business as” (or DBA) designations.<sup>58</sup> In addition, FINRA Rule 3110.18(h)(2) outlines requirements for FINRA member firms electing to participate in the Pilot Program to provide certain data and information for Pilot Year 1 if it is less than a full calendar year and FINRA Rule 3110.18(h)(3) lists additional data and information to be provided to

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<sup>54</sup> See FINRA Rule 3110.18(h)(1)(B).

<sup>55</sup> See FINRA Rule 3110.18(h)(1)(C) and (D). Pursuant to FINRA Rule 3110.18(h)(1), a finding means a discovery made during an inspection that led to a remedial action or was listed on the member’s inspection report.

<sup>56</sup> See FINRA Rule 3110.18(h)(1)(E).

<sup>57</sup> See FINRA Rule 3110.18(h)(1)(F).

<sup>58</sup> See FINRA Rule 3110.18(h)(1)(G).

FINRA for calendar year 2019 for member firms electing to participate in the FINRA Pilot Program.

Proposed Interpretations and Policies .18(h) on data and information collection requirement would require Members to comply with the FINRA requirements with respect to the collection and submission of specified data and information, and in the manner and format required under the Pilot Program. In addition, proposed Interpretations and Policies .18(h) which substantially mirrors FINRA Rule 3110.18(h)(4) would require Members that elect to participate in the Pilot Program to establish, maintain and enforce written policies and procedures that are reasonably designed to comply with any specified data and information collection, and transmission requirements prescribed by FINRA.

Proposed Interpretations and Policies .18(i) of Exchange Rule 2300 (Election to Participate in Pilot Program)

FINRA Rule 3110.18(i) specifies how a firm elects to participate in, or subsequently withdraws from, the FINRA Pilot Program. Specifically, FINRA Rule 3110.18(i) states that a firm must, at least five calendar days before the beginning of a Pilot Year, provide FINRA an “opt-in notice” in the manner and format determined by FINRA.<sup>59</sup> Moreover, FINRA Rule 3110.18(i) specifies that a FINRA member that elects to withdraw from subsequent Pilot Years (i.e., Pilot Year 2, Pilot Year 3, and Pilot Year 4, if applicable) shall, at least five calendar days before the end of the then current Pilot Year, provide FINRA with an “opt-out notice” in the manner and format determined by FINRA.

Proposed Interpretations and Policies .18(i) would govern elections to participate in the Pilot Program and would require Members electing to participate in the Pilot Program to make

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<sup>59</sup> FINRA Rule 3110.18(i) contains provisions for firms wishing to opt-in of the FINRA Pilot Program.

their election in the manner and format as prescribed, in accordance with FINRA Rule 3110.18(i). In addition, the proposed rule would require Members that elect to withdraw from the Pilot Program for subsequent years to provide such notice in the manner and format as prescribed in accordance with FINRA Rule 3110.18(i). These requirements will ensure that Members can properly elect to participate in, or subsequently withdraw from, the Pilot Program.

Proposed Interpretations and Policies .18(j) of Exchange Rule 2300 (Failure to Satisfy Conditions)

FINRA Rule 3110.18(j) governs failure to satisfy conditions and addresses situations in which a member fails to satisfy the requirements for participating in the FINRA Pilot Program. Specifically, FINRA Rule 3110.18(j) provides that FINRA members that fail to satisfy the conditions set forth to avail themselves of the FINRA Pilot Program, including the requirement to timely collect and submit the data and information to FINRA as set forth under FINRA Rule 3110.18(h), shall be ineligible to participate in the FINRA Pilot Program. Such FINRA members would be required to conduct on-site inspections of each office and location on the required cycle in accordance with FINRA Rule 3110(c) on internal inspections.

Consistent with FINRA Rule 3110.18(j), proposed Interpretations and Policies .18(j) on failure to satisfy conditions would specify that any Member that fails to satisfy the conditions of proposed Interpretations and Policies .18 and of FINRA Rule 3110.18, including the specified requirement to timely collect and submit data, would no longer be eligible to participate in the FINRA Pilot Program. Such Members would need to conduct on-site inspections of each office and location on the required cycle in accordance with Exchange Rule 2300(c).

Proposed Interpretations and Policies .18(k) (Determination of Ineligibility)

FINRA Rule 3110.18(k) governs determinations of ineligibility and provides that FINRA may make a determination in the public interest and for the protection of investors that a FINRA

member is no longer eligible to participate in the FINRA Pilot Program if the FINRA member fails to comply with the requirements of FINRA Rule 3110.18. In such instances, FINRA will provide written notice to the FINRA member of such determination and the member would no longer be eligible to participate in the FINRA Pilot Program and must conduct on-site inspections of required offices and locations in accordance with FINRA Rule 3110(c).

Consistent with FINRA Rule 3110.18(k), proposed Interpretations and Policies .18(k) would govern ineligibility determinations and provide that FINRA or the Exchange may make a determination in the public interest and for the protection of investors that a Member is no longer eligible to participate in the FINRA Pilot Program if the Member fails to comply with the requirements of FINRA or Interpretations and Policies .18 of Exchange Rule 2300. The proposed rule would further provide that, in such instances, FINRA or the Exchange will provide written notice to the Member of such determination and the Member would no longer be eligible to participate in the FINRA Pilot Program and must conduct on-site inspections of required offices and locations in accordance with FINRA or Exchange Rule 2300(c). With the exception of conforming and technical changes, proposed Interpretations and Policies .18(k) is substantially the same as FINRA Rule 3110.18(k).

Proposed Interpretations and Policies .18(l) of Exchange Rule 2300 (Definitions)

The Exchange proposes to adopt FINRA Rule 3110.18(l) setting forth definitions applicable to Interpretations and Policies .18 verbatim. As proposed, Interpretations and Policies .18(l) would provide that for purposes of Interpretations and Policies .18, the term “Pilot Year” shall mean the following:

- Pilot Year 1 is the period beginning on July 1, 2024 and ending on December 31 of the same year;

- Pilot Year 2 means the calendar year period following Pilot Year 1, beginning on January 1 and ending on December 31;
- Pilot Year 3 means the calendar year period following Pilot Year 2, beginning on January 1 and ending on December 31; and
- If applicable, where Pilot Year 1 covers a period that is less than a full calendar year, then Pilot Year 4 means the period following Pilot Year 3, beginning on January 1 and ending on June 30, 2027.

Finally, FINRA also adopted FINRA Rule 3110.18(m) describing the sunset of FINRA Rule 3110.17, which the Exchange has not adopted. The Exchange accordingly does not propose to incorporate a provision similar to FINRA Rule 3110.18(m).

### **Interpretations and Policies .19 of Exchange Rule 2300**

#### **Interpretations and Policies .19(a) of Exchange Rule 2300 (Conditions for Designation as a Residential Supervisory Location (RSL))**

FINRA Rule 3110.19(a) lists the conditions for FINRA members to designate an office or location as an RSL. Proposed Interpretations and Policies .19(a) would set forth the conditions for designation as an RSL that would mirror the conditions set forth in FINRA Rule 3110.19(a) for Members to designate a location that is the associated person's private residence where specified supervisory activities are conducted as an RSL.

As proposed, Interpretations and Policies .19 would provide that, notwithstanding any other provisions of Exchange Rule 2300(f) and subject to paragraphs (b) through (d) of the proposed Interpretations and Policies .19, a location that is the associated person's private residence where supervisory activities are conducted, including those described in Exchange Rule 2300(f)(1)(D) through (G) or in Exchange Rule 2300(f)(4), shall be considered for those activities a non-branch location, provided that:

- 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;<sup>60</sup>
- the location is not held out to the public as an office;<sup>61</sup>
- the associated person does not meet with customers or prospective customers at the location;<sup>62</sup>
- any sales activity that takes place at the location complies with the conditions set forth under Exchange Rule 2300(f)(2)(B) or (C);<sup>63</sup>
- neither customer funds nor securities are handled at that location;<sup>64</sup>
- the associated person is assigned to a designated 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;<sup>65</sup>
- the associated persons correspondence and communications with the public are subject to the firm's supervision in accordance with this Rule;<sup>66</sup>
- the associated persons electronic communications (e.g., e-mail) are made through the Member's electronic system;<sup>67</sup>

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<sup>60</sup> See proposed Interpretations and Policies .19(a)(1), mirroring FINRA Rule 3110.19(a)(1).

<sup>61</sup> See proposed Interpretations and Policies .19(a)(2), mirroring FINRA Rule 3110.19(a)(2).

<sup>62</sup> See proposed Interpretations and Policies .19(a)(3), mirroring FINRA Rule 3110.19(a)(3).

<sup>63</sup> See proposed Interpretations and Policies .19(a)(4), mirroring FINRA Rule 3110.19(a)(4).

<sup>64</sup> See proposed Interpretations and Policies .19(a)(5), mirroring FINRA Rule 3110.19(a)(5).

<sup>65</sup> See proposed Interpretations and Policies .19(a)(6), mirroring FINRA Rule 3110.19(a)(6).

<sup>66</sup> See proposed Interpretations and Policies .19(a)(7), mirroring FINRA Rule 3110.19(a)(7).

<sup>67</sup> See proposed Interpretations and Policies .19(a)(8), mirroring FINRA Rule 3110.19(a)(8).

- the Member must have a recordkeeping system to make and keep current, and preserve records required to be made and kept current, and preserved under applicable securities laws and regulations, Exchange rules, and the Member's own written supervisory procedures under Exchange Rule 2300; (B) such records are not physically or electronically maintained and preserved at the office or location; and (C) the Member has prompt access to such records;<sup>68</sup> and
- the Member must determine that its surveillance and technology tools are appropriate to supervise the types of risks presented by each Residential Supervisory Location, and these tools may include but are not limited to: (A) firm-wide tools such as, electronic recordkeeping system; electronic surveillance of e-mail and correspondence; electronic trade blotters; regular activity-based sampling reviews; and tools for visual inspections; (B) tools specific to the RSL based on the activities of associated person assigned to the location, products offered, restrictions on the activity of the RSL; and (C) system tools such as secure network connections and effective cybersecurity protocols.<sup>69</sup>

With the exception of conforming and technical changes, proposed Interpretations and Policies .19(a) is substantially the same as FINRA Rule 3110.19(a).

Interpretations and Policies .19(b) of Exchange Rule 2300 (Member Ineligibility Criteria)

FINRA Rule 3110.19(b) outlines the conditions that would render its members ineligible from designating an office as an RSL. As proposed, Interpretations and Policies .19(b) would

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<sup>68</sup> See proposed Interpretations and Policies .19(a)(9), mirroring FINRA Rule 3110.19(a)(9).

<sup>69</sup> See proposed Interpretations and Policies .19(a)(10), mirroring FINRA Rule 3110.19(a)(10).

mirror these criteria and provide that a Member is ineligible from designating an office or location as an RSL if the Member:

- is currently designated as a restricted firm under FINRA Rule 4111;<sup>70</sup>
- is currently designated as a taping firm under FINRA Rule 3170;<sup>71</sup>
- is currently undergoing, or is required to undergo, a review under FINRA Rule 1017(a)(7) as a result of one or more associated persons at such location;<sup>72</sup>
- receives a notice pursuant to FINRA Rule 9557, regarding capital compliance related matters under FINRA Rules 4110, 4120 and 4130, unless the Exchange has otherwise permitted such activities in writing pursuant to such rule;<sup>73</sup>
- is or becomes suspended by the Exchange or FINRA;<sup>74</sup>
- based on the date in the Central Registration Depository (CRD), had its FINRA membership become effective within the prior 12 months;<sup>75</sup> or
- is or has been found to be in violation of office inspection obligations under Exchange Rule 2300(c) or FINRA Rule 3110(c) within the past three years.<sup>76</sup>

With the exception of conforming and technical changes, proposed Interpretations and Policies .19(b) is substantially the same as FINRA Rule 3110.19(b).

Interpretations and Policies .19(c) of Exchange Rule 2300 (Location Ineligibility Criteria)

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<sup>70</sup> See proposed Interpretations and Policies .19(b)(1), mirroring FINRA Rule 3110.19(b)(1). The Exchange has not adopted FINRA Rule 4111.

<sup>71</sup> See proposed Interpretations and Policies .19(b)(2), mirroring FINRA Rule 3110.19(b)(2). The Exchange has not adopted FINRA Rule 3170.

<sup>72</sup> See proposed Interpretations and Policies .19(b)(3), mirroring FINRA Rule 3110.19(b)(3).

<sup>73</sup> See proposed Interpretations and Policies .19(b)(4), mirroring FINRA Rule 3110.19(b)(4). The Exchange has not adopted FINRA Rule 9557, 4110, 4120, or 4130.

<sup>74</sup> See proposed Interpretations and Policies .19(b)(5), mirroring FINRA Rule 3110.19(b)(5).

<sup>75</sup> See proposed Interpretations and Policies .19(b)(6), mirroring FINRA Rule 3110.19(b)(6).

<sup>76</sup> See proposed Interpretations and Policies .19(b)(7), mirroring FINRA Rule 3110.19(b)(7).



FINRA Rule 3110.19(c) sets forth the criteria that would render a particular office or location that is an associated person's private residence where specified supervisory activities are conducted ineligible for an RSL designation. Proposed Interpretations and Policies .19(c) would mirror these criteria. As proposed, Interpretations and Policies .19(c) would make an office ineligible for the RSL designation if one or more associated persons at such office or location:

- is a designated supervisor who has less than one year of direct supervisory experience with the Member, or an affiliate or subsidiary of the Member that is registered as a broker-dealer or investment adviser;<sup>77</sup>
- is functioning as a principal for a limited period in accordance with Interpretations and Policies .04 of Exchange Rule 3100;<sup>78</sup>
- is subject to a mandatory heightened supervisory plan under the rules of the SEC, FINRA, the Exchange or state regulatory agency;<sup>79</sup>
- is statutorily disqualified, unless such disqualified person has been approved (or is otherwise permitted pursuant to FINRA or Exchange rules and the federal securities laws) to associate with a Member and is not subject to a mandatory heightened supervisory plan under paragraph (c)(3) of Interpretations and Policies .19 or otherwise as a condition to approval or permission for such association;<sup>80</sup>

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<sup>77</sup> See proposed Interpretations and Policies .19(c)(1), mirroring FINRA Rule 3110.19(c)(1).

<sup>78</sup> See proposed Interpretations and Policies .19(c)(2), mirroring FINRA Rule 3110.19(c)(2).

<sup>79</sup> See proposed Interpretations and Policies .19(c)(3), mirroring FINRA Rule 3110.19(c)(3).

<sup>80</sup> See proposed Interpretations and Policies .19(c)(4), mirroring FINRA Rule 3110.19(c)(4).

- has an event in the prior three years that required a “yes” response to any item in Questions 14A(1)(a) and 2(a), 14B(1)(a) and 2(a), 14C, 14D and 14E on Form U4;<sup>81</sup> or
- 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 (Uniform Application for Securities Industry Registration or Transfer), by the SEC, a self-regulatory organization, including the Exchange, or state securities commission (or agency or office performing like functions) (each, a “Regulator”) expressly alleging they have failed reasonably to supervise another person subject to their supervision, with a view to preventing the violation of any provision of the Securities Act, the 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 Exchange or other self-regulatory organization, including the Exchange; provided, however, such office or location may be designated or redesignated as an RSL subject to the requirements of Interpretations and Policies .19 upon the earlier of: (i) the Member’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.<sup>82</sup>

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<sup>81</sup> See proposed Interpretations and Policies .19(c)(5), mirroring FINRA Rule 3110.19(c)(5).

<sup>82</sup> See proposed Interpretations and Policies .19(c)(6), mirroring FINRA Rule 3110.19(c)(6).

With the exception of conforming and technical changes, proposed Interpretations and Policies .19(c) is substantially the same as FINRA Rule 3110.19(c).

Interpretations and Policies .19(d) of Exchange Rule 2300 (Obligation to Provide List of RSLs)

Proposed Interpretations and Policies .19(d) setting forth the obligations to provide RSL list would fully mirror the provisions of FINRA Rule 3110.19(d) and would require Members electing to designate any office or location of that Member as an RSL to provide a current list of all offices or locations designated as RSLs by the 15th day of the month following each calendar quarter to FINRA in the manner and format as FINRA may prescribe.

With the exception of conforming and technical changes, proposed Interpretations and Policies .19(d) is substantially the same as FINRA Rule 3110.19(d).

Interpretations and Policies .19(e) of Exchange Rule 2300 (Risk Assessment)

FINRA Rule 3110.19(e) requires its members, prior to designating an office or location as an RSL, to 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 assigned to that office or location. Proposed Interpretations and Policies .19(e) would mirror the provisions of FINRA Rule 3110.19(e). Specifically, a Member would be required, prior to designating an office or location as an RSL, to 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. In line with FINRA Rule 3110.19(e), the proposed rule would list certain factors, among others, that Members must consider in the risk assessment that include whether each associated person at such office or location is subject to:

- customer complaints, taking into account the volume and nature of the complaints;<sup>83</sup>
- heightened supervision other than where such office or location is ineligible for RSL designation under paragraph (c)(3) of Interpretations and Policies .19;<sup>84</sup>
- any failure to comply with the Member’s written supervisory procedures;<sup>85</sup>
- any recordkeeping violation;<sup>86</sup> and
- any regulatory communications from a Regulator, indicating that the associated person at such office or location 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 Member 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 Exchange Rule 2300(a), the Member’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

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<sup>83</sup> See proposed Interpretations and Policies .19(e)(1), mirroring FINRA Rule 3110.19(e)(1).

<sup>84</sup> See proposed Interpretations and Policies .19(e)(2), mirroring FINRA Rule 3110.19(e)(2).

<sup>85</sup> See proposed Interpretations and Policies .19(e)(3), mirroring FINRA Rule 3110.19(e)(3).

<sup>86</sup> See proposed Interpretations and Policies .19(e)(4), mirroring FINRA Rule 3110.19(e)(4).

Interpretations and Policies .19 and the Member should consider evidencing steps taken to address those red flags where appropriate.<sup>87</sup>

With the exception of conforming and technical changes, proposed Interpretations and Policies .19(e) is substantially the same as FINRA Rule 3110.19(e).

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>88</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>89</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change furthers the objectives of the Act by permitting Members that are FINRA members to participate in the FINRA Pilot Program and for all Members to utilize the RSL designation in order to continue to meet the core regulatory obligation to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations and applicable Exchange rules that directly serve investor protection. The Exchange believes that the proposed changes, taken together, reasonably account for evolving work models while maintaining effective supervision. The Exchange believes that the proposed safeguards and controls built into both the remote inspection program and the RSL designation will, as FINRA noted,<sup>90</sup> provide Members with

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<sup>87</sup> See proposed Interpretations and Policies .19(e)(5), mirroring FINRA Rule 3110.19(e)(5).

<sup>88</sup> 15 U.S.C. 78f(b).

<sup>89</sup> 15 U.S.C. 78f(b)(5).

<sup>90</sup> See Securities Exchange Act Release No. 97398 (November 17, 2023), 88 FR 28620, 28635 (May 4, 2023) (SR-FINRA-2023-007) (Notice of Filing of a Proposed Rule Change To Adopt Supplementary Material .18

greater flexibility to adapt to changing work conditions without compromising investor protection. The robust nature of the criteria that must be satisfied and circumstances that would make a location ineligible for remote office inspections, as well as requirements for supplemental written supervisory procedures related to remote inspections, documentation requirements, and obligations to share data with FINRA to allow for assessment of the pilot program, serve an important role in reducing the potential for fraud and manipulative acts. Similarly, important safeguards such as requiring risk assessments in connection with the RSL designation in addition to delineating specific criteria for locations that would be ineligible for designation as an RSL furthers the prevention of manipulative acts and practices and the protection of investors and the public interest.

As discussed in the Purpose section, because proposed Interpretations and Policies .18 and Interpretations of Exchange Rule 2300 and Policies .19 of Exchange Rule 2300 are substantially similar to FINRA Rule 3110.18 and FINRA Rule 3110.19, respectively, this rule change enables Exchange Rule 2300 to continue to be incorporated into the 17d-2 Agreement, resulting in less burdensome and more efficient regulatory compliance. Specifically, the proposed change will conform the Exchange's rules to changes made to corresponding FINRA rules insofar as a Member's compliance with FINRA Rules 3110.18 and 3110.19 shall mean the Member is also in compliance with proposed Interpretations and Policies .18 and Interpretations of Exchange Rule 2300 and Policies .19 of Exchange Rule 2300, thus promoting the application of consistent regulatory standards with respect to rules that FINRA enforces pursuant to the 17d-2 Agreement. As previously noted, except for conforming and technical changes, the proposed

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(Remote Inspections Pilot Program) Under FINRA Rule 3110 (Supervision)); Securities Exchange Act Release No. 97237 (March 31, 2023), 88 FR 20568 (April 6, 2023) (SR-FINRA-2023-006) (Notice of Filing of a Proposed Rule Change To Adopt Supplementary Material .19 (Residential Supervisory Location) Under FINRA Rule 3110 (Supervision)).

text of proposed Interpretations and Policies .18 and .19 of Exchange Rule 2300 is substantially the same as the text of FINRA Supplementary Material .18 and .19, respectively, to FINRA Rule 3110. As such, the proposed rule change would facilitate rule harmonization among self-regulatory organizations with respect to inspection of Members and a consistent and uniform regulatory framework for which Members can avail themselves of the RSL designation, thereby fostering cooperation and coordination with persons engaged in facilitating transactions in securities and will remove impediments to and perfect the mechanism of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not intended to address competitive issues but rather is intended solely to reduce potential compliance burdens on Members by aligning Exchange Rule 2300 with FINRA Rule 3110, resulting in less burdensome and more efficient regulatory compliance for common members and facilitating FINRA's performance under the 17d-2 Agreement.

**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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>91</sup> and

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<sup>91</sup> 15 U.S.C. 78s(b)(3)(A).

Rule 19b-4(f)(6)<sup>92</sup> thereunder.

A proposed rule change filed under Rule 19b-4(f)(6)<sup>93</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>94</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing.

The Exchange stated that this proposed rule change is non-controversial because it does not present any new or novel issues. In particular, MIAX Pearl is harmonizing its supervision rules with those of FINRA, on which they are based and which have been previously approved by the Commission. By conforming the Exchange's rules to FINRA's, the proposed rule change would promote the application of consistent regulatory standards with respect to rules that FINRA enforces pursuant to the 17d-2 Agreement. As such, the Exchange believes that the proposed rule change would foster cooperation and coordination with persons engaged in facilitating transactions in securities and would remove impediments to and perfect the mechanism of a free and open market and a national market system in accordance with Exchange Act Section 6(b)(5). Further, the Exchange stated that waiver of the operative delay should reduce any potential confusion that may otherwise occur on the part of joint members of the Exchange and FINRA as to the applicable rules governing inspections of branch offices and other locations. For these reasons, the Commission believes that waiver of the 30-day operative

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<sup>92</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>93</sup> 17 CFR 240.19b-4(f)(6).

<sup>94</sup> 17 CFR 240.19b-4(f)(6)(iii).



delay for this proposed rule change is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>95</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 under Section 19(b)(2)(B)<sup>96</sup> of the Act 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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include file number SR-PEARL-2024-51 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>95</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule change's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>96</sup> 15 U.S.C. 78s(b)(2)(B).

All submissions should refer to file number SR-PEARL-2024-51. This file number should be included on the subject line if email 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 (<https://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 the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection.

All submissions should refer to file number SR-PEARL-2024-51 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>97</sup>

**Sherry R. Haywood,**

*Assistant Secretary.*

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<sup>97</sup> 17 CFR 200.30-3(a)(12).